Longevity Insurance: Your Wealthspan Backup

7 MIN READ

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Longevity planning can help you reduce the risks of living a longer-than-expected life.

Taking a holistic approach and focusing on your financial, physical, and mental health can ensure you have the resources, energy, and vitality to enjoy the years ahead. As part of your toolbox, you can look into longevity insurance, both in the traditional sense and in alternative ways you might not be thinking of.

What is Longevity Insurance?

Longevity insurance typically refers to deferred income annuities (DIAs) that **ensure you have enough money** later in life. As pensions have become nearly extinct and questions around Social Security continue, people are looking for alternatives that can provide a stable income in retirement.

“Longevity insurance is like buying a pension for your 80-year-old self. It’s usually structured as a deferred income annuity that starts paying you later in life, often at age 80 or 85, when your other savings may be running low. The goal isn’t to replace all your income, but to create a guaranteed backstop so you never run out of money if you live far longer than expected,” said Emilio Cabuto, a certified financial planner who works with retirees at **Verus Capital Partners**.

As a financial product that you can get from an insurance or investment company, you can essentially buy peace of mind. But like with any financial product, there are drawbacks to consider.

First, you're taking a portion of your retirement savings now to purchase the deferred income annuity, effectively making it inaccessible. Secondly, if you pass away before the payout period, your heirs won't get the benefits. That is, unless you purchase a death benefit rider. Lastly, the payouts generally aren't inflation-adjusted, unless you purchase a specific inflation rider.

"It's a smart tool for the right person, but not one-size-fits-all. I tell clients: you're trading access for security so make sure the rest of your plan can cover the years in between," said Cabuto.

If you go the traditional longevity insurance route, check the company's financial strength rating from AM Best, which illustrates its ability to make payouts.

How Longevity Insurance Works

According to **Fidelity**, a deferred income annuity is ideal for pre-retirees who are 55 to 65 years of age and planning to retire within the next five to 10 years. When you get longevity insurance, you provide a substantial amount of money upfront.

For example, it could be $100,000 or more, according to **Investor.gov.** As part of the agreement, the company you're working with will provide a guaranteed monthly income of a set amount, typically around age 80 or 85.

Taxation on a longevity annuity depends on whether you use pre-tax or post-tax dollars. If you use pre-tax money, then annuity payments get taxed as ordinary income. If you use post-tax money, only a set amount of the payouts will be taxed.

While longevity insurance typically refers to a longevity annuity, which is a deferred income annuity, other types of annuities exist. People use annuities as a way to "insure" their retirement, says **Investor.gov**. You can look into fixed, variable, and indexed annuities, all of which have different benefits and risk factors to consider.

Why You Might Want Longevity Insurance

If you're planning to live a long life, you want the financial resources to support you. Money isn't just about lifestyle; it's also about security. The fact is that some people have a fear of running out of money (which could be totally valid or rooted in financial trauma).

The **2025 Annual Retirement Study from the Allianz Center for the Future of Retirement** showed that 64% of respondents worry more about running out of money than death. According to the study, some of the factors driving this fear include:

- High inflation
- Insufficient Social Security
- Steep taxes

Longevity insurance can help counterbalance that fear. While longevity insurance is often used in the context of a deferred income annuity, there are other ways to think of longevity insurance in a broader context. You can think of any type of financial, emotional, or physical well-being investment as a type of longevity insurance to help you ride out the decades to come.

Three Different Types of Longevity Insurance

You don't necessarily need to get a traditional deferred income annuity if you want to protect yourself against certain risks with longevity. Here are some other ways to think about the idea of *longevity insurance*.

1) Financial Buffers

Having the right financial mix can help support your longevity journey. That way, you can focus on living a vibrant, full life without unnecessary money worries.

“Planning for longevity is less about guessing the right number and more about building flexibility into the plan. I like using a bucket strategy, combining short-term cash flow needs, mid-term reserves, and long-term growth assets so that a client isn’t forced to sell investments in down markets,” said Cabuto.

For example, high-yield savings accounts can be great for short-term cash flow, certificates of deposit for mid-term reserves (if you can lock up the money until the maturity date), and other **investment products** may be a good solution for long-term wealth-building. But there are some lesser-used vehicles that can also make a difference.

“Roth IRAs and HSA accounts are also powerful tools, especially when used strategically in retirement. And in some cases, delaying Social Security can act like a form of longevity insurance in itself, with larger guaranteed income later in life,” said Cabuto.

Smart Moves That Stretch Your Wealth: Some retirement accounts have required minimum distributions (RMDs) at 73. Roth IRAs don’t have that requirement, so you can let your money grow. If you’re planning for a **100-year life**, that can come in handy. Plus, you won’t pay any taxes on qualified withdrawals.

HSAs are what’s called “triple tax savings,” according to **Fidelity**. You contribute pre-tax funds to your HSA, don’t pay taxes on your earnings, and eligible withdrawals are also tax-free. As an extra bonus, you can use your HSA funds for nonmedical

expenses after you hit 65 and face no penalties. But doing so is a taxable event.

To ensure you have the right financial planning tools for your goals, you can talk to a certified financial planner or financial advisor.

2) Community Capital

Investing in your community capital can help you build mutual support and a type of longevity insurance. Having others looking after you or available to help for the little things (like feeding your cat while you're on vacation) or the big things (like taking you to an important medical appointment) can make a major difference in your life.

Finding the right people to spend time with as you age is also essential. New retirement communities are forming as well to meet the needs of others. ***The New York Times*** recently published a story on The Bird's Nest, an alternative women's retirement community. It's a small village in Texas made up of 11 women between the ages of 60 and 80, with the goal of supporting each other.

3) Healthspan Wealth

The best thing money *can't* buy is your health. As cliché as it is, your health is priceless. While money can solve many problems, it doesn't insulate you from various health issues, whether they're benign or serious.

Whenever you get a cold or flu, you're likely familiar with the thought of, "I just want to be healthy and feel better again!" And when you do, you feel revitalized.

Focusing on your wellness wealth can pay dividends in the future. While there's always some element of luck, you do have some autonomy when it comes to avoiding health issues later on.

- **Practice gratitude:** Are you in relatively good health today? That's something to be grateful for. Gratitude is associated with greater longevity in older adults, according to a **Harvard study**.

- **Keep it moving:** Your feet and the ability to walk are a gift. And if you can take advantage of those things, it can be a major help. While you've probably heard that you should walk 10,000 steps a day, a recent study from the **University of Sydney** shows that 7,000 steps may be just as good and lower death risk by 47%.

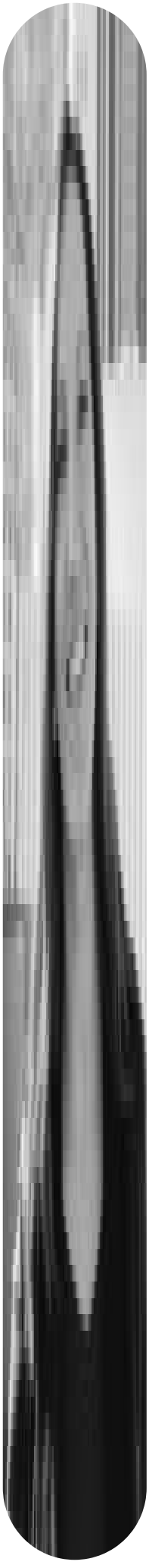
- **Eat the right things:** You might know the things you should cut out of your diet (sugar, anyone?). But if you're not there, why not focus on adding more of the right things to your diet? **One study** found that eating healthy reduced the chances of an early death by 20%. Think: vegetables, **fruits**, whole grains, legumes and nuts.

- **Learn new things:** As you age, continue to learn new things and develop skills to **engage your brain** and body. Doing so can help you stay sharp and invest in yourself.

All of these can be forms of longevity insurance to protect you and help you plan for the future, while simultaneously minimizing risk and boosting returns in your overall wellness.

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