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

The death of a spouse, parent, child, partner or other loved one is 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 are intended to fit your needs and those of your family such as a Retained Asset Account (“RAA”).

An RAA is a temporary repository of funds. The account’s function is to give you, the beneficiary, the time needed 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 you receive might look like a checkbook, it might actually be drafts which are similar to checks, but different in some ways.

The use of a RAA provides you the flexibility to make the right decision regarding your long-term financial needs while earning interest on the life insurance proceeds. You can choose to write one check or 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.

Key Questions to Ask and Issues to Understand

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

- 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, which would make the proceeds FDIC insured up to the limit permitted by law?
- Will the proceeds be held by the insurer, which would make 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

One size does not fit all and this is why various payout options are offered. 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 which the insurer will pay you on a monthly (quarterly, annual) basis. If you choose this option, be sure you understand if the interest rate is fixed or variable and if 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 the tax implications of whichever option you choose.

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.

Maryland Law

Maryland has taken action to require insurers to give you the information you need to decide if an RAA is the right option for you. If an RAA is offered to a beneficiary as a settlement option, there must be at least one other option offered, and the disclosure must describe all options available. In addition, the insurer is required to give the beneficiary important information about the features of the banking services available through the RAA. For individual policies, these requirements apply to claims filed after July 1, 2010.

It applies to claims filed under group policies if the group policy was issued on or after July 1, 2010.

More 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.insurance.maryland.gov or www.InsureUonline.org.