

Four Ways to Avoid Outliving Your Money

It's the financial nightmare that haunts retirees: They live a surprisingly long time or they earn lousy investment returns – and they end up outliving their savings.

How do you guard against this danger? Your monthly Social Security check provides a partial safety net, and you may have further protection in the form of a traditional “defined benefit” pension.

But Wall Street is hoping you will purchase even more insurance. Indeed, it's promoting a slew of products both old and new including the four described below.

1. Immediate Fixed Annuities

All four products are variations on the immediate annuity, which is designed to provide investors with lifetime income. And the simplest way to get that income is to buy an “immediate fixed” annuity. It's a paycheck for the rest of your life. It's also a guarantee against living too long.

Typically, the income from an immediate fixed annuity stays the same every month. But you can buy products where your payments climb along with inflation or where they rise at, say 3% every year.

You can also get all kinds of bells and whistles such as guaranteed payments until both you and your spouse have died, or guaranteed payments for 10 or 15 years, thus ensuring that your heirs will get some money should you die earlier.

To get a sense for how much income an immediate fixed annuity might generate, check out www.immediateannuities.com, an online quote service.

I like the simplicity of immediate fixed annuities and I like the protection offered by the guaranteed lifetime income.

2. Immediate Variable Annuities

There's another concern with immediate fixed annuities: Because payments typically stay the same every month, you leave yourself vulnerable to inflation.

You can sidestep this problem by combining your immediate fixed annuity with, say some low cost stock funds, which should give you inflation-beating long-run returns. But Wall Street has another idea. How about buying an immediate variable annuity instead?

With an immediate variable annuity, you get to spread your money across a menu of mutual funds. If the fund you pick beat the annuity's hurdle rate which might be 3.5% or 5% a year, your income will grow over time.

Five or six years ago, many thought immediate variable annuities would be the insurance industry's next big product. But it hasn't panned out that way.

Part of the blame lies with the products' complexity. But also, immediate variable annuities suffer the same drawback as immediate fixed annuities: Retirees want life-time income – but they are loath to give up their principal.

3. Living Benefits

To address this concern, the Insurance industry has taken tax-deferred variable annuities and tacked on “living benefits.” Traditionally tax-deferred variable annuities have been used as a retirement-savings vehicle, not unlike an individual retirement account.

But by adding living benefits, the aim is to turn this retirement-savings vehicle into a retirement-income vehicle. If the funds inside the variable annuity fare well, your income would get stepped up, just as it would with an immediate variable annuity. Moreover, unlike with most immediate variable annuities, you still own the underlying assets and you can pass this money onto your heirs.

4. Longevity Insurance.

In recent years, at least three insurers have introduced different types of longevity insurance. With longevity insurance, you put down a hunk of money at say age 65 in return for income starting at age 85. Result? You are free to spend down your remaining assets over the next 20 years, knowing you have guaranteed yourself income should you live longer than that.

Longevity insurance isn't exactly selling like hotcakes, still, outliving your savings is a real danger.

There are a lot of products and ideas that can help you stretch your income and enjoy your retirement. Please give me a call if you are interested in finding out more!

Janet Lee Porter
Harvest Capital LLC
94 North Elm Street, Suite 208
Westfield, MA 01085
(413) 562-6228