

# Four Challenges, One Solution to Make Your Nest Egg Last

By **KIM MCSHERIDAN**

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Volumes have been written about the accumulation of retirement income funds. Many Americans track the status of the stock market, their pensions and their 401(k)s with the same fervor as they do their favorite sports team. What often receives less attention, however, is how they plan on managing their money after they retire – the *decumulation* phase.

While accumulation is not easy, it benefits from having a fixed planning horizon; most people know when they will retire and how much they want to have saved. Decumulation can be trickier because no one can realistically predict how long they will live after retirement and how much of their nest egg they can spend each year for retirement income.

## **The Single-Tool Solution**

Four of the key challenges that today's clients will face when planning their retirement income are potential market losses, increased longevity, inflation and greater personal responsibility. You can help clients overcome each of these challenges with one simple tool: income annuities.

With income annuities, purchasers exchange a portion of their savings — usually enough to provide a “floor” of income — for a regular, guaranteed paycheck that combines the principal they paid and an anticipated rate of return. Payments can begin immediately or at a set date in the future. And they can last for a predetermined period or for life.

Let's look at how fixed income annuities work to counter these four challenges and help clients spend their retirement savings with less worry that they will outlive it.

### **Challenge #1: Market Losses**

As seen in recent years, market risk is the most visible, and potentially most damaging, challenge many retirees will face. Traditional pensions once provided Americans with stable, reliable income in retirement by taking market risk out of the equation.

Today, fewer companies offer pensions and more employees are placing their financial fate in the hands of the market through 401(k)s and IRAs. Given the recent fluctuations of the market, nostalgia for the “good old pension” is widespread.

Income annuities take market risk off the table by helping retirees, in effect, build their own pensions. Retirees receive a guaranteed, predictable payment whether the market is up or down. And their income will not be reduced or wiped out by market losses. Clients who get anxious watching their portfolios rise and fall with the market may find the simple stability of a regular income annuity payment to be a great stress-reliever.

## **Challenge #2: Longer Lives**

Another problem: Americans are living longer and retiring younger. In 1910, the average life expectancy was 50. Among those who retired from a job, the average retirement age was 74. Today, most Americans collect their last paycheck at age 62. Even as we retire younger and younger, our life expectancies have reached an all-time high of 77.8 years. All of this means that nest eggs need to last longer than ever.

With guaranteed lifetime payment options, income annuities can provide the peace of mind that, no matter how long they live, clients always will receive a regular payment. Another option, a deferred income annuity, allows clients to purchase their annuity at today's lower costs, but set their payments to begin later in retirement. This lets clients enjoy their earlier, more active retirement years, knowing that a guaranteed and predetermined income stream will begin in the future.

## **Challenge #3: Inflation**

At the current rate of inflation, historically averaging 3.4%, the average American's purchasing power in 20 years could erode by half. Thus, if you retired with an annual income of \$100,000, after 20 years, you would need close to \$200,000 per year to maintain the same buying power.

Inflation hits especially hard when you are on a fixed income. Unlike fixed-rate financial products such as CDs, many income annuities feature optional annual payment increases to help keep pace with inflation. Without such protection, income can be effectively decreased even if regular payments never change.

## **Challenge #4: More Personal Responsibility**

Finally, most Americans are taking on more responsibility for funding and managing their own retirements. Currently, Social Security and traditional pensions provide a little more than half the income collected by seniors age 65 and older. Most of the rest comes from personal savings and earnings.

But as more companies exchange those pension plans for retirement savings accounts like 401(k)s, and as Social Security finds itself on increasingly shaky ground, more of the financial responsibility for retirement — and the risk — is being transferred to the individual.

This shift in responsibility includes more than just the building of retirement savings. It also includes all the financial risks that come with managing those savings. Monitoring spending, making good investment choices, keeping up with inflation, and of course, weathering market volatility all fall on the shoulders of the individual.

Fixed income annuities greatly simplify that process. There are no investments to manage, no portfolios to rebalance, and no buy-sell decisions to make. Clients can sit back and collect guaranteed payments for life. And with direct deposit, there's no risk of a lost check or identity theft.

## **Simplify, simplify, simplify**

If there's one emerging trend in today's financial world, it is simplification. There are almost infinite combinations of financial tools that, when combined, can provide a lasting retirement income for your clients. For those who want to spend their retirement years

enjoying their freedom with less worry about managing their money, income annuities are both simple and effective.

The income annuities of old were sometimes discouraged because of their rigid terms. Most of today's products, however, feature flexible options that allow greater customization and access to funds. Clients can tailor their annuities so that payments continue for their spouses as long as they live. Or they can transfer remaining payments to their beneficiaries. And if they are concerned about "locking up" their funds, some income annuities allow access to a percentage of their annuity value as frequently as every 36 months.

Most importantly, income annuities provide the peace of mind of a simple, guaranteed income for life. In today's environment, that may be the only sales pitch you need.

Kim McSheridan is vice president of Income Annuities for Symetra Life Insurance Company.