



The Truth

ABOUT ANNUITIES



and How to Protect your Retirement

Having enough retirement income is a top concern for many Americans nearing retirement, perhaps even concerning for yourself. Although consistent contributions throughout the working years have occurred, many are concerned if their retirement plans will be successful. A successful retirement plan provides the ability to maintain your lifestyle for the duration of your life. The hallmarks of a successful retirement plan include:

- Safety- Assets that are protected.
- Income- Payments for life.

In this paper, we examine how Americans historically saved for retirement and how saving

for retirement is changing today. Additionally, we will evaluate the potentially-present threats to your retirement income and provide solutions to help protect your retirement portfolio plus having a guaranteed income for life.

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The two most familiar ways that Americans save for retirement is through Pensions and Defined Contribution Plans.



Pensions are defined benefit plans for providing retired employees with a defined benefit (income) for the remainder of their lives and are offered to both public and private sector employees. Pensions provide both safety and income but are diminishing as employers look for alternatives that require more employee contributions. Pensions are fully funded by the employer and are costly to administer compared to employee contribution plans.

In the mid-1980s, Defined Contribution Plans, such as 401(k)s and IRAs, began to replace pensions. These Defined Contribution Plans help give workers:

1. More control over how their retirement savings are invested.
2. The freedom to move between jobs without losing their retirement savings.



However, Defined Contribution Plans still expose retirees to risk, including Longevity Risk. What is Longevity Risk? It is the risk that a retiree will outlive his/her financial assets:

401(k) and IRA owners don't have the benefit of pooled risk that allowed for the defined benefit, income for life, making them susceptible to Longevity Risk. The risk of outliving one's financial assets has become more pronounced as medical advancements lead to longer lives.

Having enough retirement income for what you need and want must be planned for, even in the best economic conditions. There are ways to provide both safety and income and act as a “pension substitute” such as using annuities as an asset class in your retirement portfolio.

Annuities Help Provide Safety and Income

Annuities help retirees address today's #1 retirement planning risk- Longevity Risk.

“ The fundamental risk for retirement is unknown longevity, which is summarized in the question, how long will your retirement plan need to generate income? It is the risk of running out of assets before running out of time.

— Dr. Wade Pfau, Professor, The American College and Principal, McLean Asset Management. *Forbes, Changing Risks In Retirement, Part Two: Unknown Longevity*, Dec. 6th, 2019.

Longevity Risk is the risk that a retiree outlives his/her financial assets. How did Longevity Risk arise? 401(k)s and IRAs don't have the benefit of pooled risk that allowed for the defined benefit of income for life. Including annuities in a retirement portfolio can address the benefit for income for life:

- Annuities can act as a substitute for the key benefit of a pension, income for life.
- Annuities are used in the financial services industry as asset classes in many portfolios due to their safety and growth potential.
- Annuities are a contractual agreement with an insurance company that provides an investor with a guaranteed stream of income during retirement in exchange for a premium.

Insurance companies provide products such as life insurance to help individuals manage an unexpected early death, and annuities to help individuals manage unexpected longer lives. Why should you consider purchasing an annuity? For the same reason you would consider purchasing life insurance- the protection they both provide.



Annuities can offer tax-deferred growth of earnings, protection of principal, and provide a guaranteed lifetime income. Three types of annuities widely used and discussed are variable annuities, fixed annuities, and fixed index annuities. Like any financial product, there are pros and cons to each type, and due diligence of investigating any annuity should take precedence before purchasing one for your retirement portfolio:



Variable Annuities

Enhanced, tax-deferred growth opportunities, but with the risk of principal loss.

- Enhanced growth opportunities tied to market returns
- Provides a guaranteed income for life
- No principal protection
- Market-type returns based on the asset class in the portfolio
- Invests in Mutual Funds (i.e., Sub-Accounts)
- Tax-deferral benefit for non-qualified investments, not applicable to IRAs, 401(k), TSP, etc.
- Limited investment choices in comparison to the universe of Mutual Fund choices

Variable annuities can be a complex product that many investors have difficulty understanding. This type of annuity is market sensitive and may incur a loss to the investor.



Fixed Annuities

Principal protection with a finite (fixed) rate of growth.

- Principal protection- original principal plus all credited interest is guaranteed
- Growth- a fixed rate for a declared period
- Tax-deferral- a benefit for non-qualified assets, not applicable to IRA, 401(k), TSP, etc.
- No fees on base product
- Can provide guaranteed income for life
- Can act as a pension substitute

Differentiators: Clients should work with their advisor to consider the rate, term, ratings, and service levels of the issuing insurance company.



Fixed Index Annuities

Provides growth opportunities with income for life and offers principal protection.

- Principal protection- original principal plus any credited interest is guaranteed
- Growth- credited interest tied to index performance
- Tax-deferral- a benefit for non-qualified assets, not applicable to IRA, 401(k), TSP, etc.
- Provides guaranteed income for life
- Potential inflation hedge- growth is designed to increase when prices are appreciating
- Can act as a pension substitute

Differentiators: Index, participation rates, and service levels of the issuing company.

The two choices for a “pension substitute” are fixed and fixed index annuities since each provide a sound foundation for a retirement plan:

 Fixed Annuity	 Fixed Index Annuity
<p>*Safety: Principal Protection</p> <p>*Income: Lifetime</p>	<p>*Safety: Principal Protection</p> <p>*Income: Lifetime</p>
<p>Difference: The Growth Opportunity</p>	
<p>Growth: Fixed Rate of Return</p> <p>Pro: Defined Rate, Set Day 1</p> <p>Con: Not Correlated With Inflation</p>	<p>Growth: Moves With Market (Index)</p> <p>Pro: Provides Potential Inflation Hedge</p> <p>Con: Returns May Be Lower Than Fixed</p>

Remember that annuities address two of the greatest threats to retirement income, Inflation Risk and Longevity Risk:

Threat #1: Inflation Risk

Inflation Risk also referred to as 'purchasing power risk' is the risk of prices rising faster than the growth rate you generate from your assets.

- A successful retirement plan provides the ability to maintain your lifestyle for the duration of your life.
- Safety and income are hallmarks.
- To help maintain your lifestyle, however, you need to be protected against consumer price inflation.
- Index-Linked Growth can help provide a hedge against inflation- growth moves with prices.

Threat #2: Longevity Risk

Living a long life is terrific, but only when financially planned out. Longevity Risk refers to the chance of a life expectancy and the actual survival rate exceeding expectations, resulting in greater-than-anticipated cash flow needs on the part of a retirement portfolio. Coupled with rising inflation, Longevity Risk can put many retirees at risk of depleting their assets prematurely. A successful retirement plan offsets this risk by providing:

- Safety- Principal that is protected
- Income- Payments for life
- Growth- Return on assets over time

Aside from the cost of goods and services increasing, the elderly experience increases in medical care costs and medical care inflation. Inflation is a cause of premature portfolio depletion.

Are you 100% confident about your retirement assets lasting your entire life? Is an annuity right for you and which type is best for your situation? What is the proper allocation for your retirement assets?

Your financial professional can provide you with a complimentary, no-obligation, longevity planning strategy session to determine if an annuity is right for you. Understanding the truth about annuities and how they can help protect and secure your retirement will help you in your retirement planning.

Disclosures:

This is intended for informational purposes only and should not be used as the primary basis for an investment decision. Consult a financial professional for your personal situation.

*Guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company.

An annuity is intended to be a long-term, tax-deferred retirement vehicle. Earnings are taxable as ordinary income when distributed, and if withdrawn before age 59½, may be subject to a 10% federal tax penalty. If the annuity will fund an IRA or other tax qualified plan, the tax deferral feature offers no additional value. Qualified distributions from a Roth IRA are generally excluded from gross income, but taxes and penalties may apply to non-qualified distributions. Consult a tax advisor for specific information. Fixed Index Annuities are designed to meet long-term needs for retirement income, and they provide guarantees against the loss of principal and credited interest and offer the reassurance of a death benefit for your beneficiaries. The interest credited is limited by either placing a cap on the amount of interest that can be earned ("cap" rate) and/or requiring a specified rate that must be surpassed within the index before interest will be credited ("spread rate").

The interest credited on your contract may be affected by the performance of an external index. However, your contract does not directly participate in the index or any equity or fixed interest investments. You are not buying shares in an index. The index value does not include the dividends paid on equity investments underlying the equity index or the interest paid on any fixed income investments underlying any bond index. These dividends and interest are not reflected in the interest credited to your contract. Interest, if any, will vary depending upon the allocation option you choose. Choosing several allocation options ("diversifying") does not ensure that interest will be credited. No allocation option provides the most interest in all market scenarios.