

LOCK IN YOUR RETIREMENT INCOME

BY KIMBERLY LANKFORD

AS RUMORS SPREAD THAT PRESIDENT OBAMA MIGHT UTTER THE WORD annuity during his State of the Union address earlier this year, the insurance industry went wild. Salespeople touted the president's impending seal of approval as a reason to buy their wares—even if the

high-fee, complex versions they were promoting only vaguely resembled the products that the president supports.

Although Obama never actually mentioned the A-word in his speech, his Middle Class Task Force later recommended annuities as a good way to reduce “the risks that retirees will outlive their savings or that the retirees’ living standards will be eroded by investment losses or inflation.”

The need for lifetime income is huge and growing as life expectancies continue to increase and traditional sources of guaranteed income disappear. For a 65-year-old couple, there's a 25% chance that one spouse will live until age 97, yet fewer people are retiring with pensions, and Social Security covers only a small portion of most people's expenses. Many retirees who had planned to fill the income gap with their savings are wondering where to turn after suffering through two severe market downturns over the past decade. An annuity may be the answer, but not all annuities are alike, and some may not be appropriate for you.

●● PLAIN AND SIMPLE

An immediate annuity is based on a simple concept: You give an insurance company a lump sum and it promises to send you a monthly check for the rest of your life—no matter how long you live. For example, a 65-year-old man who invests \$100,000 in an immediate annuity today could collect \$8,112 per year for the rest of his life. That's about twice as much as he could safely withdraw from his savings each year if he followed the widely accepted recommendation to limit initial withdrawals to 4% of your portfolio to avoid outliving your savings.

Part of the reason for the bigger annuity payout is that each distribution consists of interest as well as a return of principal. But the real secret behind the beefed-up annuity checks is that you pool your risk with other policyholders. People who die early end up subsidizing the payments of people who live longer. You get the biggest bang for your buck if you buy a “straight life” annuity, which pays out only for your lifetime, with no survivor benefits. But most married couples prefer to buy annuities that pay out as long as either spouse lives, even though it means smaller benefits. For example, a 65-year-old couple who invest \$100,000 in an immediate annuity and choose dual coverage would receive an annual payout of \$6,634.

Buying an immediate annuity helped Elaine Leaf stretch her retirement income. Ten years ago, Leaf, now 63, retired from a career in radio and moved from New Jersey to Edgewater, Fla. “I thought I could live on the funds from the sale of my house,” she says. But she soon discovered she was wrong. Medical-insurance premiums alone cost \$1,000 a month, and her investments took a major hit during the 2000–02 bear market.

Leaf took a job as a cashier at a discount clothing store to earn some extra money and qualify for health insurance—but she was miserable. Her financial adviser recommended that she buy an immediate annuity from New York Life. She invested about \$375,000 and now receives \$2,500 per month—twice as much as she was able to withdraw safely from her savings. (Because interest rates were higher four years ago, Leaf locked in a bigger payout than a 59-year-old could buy today.)

“I feel protected for life,” says Leaf. “Now I can count on a check that comes every month like clockwork.” ■

WHAT AN IMMEDIATE ANNUITY WILL PAY

Typical payouts by age based on a \$100,000 investment.

ANNUAL PAYOUT		
Age	Single Life (male)	Joint Life
60	\$7,224	\$6,112
65	\$8,112	\$6,634
70	\$9,024	\$7,074
75	\$10,668	\$7,930

SOURCE: ImmediateAnnuities.com



PHOTOGRAPH BY JENSEN LARSON

EXTRA INCOME FROM ELAINE LEAF'S IMMEDIATE ANNUITY LET HER QUIT A PART-TIME JOB SHE HATED.

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