Fixed Indexed Annuities: *Guaranteed Income* *in a* CHANGING ENVIRONMENT

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J. Scott Brim

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Founder

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Our firm is led by J. Scott Brim, a licensed insurance and annuities representative in Texas, who founded Brim Financial and Insurance Services.

Mr. Brim, an Amarillo native, graduated from Amarillo High School and later served in the U.S. Army. He is a three-time cancer survivor and underwent an unrelated bone marrow transplant 1990. Today, Mr. Brim has been cancer-free for 17 years. An avid outdoorsman, Mr. Brim summited a 14,000-foot mountain in 2002, despite having two titanium hips. He loves mountain biking, mountain climbing, and spending time in nature.

As a professional, Mr. Brim has focused his efforts in the Panhandle on marketing financial retirement strategies and options, bringing a high level of service and quality to his clients. He believes in getting to know people and their unique situations before he recommends any retirement income strategies for them.

Along with serving his country in the military, Mr. Brim has served on the American Cancer Society's Relay for Life board and assisted with Camp Alphie, a camp for children with cancer. He was the first Heroes of Hope Representative for the Texas Panhandle for the American Cancer Society.

Employment in the United States has changed significantly in the last decade with fewer workers retiring with a pension to support them in their later years. However, the fact remains, one of the main purposes of saving for retirement is to create guaranteed income throughout one's entire life. It's important to ask yourself how much income will be necessary to maintain a comfortable lifestyle, and how saving for retirement will generate the income needed for the retirement years.

The soon-to-be retiree must keep in mind the actual concept of retirement income has changed. Previous generations considered retirement income as:

- A defined benefit pension or a system that makes regular payments to one's retirement fund.
- The federal government's insurance program providing benefits to retired people known as Social Security.
- Interest and dividends from savings with the goal of never dipping into the savings principal, and then allowing the money to remain untouched except for emergencies.

The Current Environment

Today's workers approach retirement in a distinctly different way than earlier generations:

- The majority will have little or no defined benefit pension payments.
- Medical expenses will likely continue to rise.
- A majority may continue to pay mortgage payments into retirement.
- The average life expectancies have increased greatly and will likely continue to increase.[1]

To continue with a comfortable lifestyle into retirement, today's workers will likely need to have a strategy that can generate greater levels of income over much longer periods. Thus, the goal of a retirement income strategy becomes producing greater income with fewer resources. This means utilizing a formula to maximize each dollar devoted to retirement.

[1] https://www.immediateannuities.com/pdfs/articles/a-new-generation-retirement-strategy.pdf (page 3)

An Approach for Today's Economy: Guaranteed Income through Fixed Indexed Annuities

According to Pacific Life, the accepted approach to retirement income planning includes allocating 45 percent to 65 percent[1] of assets to income-generating instruments and the rest to equities.[2] While this produced the desired results decades ago, the current need for greater guaranteed income can point to two strategies:

1. Establishing an appropriate retirement income strategy designed to produce guaranteed lifetime income through the use of fixed indexed annuities.
2. Establishing an appropriate retirement income strategy increasing the allocation to fixed indexed annuities, decreasing other income-producing securities and maintaining equities.[3]

This modern approach can help to ensure a steady retirement income. In addition, it aims to optimize the potential growth, liquidity and income options of annuities that may be needed by those who have under-funded their retirement or who have greater expenses than their savings. It also aims to provide guaranteed lifetime income at a time when life expectancy has increased significantly.

[2] https://www.immediateannuities.com/pdfs/articles/a-new-generation-retirement-strategy.pdf

[3] https://www.immediateannuities.com/pdfs/articles/a-new-generation-retirement-strategy.pdf (page 9)

Updating the Conventional Retirement Strategy

Since today's retiree will most likely rely more heavily on income derived from their retirement savings, the mentioned approach leads to the question:

How long before the money runs out?

Consider a couple with a retirement savings of $1 million invested in defined contribution plans such as IRAs or 401(k)s. The "Monte Carlo" approach would have the couple withdrawing 4 percent per year, then increasing those distributions by 3 percent annually to cover inflation. This plan will produce a 20 percent chance of running out of money.[4]

The couple has a 25 percent chance of both reaching age 93.[5] While the couple may not completely drain their assets, they would see their nest egg decrease significantly through their 80s. Most clients would not accept this scenario.

When taking taxes into account, the scenario becomes even more difficult. If that couple withdraws $40,000 per year, they will pay approximately $10,000 per year in state and federal taxes. This reduces their income to $30,000 annually.[6] How many retired couples with $1 million in a retirement portfolio would be satisfied living on $2,500 per month? Add to this the impact of inflation on retirees. Because of the continuing escalation of costs in health care, combined with medical costs representing a greater percentage of a retiree's budget, inflation can take a much greater bite out of the fixed-income stream. Thus, creating pressure to generate incremental income to cover the higher expenses associated with age to protect the principal.

Modern Portfolio Allocation

A more effective approach could include introducing fixed indexed annuities into the retirement savings mix.

The principle behind this method focuses on the guaranteed income of this type of annuity. Fixed indexed annuities generate more income per dollar invested than conventional fixed-income products, such as bonds.[7] In addition, the income stream continues for the life of the annuity owner. This factor alone can give a feeling of assurance and relief for the retiree and strengthens the argument for fixed indexed annuities.

[4] *https://www.immediateannuities.com/pdfs/articles/a-new-generation-retirement-strategy.pdf (page 4)*

[5] *https://www.immediateannuities.com/pdfs/articles/a-new-generation-retirement-strategy.pdf (page 4)*

[6] *https://www.immediateannuities.com/pdfs/articles/a-new-generation-retirement-strategy.pdf (page 4)*

[7] *https://www.immediateannuities.com/pdfs/articles/a-new-generation-retirement-strategy.pdf (page 5)*

Establishing an Appropriate Fixed Indexed Annuity Allocation

How much of a retirement savings strategy should be allocated to fixed indexed annuities? In determining this, the client and insurance professional should consider the client's liquidity needs. By their nature, fixed indexed annuities are designed as a long-term savings product providing limited liquidity. Thus, retirees allocating savings into this type of annuity should take into account the potential need for access to other monies to cover expenses and emergencies. However, once an annuity is purchased and income is initiated, the payout remains constant even if inflation rises drastically. Some annuities may offer the option to increase the payout on a set date or over a set number of years. Another prudent method can involve increasing the allocation into annuities incrementally over a number of years.

As with any decision made regarding insurance, you should always discuss the advantages and disadvantages with your insurance professional.

Today's workers facing retirement have far greater challenges than previous generations in creating and maintaining a reliable financial future. Health care and medical expenses continue to take a greater percentage of the budget, and defined benefit plans are less available to employees.

Fortunately, there are strategies that can help protect you from these risks. Although fixed indexed annuities may seem complicated, they can be one of the most beneficial planning tools to protect your retirement savings and create an income stream you cannot outlive.

Some fixed indexed annuities can offer contractually guaranteed, inflation-protected income for life, and some fixed indexed annuities have an optional death benefit rider.

Benefits of Fixed Indexed Annuities:

- Potential protection from running out of money during retirement.
- Features that can help protect from increasing costs of consumer goods and long-term health care (available on some annuities).
- Ability to pass on death benefit directly to beneficiary.
- Tax-deferred.

Fixed indexed annuities also provide the opportunity for potential interest linked to the performance of an external index, with no downside market losses.

Diversifying your retirement savings with a fixed indexed annuity in your retirement strategy can assist in protecting your premium from over consumption, inflation, outliving your money and stock-market volatility. Fixed indexed annuities can also provide upside potential and a guaranteed lifetime income stream during retirement.

A fixed indexed annuity is the only product available on the market today that can offer:

- Stable principal protection.
- Guaranteed income payments for life.
- A hedge against inflation.
- A decrease in overall volatility in a portfolio.
- Spousal continuation options.
- A guaranteed minimum value.

If you want to learn more about how you can take advantage of the benefits of a fixed indexed annuity, contact your insurance professional to review the options available, so they can help you get your retirement income on track.

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Guaranteed lifetime income available through annuitization or the purchase of an optional lifetime income rider, a benefit for which an annual premium is charged.

Annuities are long-term products of the insurance industry designed for retirement income. They contain some limitations, including possible withdrawal charges and a market value adjustment that could affect contract values.

Tax-deferred interest accumulation offers no additional value if the annuity is used to fund an IRA under current tax law.
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