life annuity specialist

How the Wide-Ranging Secure Act Inadvertently Helped Life Insurers

By Cyril Tuohy   January 3, 2020

The Secure Act may give the life insurance industry a shot in the arm – and this has nothing to do with the provisions on workplace sales of annuities.

Buried in the law is a requirement that when someone dies, a non-spousal beneficiary of the individual retirement account, or IRA, must withdraw the balance within 10 years instead of over a lifetime. Stretching those payments from the IRA over a lifetime is known as a "Stretch IRA."

Some advisors say that could spur sales of products such as whole and universal life.

The demise of the Stretch IRA could cause insurers with extensive whole life product lines to push their "10-pay" products, said Newport Beach, Calif., financial advisor **Henry Hoang**.

A 10-pay whole life contract, such as **Ohio National**'s Prestige 10 Pay II, is typically funded with 10 annual premium payments, though other limited pay life contracts may be funded monthly, quarterly or semi-annually. Those payments could come out of the inherited IRA amount, then grow tax free in the life insurance policy.

Still, he doesn't see a big boost in sales of permanent life products.

Arizona-based advisor **Alexander Koury** also added that "the firehose isn't going to open right away."

The Secure Act, tucked into a $1.4 trillion appropriations bill and signed into law by **President Trump** before Christmas, may have helped move life insurance higher on advisors' lists as a tax planning tool.

'Reinvigorate' Discussion of Trusts

"It will reinvigorate discussion of life insurance trusts," added **George Reilly**, a financial advisor with Safe Harbor Financial Advisors in Fairfax, Va.

The largest IRAs, those that have grown to millions or tens of millions of dollars, are best positioned to benefit from life insurance as an estate and tax planning tool, according to a presentation by certified public accountant and author Ed Slott and financial advisor **Scott Bishop**.

That's because a good chunk of those huge IRA balances can be left to non-spouses in a trust that uses life insurance, while smaller balances - $500,000 or less – are more likely to be simply spent by the inheritor.

At the end of 2018, IRAs contained $3.7 trillion, according to the Investment Company Institute, a mutual fund trade group.

The disappearance of the Stretch IRA will benefit a couple of groups of insurers, Hoang said.

For people inheriting from an IRA who want long-term growth of the cash values, **MassMutual**, **Guardian**, **New York Life** and **Northwestern Mutual**, which sell a lot of whole life, could pick up new business, he suggested.

For people seeking more flexibility, or who care less for growth in the policy's cash value, **Principal**, **Prudential Financial** and **Protective**, which issue a lot of universal life, would benefit the most, he said.

Life insurance sales to individuals rose 2% in the third quarter from a year ago, propelled by indexed universal contracts, Limra reported last month.

Whole life sales were flat and the overall number of policies sold in the third quarter fell 3% from a year earlier, Limra said.