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Learn about this life insurance payment option



If you are the beneficiary on a life insurance policy and a loved one dies, you may expect to receive the benefit all at once in a single payment. Increasingly, however, insurers are offering the option of a Retained Asset Account (RAA). These accounts temporarily hold your money so you can consider your financial options while earning interest on the life insurance proceeds. But it is important for you to know that you can access the full amount at any time.

Key questions

If you are considering the option of a retained asset account or are provided one to settle a death claim, here are some important issues to consider:

- ▶ What interest rate will be paid on the proceeds? How will the interest rate be determined? How will the interest amount be credited to the account?
- ▶ Will the proceeds be held in a bank, which would make the proceeds FDIC insured up to the limit permitted by law?
- ▶ Will the proceeds be held by the insurer, which would make the proceeds subject to coverage by a state guaranty fund should the insurer fail?
- ▶ Will the proceeds be held in a bank checking or an insurer draft account and what banking services, if any, will be provided?
- ▶ What services will be provided at no charge and what services will involve a fee?

Continued

Other payout options

One size does not fit all, and this is why various payout options are offered. If you choose to initially receive life insurance proceeds through a retained asset account, other payment options should be preserved until the entire balance is withdrawn or the balance drops below a certain dollar amount. Other payout options may include one or more of the following:

- ▶ A single (lump-sum) payment: You receive all the proceeds in one payment.
- ▶ Installment payout for fixed amount or period: You may choose to receive either a fixed monthly, quarterly, or annual payment amount until the proceeds are depleted; or a fixed monthly, quarterly, or annual payment amount determined by your insurer for a fixed period of time that you select.
- ▶ Installment payout for lifetime: You will receive fixed monthly, quarterly, or annual payments determined by your insurer for the remainder of your life.
- ▶ Interest-only payout: Proceeds are left with the insurance company and you receive periodic interest payments (monthly, quarterly, annual). If you choose this option, be sure you understand if the interest rate is fixed or variable and if there are any guaranteed minimums or maximum limits. Proceeds are passed on to your beneficiaries upon your death.

Other tips

- ▶ If you are the beneficiary of a life insurance policy, contact the insurance company in a timely manner after the insured's death. Be prepared to provide a death certificate to initiate the claims process.
- ▶ Always obtain the necessary contact information for your insurance company (phone number and address) so you can get more information.
- ▶ Make sure you read and understand all information the insurance company sends to you.
- ▶ Assess your financial needs and tax status.
- ▶ Take your time determining the right payout option for you. Do not feel pressured to act quickly.

If you need help, consult a trusted financial or tax adviser.