

# Annuities & Pensions

## Boomer Retirement

*Baby Boomers (Born 1946-1964)*



So, what ever happened to “*Happily Ever After?*” If you’re a Boomer, you recognize this movie tag line from the 1950s and 60s. At the end of every romantic movie a background voice would always say, “*And they lived happily ever after.*”

But for Boomers, living happily ever after is more about money than it is about love. The thing that keeps Boomers up at night is the tormenting thought that their money may not last as long as they do. So understanding and maximizing your **Annuity and Pension assets** is one of the keys to your own personal *Happily Ever After.*

## Annuity & Pension Guide

*Sustainable Lifetime Income*

So, how do you make your money last a lifetime? While there is rarely a “*one size fits all*” solution available for any financial dilemma, an immediate annuity (or pension if offered by your employer) might be appropriate for part of your retirement nest egg – that is if you’re looking for a sustainable source of lifetime income. Not having a plan for sustainable lifetime income can often lead to financial difficulties later in life.

### Maze of Choices

Most annuity companies offer a maze of choices for different types and amounts of lifetime income. They complicate understanding by using jargon unfamiliar to most Americans like, *joint & survivor, installment refund, 10 year certain* and others. So in plain English, let’s start at the beginning: What is an immediate annuity?

### How Does It Work?

It’s a policy offered by an insurance company where you exchange a lump sum of your money for the company’s promise to pay you income for a stated period of time – often for life. The promise is backed by the claims paying ability of the issuing insurance company. Great care should be used in selecting the annuity carrier since the guarantee is only as good as the insurance carrier issuing it.



### Annuity Options

While there are many different combinations of income annuity solutions available, two of the most widely used are the Single Life Annuity and the Joint & 100% Survivor Annuity. Both are illustrated for annuities starting at age 65 and 75 in the charts below. The charts are arranged in a way to help you see the interaction of various adjustments to *certain* and *refund* periods. Following the charts are explanations of various terms

used in the charts. Annuity rates illustrated are from various sources including: [www.immediateannuities.com](http://www.immediateannuities.com).

### Single Life Annuity (SLA)

With a SLA, income is paid to you for your entire lifetime. You can never outlive this income. At your death payments stop. There are no payments to your beneficiaries unless a *certain period* is selected. See the examples below.

#### Male\* Lifetime Monthly Income – Per \$100,000 Deposit

Age 65	SLA Annuity	5 Year Certain	10 Year Certain	15 Year Certain	20 Year Certain	Installment Refund
Monthly	\$527	\$523	\$508	\$485	\$466	\$464
Annually	\$6,324	\$6,276	\$6,096	\$5,820	\$5,592	\$5,568
Distribution Rate	6.32%	6.28%	6.10%	5.82%	5.59%	5.57%

*\*Female income numbers are about 5% less than males since women have a longer life expectancy and more income is expected to be paid out.*

#### Male\* Lifetime Monthly Income – Per \$100,000 Deposit

Age 75	SLA Annuity	5 Year Certain	10 Year Certain	15 Year Certain	20 Year Certain	Installment Refund
Monthly	\$751	\$727	\$662	\$589	\$526	\$578
Annually	\$9,012	\$8,724	\$7,944	\$7,068	\$6,312	\$6,936
Distribution Rate	9.01%	8.72%	7.94%	7.07%	6.31%	6.94%

*\*Female income numbers are about 5% less than males since women have a longer life expectancy and more income is expected to be paid out.*

### Joint & 100% Survivor Annuity (J&100%S)

With a J&100%S annuity income is paid for the lifetimes of both you and a spouse or other annuitant. You can never outlive this income. The payment stops at the death of the second annuitant. There are no payments to your beneficiaries unless a certain period is selected. See the examples below.

#### Male/Female Lifetime Monthly Income – Per \$100,000 Deposit

Age 65/65	J&100%S Annuity	5 Year Certain	10 Year Certain	15 Year Certain	20 Year Certain	Installment Refund
Monthly	\$433	\$431	\$430	\$427	\$423	\$421
Annually	\$5,196	\$5,172	\$5,160	\$5,124	\$5,076	\$5,052
Distribution Rate	5.20%	5.17%	5.16%	5.12%	5.08%	5.05%

#### Male/Female Lifetime Monthly Income – Per \$100,000 Deposit

Age 75/75	J&100%S Annuity	5 Year Certain	10 Year Certain	15 Year Certain	20 Year Certain	Installment Refund
Monthly	\$564	\$560	\$553	\$524	\$503	\$520
Annually	\$6,768	\$6,720	\$6,636	\$6,288	\$6,036	\$6,240
Distribution Rate	6.77%	6.72%	6.64%	6.29%	6.04%	6.24%

**Female/Female\* Lifetime Monthly Income – Per \$100,000 Deposit**

Age	J&100%S Annuity	5 Year Certain	10 Year Certain	15 Year Certain	20 Year Certain	Installment Refund
<b>65/65</b>						
Monthly	\$450	\$450	\$449	\$448	\$444	\$446
Annually	\$5,400	\$5,400	\$5,388	\$5,376	\$5,328	\$5,352
Distribution Rate	5.40%	5.40%	5.39%	5.38%	5.33%	5.35%

*\*Male income numbers are about 5% more than females since men have a shorter life expectancy and less income is expected to be paid out.*

**Female/Female\* Lifetime Monthly Income – Per \$100,000 Deposit**

Age	J&100%S Annuity	5 Year Certain	10 Year Certain	15 Year Certain	20 Year Certain	Installment Refund
<b>75/75</b>						
Monthly	\$576	\$573	\$570	\$557	\$530	\$557
Annually	\$6,912	\$6,876	\$6,840	\$6,684	\$6,360	\$6,684
Distribution Rate	6.91%	6.88%	6.84%	6.68%	6.36%	6.68%

*\*Male income numbers are about 5% more than females since men have a shorter life expectancy and less income is expected to be paid out.*

**Distribution Rate:** This is **not** the rate-of-return (ROR) on the annuity. ROR is based on a number of factors including how long you live. ROR can only be determined at death. The distribution rate is merely the annual payout rate based on a \$100,000 deposit.

**Certain Period (5, 10, 15 & 20 Years):** Income is paid for your entire lifetime. You can never outlive this income. However, if you die before the end of the certain period, say 10 years, your beneficiary will continue to receive income for the balance of the 10 year period.

**Installment Refund:** Income is paid for your entire lifetime. You can never outlive this income. If however, you die before receiving an amount equal to the premium deposit, the balance will be paid out to your beneficiaries.

**Low Interest Rates**

A low interest rate environment like we are currently experiencing produces lower annuity payout rates. However, that's not necessarily a reason to postpone purchasing an immediate annuity because current interest rates are just one of three factors that make up payout rates. The other two are mortality credits and return of principal. Mortality credits are issued to current annuitants who live beyond life expectancy from the excess income available from those who die before life expectancy. This helps shield immediate annuity payments from fluctuating interest rates. The third component is the systematic return of principal which is tax free in non-qualified accounts. Remember, immediate annuities are not about interest rates. They are about the certainty of recurring lifetime income.

## **Inflation Adjusted Annuities**

A lot has been written about **Inflation Adjusted Annuities (IAA)** in the popular press.



For me, IAAs just don't deliver the goods. For starters you take about a 25% haircut over a regular annuity. That's \$750 on a \$1,000 per month annuity. And it takes about 10 years to get back to the original \$1,000. Why not just take the higher amount right from the start and spend, save or invest the difference.