

# Senior Outlook Today

## Better Living for the Ageless Generation

### 7 TIPS FOR GUARANTEEING AN INCOME STREAM THROUGHOUT RETIREMENT

By: Michael Tove Ph.D., CEP, RFC - December 13, 2015

Outliving your money is the biggest retirement concern facing Americans today. Increasing life expectancies and shrinking retirement plans, plus the specter of declining Social Security benefits, all combine to create a perfect storm of retirement disaster. Investment advisors commonly tout the "4% Rule" as a way to generate a living income benefit.

The 4% Rule supposes a retiree can spend 4% of his investment portfolio each year as income, increasing that by 3% to account for inflation and be able to sustain the account indefinitely through market growth. Unfortunately, this concept has been thoroughly debunked by a number of prominent researchers who consistently report the probability of failure (outliving the money) is greater than 50/50. Moreover, living on just 4% of one's portfolio, more often than not, is insufficient. Ultimately, the 4% Rule is a risky and inadequate strategy for retirement income.

The only way to guarantee lifetime income is from a guaranteed income account; in other words, an annuity.

But, it's not quite that simple. There are thousands of different annuity products available and picking the right one is as important as picking anyone at all. The following seven tips will help narrow the field.

1. Immediate or Deferred. **Tip # 1. If income is needed right away, use an annuity with no waiting period before starting income. If income isn't needed immediately, use a deferred annuity that offers growth.**

2. Long Term Care. More than anything else, a Long Term Care need can wreck an otherwise effective income plan. To protect against this, either have a Long Term Care insurance policy and increase retirement income accordingly, or have a Long Term Care benefit rider attached to your annuity income. Some annuities, for no charge, will double or triple, the amount of income paid if a Long Term Care need arises. **Tip # 2. Consider annuities that offer LTC benefits.**

3. Annuitization is the process of irrevocably exchanging an accumulated sum of money for a promise of lifetime income. They have two limitations: the income schedule is permanently fixed and there is no residual death benefit. Conversely, some annuities provide income riders that guarantee lifetime income with greater flexibility. The income may be adjustable and the base account can continue to grow even after income has begun. **Tip # 3. Consider Income Riders before traditional annuitization.**

4. Variable vs. Fixed Index Annuity. A Variable Annuity (VA) is an in-



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vestment product where the owner assumes all the risk of market volatility. While some VAs offer minimum guaranteed values (for a fee), they apply only to specified income choices; not cash withdrawals. Conversely, a Fixed Annuity is a pure insurance product. The term "fixed" does NOT mean interest but "secure" as in "rock solid." A Fixed Indexed Annuity (FIA) grows through an indirect link to a market index. When markets rise, the account rises but when markets fall, the annuity loses nothing. The growth is locked in periodically and then guaranteed. Index Annuities all offer the ability to create income for life but some offer increasing income to track inflation. Some require deferral before starting income while others permit income to begin immediately. Once the income is started, it cannot be outlived. **Tip # 4. Seek a Fixed Index Annuity.**

5. Most FIAs limit (cap) the upside growth potential as a trade-off for absolute downside protection. Unfortunately, current (2015) caps are very low (3-4%). However, a limited number of carriers offer index annuities that do NOT cap the growth. Unlimited upside potential while still maintaining downside safety. **Tip # 5. Consider uncapped Index Annuities.**

6. Inflation adjustment. Some FIAs increase income to keep pace with inflation. However, there is a trade-off in that the inflation-adjusted incomes will start less than constant (level) annuity income, so be careful. **Tip # 6. Compare level income with inflation-adjusted income schedules as they directly apply to YOU.**

7. Only annuities guarantee lifetime retirement income but with thousands available, it's difficult to know which is best, and without licensing, impossible to get on your own. **Tip # 7. More than any other tip, seek a skilled, independent professional agent with access to a wide array of fixed annuity products and permit him/her to make a recommendation.**