

## **RETAINED ASSET ACCOUNTS AND LIFE INSURANCE: *What Consumers Need to Know About Life Insurance Benefit Payment Options***

*The death of a loved one can be a difficult time. In addition to the emotional stress present during the weeks, months or years following a death, financial burdens may also arise. Life insurance is intended to assist with these financial burdens. While life insurance policies provide for a single payment of the death benefit, policies may also offer other payout options that may better fit your needs and those of your family. The Idaho Department of Insurance suggests you consider the following information if a life insurance company offers you a Retained Asset Account as an option to a single payment.*

### **What is a Retained Asset Account?**

A Retained Asset Account (RAA) is a temporary repository of funds. The account's function is to give you (the beneficiary) time to consider all of the financial options available. The payment of the total proceeds will be accomplished by delivery of a "checkbook". While the documents might look like a *checkbook*, they might actually be *drafts* which are similar to checks but are different in some ways.

The use of an RAA allows the beneficiary time to assess long-term financial needs while earning interest on the life insurance proceeds. You can choose to write one check/draft to access the entire proceeds at any time. However, you may be able to earn a higher rate of interest on the life insurance proceeds if you select a different payout option.

RAAs are generally offered as an option to the beneficiary; however for some group policies, the employer might have agreed that an RAA is the *only* option to settle life insurance claims. If that is true in your case, you may write a check/draft to transfer the remaining funds as you see fit.

### **Key Questions to Ask and Issues to Understand**

If you are considering the option of an RAA or are provided one to settle a death claim, here are some important questions to ask:

- What interest rate will be paid on the proceeds, how will the interest rate be determined and how will the interest amount be credited to the account?
- Will the proceeds be held in a bank, making the proceeds FDIC insured up to the limit permitted by law?
- Will the proceeds be held by the insurer, making 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?

### **Other Payout Options**

Everyone's needs are different, and this is why various payout options are offered. If you choose to initially receive life insurance proceeds through an RAA, 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 Payment, also known as a "Lump Sum" Payout:** Through this option you will receive the entire proceeds in one payment.
- **Installment Payout for Fixed Amount or Period:** Through this option you may choose to receive either a fixed

monthly, quarterly, or annual payment amount selected by you 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:** Through this option you will receive fixed monthly, quarterly, or annual payments determined by your insurer for the remainder of your life.
- **Interest Only Payout:** Through this option proceeds are left with the insurance company and you will receive interest payments from the insurer on a monthly, quarterly or annual basis. If you choose this option, be sure you understand whether the interest rate is fixed or variable and whether 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 death of the insured. Be prepared to provide a death certificate to initiate the claims process.
- Always obtain the necessary contact information for your insurance company, such as a phone number and address, where you can obtain additional information and answers to your questions.
- Make sure you read and understand all information the insurance company sends to you.
- Assess your financial needs and tax status.
- Take your time in determining the right payout option for you. You should not be pressured to act quickly.
- If you need help, consult a trusted financial or tax advisor.

### **More Information**

If you have questions about RAAs or other life insurance proceeds options, contact the Idaho Department of Insurance. Visit [www.doi.idaho.gov](http://www.doi.idaho.gov) for contact information.

Get smart about your insurance needs! For more information about auto, home, life and health insurance options – as well as tips for choosing the coverage that is right for you and your family – visit [www.InsureUonline.org](http://www.InsureUonline.org).

*August 2010*