

Retained Asset Accounts and Life Insurance

What You Need to Know About Life Insurance Benefit Payment Options

The death of a 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. 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.

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—the time you need 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.

RAAs are generally provided as an option to the beneficiary, however for some group policies, the employer might have agreed that a RAA is the only way life insurance claims are settled. If that is true in your case, you may write a check or 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 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?
- If the RAA settlement option pays interest, will there be tax implications?
- 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 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 options described below may vary by the terms of the insurance policy. If you choose to initially receive life insurance proceeds through a 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 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 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 insurance-related questions or concerns, please contact the Nebraska Department of Insurance locally at 402-471-2201, or call its toll-free consumer hotline at 1-877-564-7323. Additional information is available on the website at doi.nebraska.gov.