

# SIMPLY SAFE, SAFELY SIMPLE



## Retirement Income Planning using Fixed Annuities

By Kim O'Brien

Retirees constitute 14.4% of the U.S. population. The number of retirees will continue to grow, and this group will constitute a substantially greater portion of the population in the next few decades. At the current rate, LIMRA estimates 1 to 1.5 million people will retire each year, with the total number of retirees growing to 66 million by 2025.<sup>1</sup>

This development puts a new focus on the value of advice and guidance for consumers, and provides an opportunity for financial professionals to offer retirement income planning and guidance to meet the demand. The projected number of retirees — and their well-being in retirement — will be influenced by higher life expectancy, standards of living, and improved access to technology and health care. So what can clients do to prepare for the future and develop a retirement income strategy?

### Perhaps they should consider fixed annuities?

With fixed annuities, income planning is simple. With just a few simple questions, you can give your client a guaranteed minimum income, with the potential for more.

#### Ask your client:

- ▶ How much money have you saved for retirement, and how much more do you plan to add to that savings before retirement?
- ▶ When do you plan to retire, and what will be your age at that time?
- ▶ Would you like a lifetime payout based solely on your life, or on your life and your spouse's together?

You then have two attractive options you can present: a lifetime income annuity or an income rider on a deferred annuity.

### Lifetime Income Annuity

A lifetime income annuity or payout, often referred to as “annuitization,” is essentially a trade. When a client retires, he or she trades in the annuity’s cash value for a guaranteed monthly income – the carrier takes the cash value and in return promises that it will pay income as long as the client lives.

It is easy to figure the guaranteed payout of your client’s existing annuity. Simply take his or her current savings and any future planned savings, accumulate them at the annuity’s guaranteed minimum interest

<sup>1</sup> Source: LIMRA 2014 Fact Book on Retirement Income



rate to the planned retirement date, and then look up the guaranteed annuitization purchase factor in the deferred annuity contract. Multiply the purchase factor times the cash value, and voila, you have now computed the worst-case guaranteed monthly income. Or check out one of the income annuity calculators on the web for current lifetime income (immediate) annuity products. You will find many free websites that allow you to contrast and compare options and companies.

There is still considerable upside potential. During the deferral period, the carrier could credit a rate of interest in excess of the guaranteed minimum interest rate. At the time of annuitization, the carrier could be offering better purchase factors than those guaranteed in the deferred annuity contract.

With annuitization, you have simplicity, the ability to guarantee a worst-case monthly lifetime income in retirement, and upside potential.

## Income Rider

Suppose your client wants a guaranteed monthly income but doesn't want to trade the annuity's cash value to get it. No problem! Just purchase a fixed annuity with an income rider.

Just like the annuitization example above, the income rider will specify an interest rate to use during the deferral period and a purchase factor to use when income payments start. Simply take your client's current savings and any future planned savings, accumulate them at the deferral period interest rate to the planned retirement date, then multiply that balance times the income purchase factor. And voila, you have now simply computed the guaranteed monthly income.

There is still upside potential. If the interest credited during the deferral period or even after income payments start is sufficiently higher than the interest rate guaranteed by the income rider, the income payments could be higher than the client expected.

With an income rider, you have simplicity, the ability to guarantee a worst-case monthly lifetime income in retirement, and upside potential. If using a fixed indexed annuity (a fixed annuity whose additional interest is calculated using the current performance of a selected index or indices), the client also receives some protection against inflation because the interest crediting is based on market index growth.

Most clients are typically seeking dependability and stability for their retirement income. As an agent, if you are also trying to remove complication from the equation, there's no simpler, more dependable or stable choice than a fixed annuity.