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PRACTICE MANAGEMENT: One Man's Golden Years Rescued

By Max Alexander
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As the population ages, wealth advisers increasingly will be called upon to stretch retirement savings over more years - sometimes a lot more years.

Take the case of an adviser in Portland, Maine, who was retained by a 97-year-old man with a big problem. "His wife had just died," says Tom Rogers, a certified financial planner and a principal in the Portland Financial Planning Group. "I guess because his wife was younger, his lawyer had put together an estate plan that assumed he would pre-decease her. It said that in the event of her death, their assets would go to her children from a first marriage."

Surprise, surprise: She died first, leaving him with no money.

"The estate wasn't huge," says Rogers, who is on the board of the Maine Estate Planning Council. It was about $600,000 including real estate and investments, but it was all he had besides Social Security and a small pension.

In many states, a surviving spouse who is disinherited can petition the court for what's called a forced share, typically 30% of the estate including beneficiary accounts. "His stepchildren weren't thrilled, but he was able to do that, and he got $200,000," Rogers says.

The question became how to invest that money for someone 97 years old.

"He was in good health, completely lucid, actually a bit of a curmudgeon," says Rogers. "He didn't know how long he was going to live, but he wasn't willing to assume he was going to die in two years. Obviously the stock market would not be a good choice, but we wanted better returns than a money market or CD."

During discussions with the client, says Rogers, "it turned out that he was very loyal to his prep school and college. So my solution was to set up charitable gift annuities with those schools."

Many charities offer these annuities where, basically, in return for handing over assets to the charity, the donor is guaranteed a lifetime income stream. And because of his advanced age, the client was eligible for a 12.5% annual return no matter how long he lived. No other conservative investment would have offered that kind of return, and he also received a major income tax deduction because it was part gift and part investment. "And it made him feel good that he was giving to his schools," Rogers says.

As it turned out, the deal wasn't so great for the schools. He died last year, at the age of 107.

"They probably were not expecting to pay out on that annuity for 10 years," says Rogers. "But it goes to show you that you just never know."

Clients don't have to be centenarians to take advantage of charitable annuities. Rogers says an 80-year-old currently gets a return of around 7%. Rates have declined a bit recently due to increased longevity and lower expected returns on invested assets.

One catch for wealth advisers is that once the donation is made, the money is no longer under management, which means no ongoing fee income - though that wouldn't stop an adviser like Rogers, who says the satisfaction of helping out his client far outweighed any lost fees.

-By Max Alexander, For Dow Jones Newswires; 201-938-5265