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Two for the Money
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By Mary Beth Franklin

You've spent a lifetime building your nest egg. Now the challenge is to squeeze out every penny from your savings. That's where these little-known sources of retirement income can help. One is an immediate annuity that offers higher payouts if you have a serious medical condition. The other, called a life settlement, lets you sell unneeded life-insurance policies for cold, hard cash.

Boost annuity payouts. When you buy an immediate annuity, you hand over a lump sum to an insurance company in return for a lifetime stream of income. Generally, you can expect to receive the same amount as everyone else your age. But Vanguard has now joined a handful of companies that offer medically underwritten annuities, which actually pay you more if you submit medical records indicating you have been treated for an illness, such as cancer or diabetes, that could shorten your life expectancy.

If, for example, a 75-year-old man invests $100,000 in a Vanguard immediate annuity and submits records that show he suffers from coronary-artery disease and has had a bypass graft, he could get $1,052 a month, compared with $940 a month for a man with a similar medical history who does not submit his records. That's an extra $1,344 per year. Or he could reduce the investment amount from $100,000 to $89,344 and receive the same $940 each month. Specific payout amounts vary by company and condition.

Reyer Swaak, 75, of Chatham, N.J., was shopping for an immediate annuity when broker Hersh Stern, of ImmediateAnnuities.com, told him about medically underwritten contracts. After Swaak documented that he had received radiation for prostate cancer and had undergone surgery for a blocked colon, Stern found several insurers that were willing to offer Swaak 3% to 10% more than the standard rates.

Such medical annuities are best for people who have suffered health problems but could still live long enough to benefit from a lifetime income stream. Vanguard, for example, offers them only to individuals with a life expectancy of at least two years. "With medical advances today, people with health conditions can live a long time," says Ellen Rinaldi, principal of retirement services at Vanguard.

Sell your life insurance. Rather than let a policy lapse, you could sell it to a third party for a portion of the face value. The buyer continues to pay premiums and collects the death benefit when you're gone.

When Wally Jones, 75, of Jacksonville, Fla., sold his business last year, his wife, Donna, 66, sold a $1.5-million term policy on Wally's life to a life-settlement company for $187,500. "I wish I had known about this option sooner," says Wally. "I let several policies lapse because I didn't know they had any value."

How much you'll get from a life settlement depends on your age (in most cases you must be at least 65) and the face value of the policy (usually at least $250,000). Most life-insurance policies--including term-life policies, which normally have no cash value--qualify, as long as they are convertible. That means you can change them to universal-life or whole-life policies without furnishing proof of good health to the insurance company.

Policyholders and professional advisers can get an estimate of the potential value of a life settlement by using the LIVEpdq calculator at www.policysettlement.com. Although life-insurance benefits are tax-free, a portion of the money obtained through a life settlement could be subject to capital-gains and income taxes.