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HOW TO CREATE A FAMILY LEGACY WITH ANNUITIES

Annuities are built to provide retirement income for you and your spouse, but they can also provide a lifetime gift for a child, sibling, or grandchild. A multigenerational annuity is one tool to consider when thinking about your legacy.

If you've ever tucked a check into a birthday or holiday card, you probably thought about the recipient opening it, seeing the check flutter out, and thinking warmly about you. What if you could replicate that after you've passed away? There's actually a little known way to use annuities to do just that.

"Guess what? An annuity can provide income for you and your spouse, but it can also provide income for you and a son or daughter, or you and a sister, or you and a grandchild. That person gets the lifetime income!" says Michael R. Harris, a senior educational advisor with the Alliance for Lifetime Income who holds CFP, CLU and CHFC designations. "Annuities aren't just 'I buy it and get the income.' They can also provide the benefit of leaving a legacy."

AN INCOME STRATEGY FOR GENERATIONS

A financial professional might call this a multigenerational income strategy. You want an income stream while you're alive, but you also want to do something

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long-lasting for a family member or friend. The end goal is the same: You're guaranteeing an income stream for a loved one for their lifetime. Note, this only works for non-qualified money you have in the bank, or a brokerage account that's not "qualified" retirement money in an Individual Retirement Account, or a 401(k)-type account.

Typically when you buy an annuity, you place assets with an insurance company, and in return, you receive monthly payments over your lifetime. Annuities can act as a protected income source during retirement. You're the owner, and you're also the annuitant—the person whose life expectancy the payments are based on.

With a multigenerational annuity strategy, you're still the owner of the annuity, but you name someone else as the joint annuity owner or annuitant. The amount of the payments are based primarily on the younger person's age. The owner receives lower payments over the course of their life, but the payments will carry on after they're gone. Here's an example of how this works.

CARRYING ON A FAMILY TRADITION: THANKS, MOM!

Say you're 75, and your children are in their 50s. With a $100,000 annuity with a 6% payout, as the owner you'd receive about $6,000 a year in protected income. If you name your son as joint annuitant, you'd receive about $3,500 a year, and after you die, your son would continue to receive $3,500 a year for the rest of his life.

How much should you put in a multigenerational annuity? That depends on your retirement income needs and your legacy goals. In one case, Harris worked with an advisor who had a 75-year-old client with two daughters. She was concerned that her family's memories of her would fade over time. The solution was to create two multigenerational annuities. In each case, she bought a $100,000 annuity and named a daughter as joint owner. While she was alive, she received monthly checks, and since she passed away, her daughters are receiving checks that will continue over their lifetimes.

The woman wrote a letter to her children explaining that she set up the payments as a remembrance and gave it to her financial advisor with the instruction to share it with her children when she passed away. One of the daughters told Harris how she and her sisters use the $3,500 they get each year to take a family vacation to New York City to watch the Thanksgiving Day parade, to remind them of how they used to watch it together with their mom and grandmother on Thanksgiving.

Why not just give out a lump sum instead of a stream of payments? With a lump sum, the recipient might just spend it in one fell swoop or commingle it with other investments. "Once that money is commingled, I know I inherited money, but I can't identify it. It doesn't help me remember mom," Harris says. Instead, with the annuity, there's a yearly reminder: a check from mom.

ADD ANOTHER LAYER OF PROTECTION WITH A TRUST

It's also possible to have a trust as the owner of the annuity if you don't want to give the money outright. There are special circumstances when a trust makes sense, for example, if your child is going through a divorce or has a history of exhibiting poor judgement. The annuity generates protected income in the trust. A trustee that you pick has control over the trust, the annuity, and the income that can be distributed out to the child as the trustee sees fit. The child has no power to sell or assign the annuity.

A LEGACY OPTION TO CONSIDER

When you meet with a financial professional to talk about how annuities fit into your retirement income plan, be sure to ask about multigenerational planning opportunities using annuities. Also be sure to consult your tax advisor about any potential tax implications. The benefit of leaving an ongoing legacy is a nice option for your loved ones to remember you by.

Learn more at Resources.ProtectedIncome.org