

Also referred to as an estate feature or death put, a survivor's option is a feature that can be added to a fixed income instrument that gives the holder's estate the right, not the obligation, to sell the investment back to the issuer at face value (or par) in the event of death.

Long-term bonds typically offer higher yields than short-term bonds, making them a popular source of retirement income for older investors. Longer-term bonds also have greater interest rate risk than short-term bonds, which means their prices could decline more than short-term bonds if interest rates rise. This can pose a dilemma to retirees who want to maximize their current income but are concerned about the risk of bonds with lower valuations being passed to their heirs after they are deceased.

A survivor's option feature gives the bond owner's heirs the option to redeem the bond at par value – regardless of its current value – after the owner dies, subject to certain limitations. If rising interest rates have caused the bond's market value to decline, the beneficiaries can liquidate the bonds without having to sell them at a discount (relative to their par value).

### **Requirements and Limitations**

Issuers may require a minimum holding period, which would require the estate's beneficiary to hold the security for a specified period of time before exercising the survivor's option, generally six months to one year. Some companies may also stipulate a minimum holding period after the bond is issued. For instance, if an investor passes away three months after purchasing a survivor's option security with a six-month holding period, the estate would need to hold the investment for three more months before the death put becomes available. After those three months, the estate can put the bonds back to the issuer at par and transfer the proceeds to the next generation.

Issuers may also limit the amount that can be redeemed at any one time, either by the total amount they are willing to redeem in a year or by how much an estate can redeem. For example, if an individual estate feature limit exists of \$200,000 per year per estate, and a beneficiary wants to redeem \$250,000 of bonds, they would be able to tender \$200,000 worth of bonds in year one and then wait to redeem the remaining \$50,000 the following year.

Additionally, issuers may only make payments on specific dates, such as semiannually (e.g., on June 15 and December 15) or on the next coupon date.

Lastly, the specific terms and conditions under which a survivor's option can be exercised may vary depending on the type of account. For Individual accounts, the requirements are more straight-forward in that the beneficiary may tender the bonds following the death of the bondholder, pending any restrictions previously discussed. For Joint Tenancy, Tenants in Common, and Trust accounts, the requirements can differ, and investors should consult their financial professional and/or tax professional prior to investing, as well as review the individual offering prospectus.

**A number of issuers offer bonds with a survivor's option features, and investors should read a bond's offering documents before investing. To learn more about how bonds with a survivor's option feature may fit into your investment plans, contact a financial advisor today.**