Safeguard Retirement Savings With Annuities

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Why Annuities

Countless retirement experts, including the national authority on IRA Ed Slott, have endorsed the use of annuities for retirement income. In his recent comments about including annuities in the SECURE Act, he stated: "*The idea is really good. I think employees should have guaranteed income, annuity income, for their basic living expenses. A good retirement portfolio has to have some guaranteed aspect of it.*" https://www.thinkadvisor.com/2019/06/21/ed-slott-the-pros-and-cons-of-annuities-in-retirement-plans/.

Using annuities for retirement income is also supported by scholarly research which confirms that annuities are highly effective in providing reliable, lifetime retirement income that would reduce the risk of retirees running out of money. https://crr.bc.edu/wp-content/uploads/2019/10/wp_2019-13.pdf.

There are many ways to include annuities in a retirement income plan. The author has published an article on using deferred annuities that would yield a lifetime guaranteed income of 10% or more on investment. https://www.fa-mag.com/news/optimizing-annuity-income-benefits-a-case-study-45333.html?section=303 Immediate annuities are an option if income is needed immediately. Such annuities may pay 5% - 7% depending on age and gender. The primary benefit of annuities is that they will provide lifetime guaranteed income that is similar to Social Security, which is the only guaranteed income that retirees can count on to date, if they have no access to pension plans.

Given that the stock market has dropped around 25% to date in 2020 amidst the corona virus crisis, and that it will likely remain volatile in the near future, it's high time for all retirement plans to be reassessed by incorporating guaranteed income assets such as annuities in order to provide some certainty, stability and safety in a retirement income plan.

How To Use Annuities In A Retirement Portfolio

Many retirement plans have focused on dividend stocks that would provide an income stream. However, the current experience amidst the pandemic crisis is that many companies have or will either cut or cancel their dividends, not to mention that the value of these stocks have dropped tremendously.

Many other income vehicles such as bonds and CDs are paying very low interests that may not be enough for retirement income purposes.

Here is a strategy for converting some retirement savings into annuities that will provide long term benefits. This strategy will assure guaranteed retirement income while allowing some assets to remain in the market for growth. It also provides portfolio diversification if all retirement savings have concentrated heretofore in the equity market. Following are the steps to implement the strategy.

1. Conduct an audit of your retirement savings. Rank all holdings from low to high or vice versa according to earnings and returns.

2. Separate out the principal from the earnings in the portfolio. Principal is the money that you have put into the retirement savings plan. Earnings are the balance of the savings. If you do not know how much you have put into your plan, just do an estimate for all the years that you have had your IRA, 401(k), 403(b), 457 plans, etc.

3. Once you have a number for your principal, use that to determine how much you would allocate to an annuity. This strategy is clearly a way to protect your principal without converting the entire portfolio to annuities.

4. Do an audit of your living expenses. Allocate only enough principal to annuities to cover basic expenses or the majority of your expenses according to your comfort level.

5. Select from the portfolio holdings items that have low earnings or returns and sell them for funds for acquiring the annuities needed.

6. Though this strategy entails selling some securities in a down market, it will allow a retirement portfolio to recover from losses already incurred as many annuities, such as deferred or fixed index annuities, would enable the account value to grow either through fixed interests or interests based on equity index performance without the risk of loss.

7. Accordingly, you need to shop carefully for an appropriate annuity. Like anything, some annuities are better than others, depending on your needs.

8. You can buy several annuities instead of putting all your money in one to ensure that your investment is safe with insurance companies that have good credit ratings. Or you can ladder several annuities over time to capture higher payouts with increased age and to reduce the risk of inflation.

Supercharge An Annuity

Given the drop of the market and the probability of having lower income this year, this may be a great time to convert your retirement savings to Roth IRA before buying an annuity. This will ensure tax-free annuity income for life. For example, if you convert $100,000 from an IRA to a

Roth IRA and purchase an immediate annuity that pays $6000 per year at age 70, and your marginal tax bracket drops from 22% to 12%, you will save $10,000 in taxes for the conversion this year. If the annuity pays out for 20 years, there will be a net savings of $14,400 in taxes. More savings will be available for higher payouts through deferred annuities, longer benefit duration, as well as higher reduction in marginal tax rates.

For retirees who are on Social Security and Medicare, income from Roth would not be included in taxable income, and may result in lower Social Security taxes, as well as lower Medicare premium.

Protect Your Retirement Savings

While the stock market has historically experienced great turmoil and recovery, the current health crisis highlights the need for protecting one's retirement savings through guaranteed income assets that would not lose their value. It's time to take action to preserve at least the principal of your retirement portfolio.

It must be noted that there are many misconceptions about annuities in the popular media. The common ones concern the loss of investment should one die early, the lack of flexibility for locking up your money in an annuity, and annuities being too expensive and too complex for the average investor. While there are certainly many rules related to annuities, many annuities are now designed to ensure that the investor will get his/her investment back over time through guaranteed income benefits, as well as death benefits for their beneficiaries. What investors need to do is to make sure that they work with knowledgeable advisors in order to access the right annuities for their purposes.

http://www.emeraldhost.net/files/59550/Safeguard%20retirement%20savings%20with%20annuities..pdf

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