How to Generate Guaranteed Lifetime Income

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The New Retirement Goal

Lifetime income security:
• Keep principal secure
• Guarantee lifetime income
• Inflation protection

Also known as: The Retirement Paycheck

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The Major Obstacles

- Low yields/returns
- Longevity
- Inflation
- Long-term care

Others: medical expenses, taxes, market volatility, lack of support
The Solution to Retirement Income Security

- low cost
- guaranteed
- recommended by most economists
- cash flow lasts for life
- been around for centuries
The Solution to Retirement Income Security

Supported by research:

• makes portfolios last longer
• more likely to meet retirement goals
• you can take more investment risk
• better than bonds

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The Solution to Retirement Income Security

Annuities, but...

• the right type for you
• that you understand
• purchased the right way
Problems with Annuities

- Can be complicated
- Can have high fees
- Returns can be overstated
- Often purchased the wrong way

But these problems don’t apply to all annuities
Overview of the Annuity World

• 6 basic types of annuities
• 2 for the accumulation years
• 2 for the retirement paycheck
• 1 to almost always avoid
• 1 to sometimes avoid
Fixed Income Annuity

• Basic deferred annuity for savings
• Simple, transparent, low cost
• Limited liquidity
• Replace bonds or CDs
• 2 types:
  ▪ Traditional fixed
  ▪ Multi-year guaranteed annuity (MYGA)

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Fixed Index Annuity

- Can be complicated, higher fees
- Guaranteed minimum return
- Potentially higher return based on index
- Many choices available, some good
- Replaces bonds or CDs
- Knowledgeable, independent agent

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Variable Annuity

• High fees, potentially complicated
• Mixed tax picture
• Taxable account can be better
• Expensive, complicated riders
• Promises, not guarantees
• Beware living benefits

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Immediate Annuity

• Single premium immediate annuity (SPIA)
• The original annuity
• Guaranteed lifetime income
• Certainty
• Low, built-in fees
• Private or personal pension

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Deferred Income Annuity

• Also called longevity annuity
• Pay me later
• Relatively new
• Offer the highest income payout
• Very flexible, low cost
Charitable Gift Annuity

• Variation of SPIA
• Lower income payout, rest is gift
• Potential current tax deduction
• Good for charitably-inclined
Summary:

• For pre-retirement investing:
  • Fixed income annuities
  • Fixed index annuities, if selectively purchased
  • Guarantees and tax advantages
Summary:

• For guaranteed retirement income:
  • Single premium immediate annuities (SPIA)
  • Deferred income annuities (DIAs), or longevity annuities
  • Charitable gift annuities

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Why Don’t More Retirees Own?

- Bad media
- Not pushed: low commissions, not sexy
- No legacy
- Lack of control
- Give up potential return
- Not understood
Why Retirees Should Own

• Transfer the two major retirement risks
• Reduce stress
• Less dependent on markets
• Legacy, other issues have solutions

**Key point:** Annuities are a contractual transfer of risks

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Good News Is Spreading

• Annuity sales are increasing
• The right types of annuities are selling

Why now?
• Baby Boomers
• Higher interest rates
• Publicity about “fiduciary rule”

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SPIA vs. DIA

• Buy a DIA now or wait to buy SPIA?
• DIA will likely pay higher annual income:
  • Mortality credits
  • Higher earnings
• A rider can keep insurer from big win

Plan early, receive quotes for each

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How to Take Your Income?

- Your life (single life)
- Joint life with 100% to survivor
- Joint life with less to survivor
- A life option with guaranteed payment
- Term of years
- Return of premium rider

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Sample Lifetime Income

• $100,000 deposit, age 65, SPIA

• Single life: $569.94
  $536.34

• Joint life (100%): $483.38
  $480.20

Source: annuities.direct
Sample Lifetime Income

• $100,000 deposit, age 60, DIA income at 65

• Single life: $694.80
  $648.76

• Joint life (100%): $574.69
  $570.76

Source: annuities.direct

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Retirement Watch Key Advice

Shop around

Increase lifetime income by ~20%
Where to Find Today’s Best Annuities, Annuity Rates

• David and Todd Phillips, Phillips Financial Services, Phoenix, AZ 888-892-1102
• Stan Haithcock (Stan the Annuity Man) 800-509-6473
• Annuities.direct
• Annuities.com 800-552-1152
What Is My Annuity Return?

• Several methods to calculate cash flow:
  • Present value
  • Internal rate of return
  • Implied longevity yield
• Each uses several assumptions
• Many calculators available; use several

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What Is My Annuity Return?

• Use to compare annuities, not to estimate rate of return
• Don’t know real return until payments end
• Maximizing rate of return isn’t main goal
How Safe Are Annuities?

• Among oldest, most secure companies
• Use only top-rated insurers
• State guaranty associations
• No federal guarantee or fund
• Few people have lost money in annuities

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Other Key Questions

• What is the best age to buy?
• Should I wait for higher yields?
• What about annuity ladders?
• What about those 8% yields?
• Can my IRA buy an annuity?
• Who are the best annuity providers?
Annuities & Long-Term Care

- LTC Annuities or LTC Rider
- Provides 2-3 times more money for LTC
- Have full access to annuity
- No use-it-or-lose-it feature
- Premiums don’t change

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