

2010 Edition

The Truth

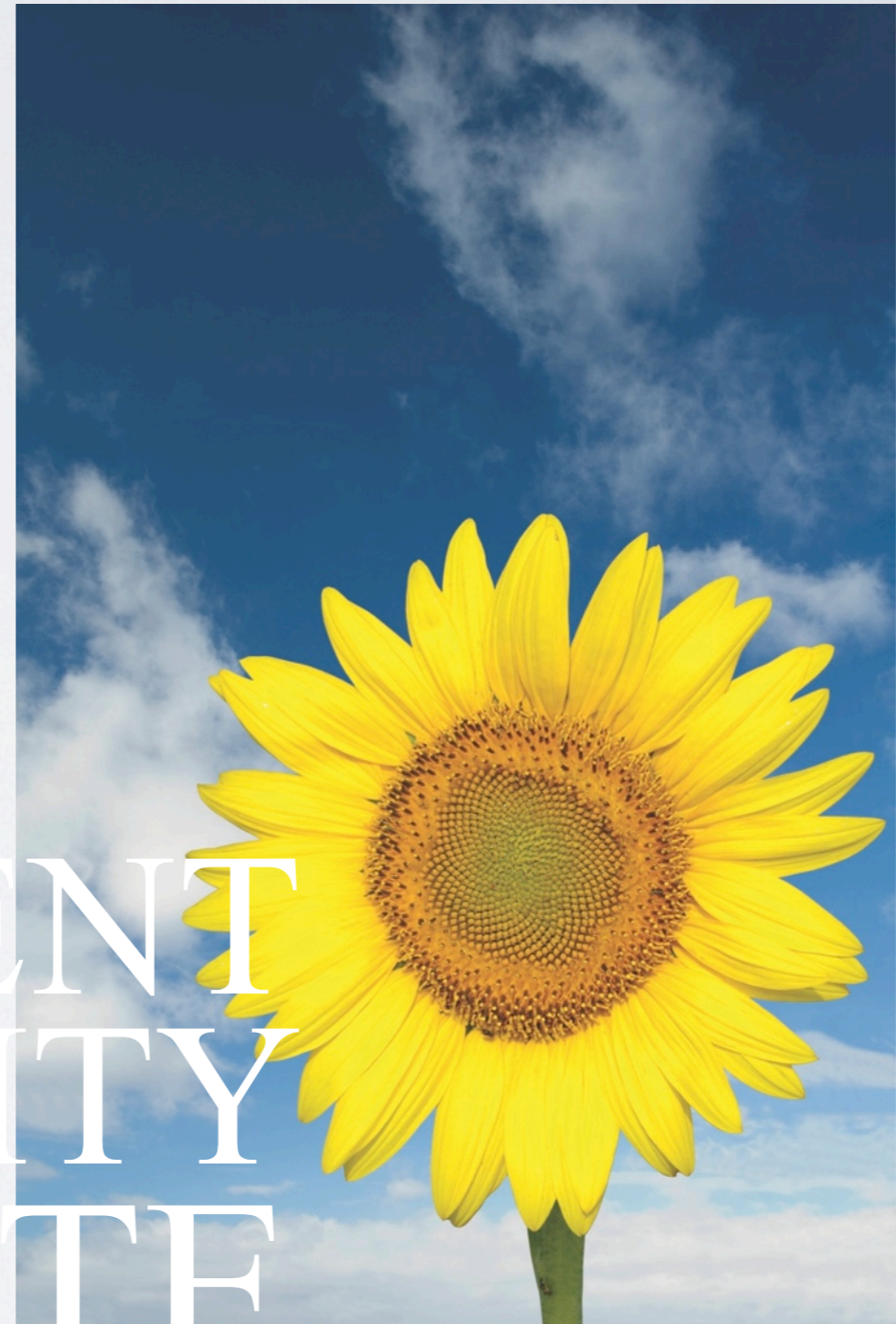
about annuities and retirement income

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About annuities

- What is a fixed income annuity?
- An annuity is a contract with guarantees between the insured and insurance company. With a lump sum payment from the insured, the insurance company provides monthly payments to the retiree similar to a pension. They can be thought of as “paychecks for life,” a supplement to Social Security, or a do-it-yourself pension.



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Truth #2

You can never outlive fixed income annuity payments.

- Given a \$250,000 savings balance at a retirement age of 65 years, how long would it take to deplete these savings?
- Fixed income annuities are the best way to solve for longevity risk, and be guaranteed an income stream for life.

Rate of return (non inflation-adjusted)	Monthly income drawn	Years to deplete
4%	\$2,000	14 years to age 79
5%	\$2,000	15 years to age 80
6%	\$2,000	17 years to age 82

For illustration only

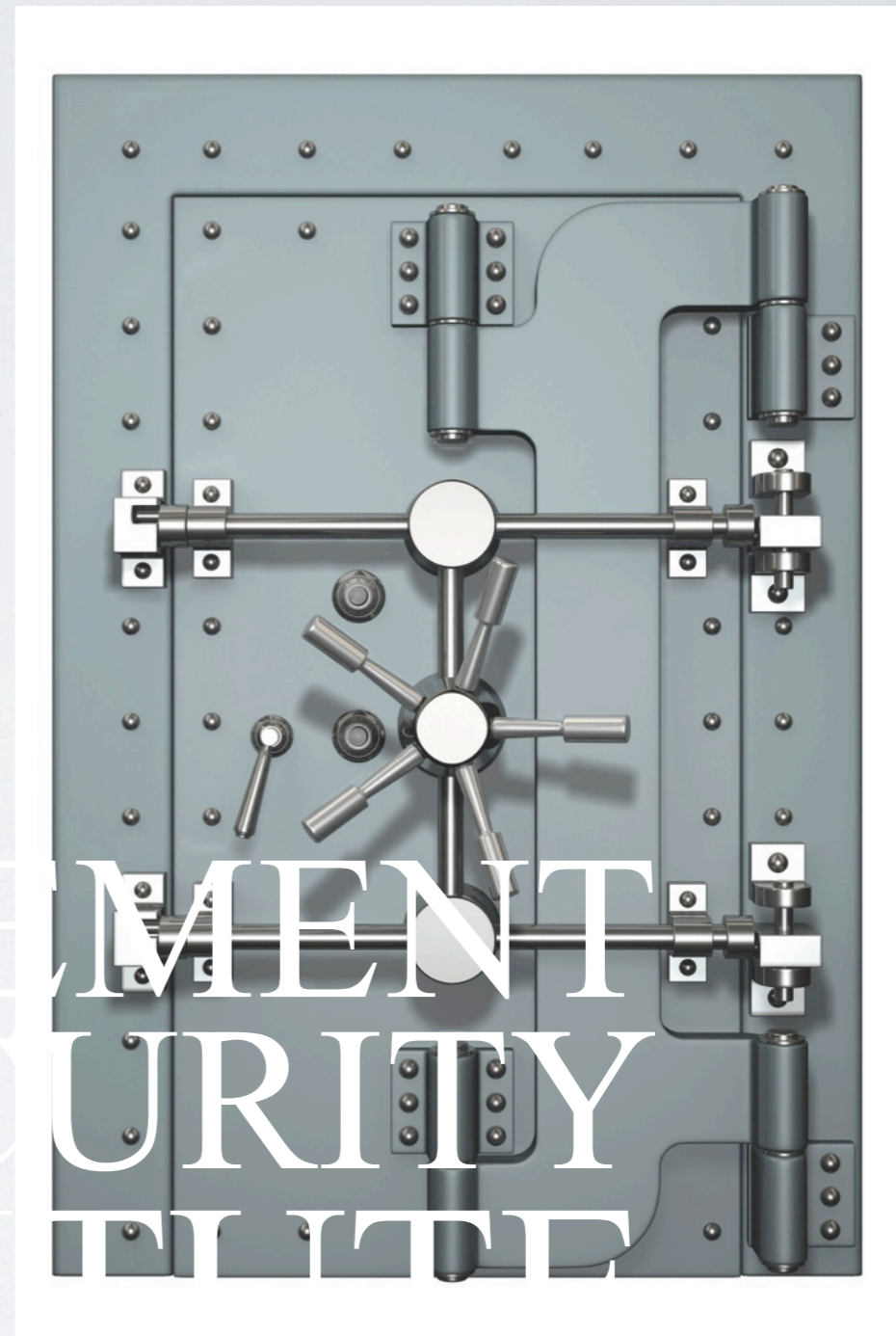
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Truth #3

Fixed income annuities are a safe asset class.

- Insurance companies are regulated by state regulations. Insurance companies must have sufficient assets to make good on their guarantees. There is no loss of principal even when markets decline or the economy falters. Insurance companies have strict guidelines for reserves that must be set aside to make this guarantee⁽¹⁾. The funds deposited in a fixed annuity increase in value based upon a minimum guaranteed interest rate and often an excess interest rate, and then when payouts as income begin, they keep on coming.

1. For more in-depth information about state regulations and insurance contracts, see "Insurance Regulation and State Guaranty Associations Q & A..." at <http://www.iriionline.org/resources/article/id/261>. Also, see the National Organization of Life & Health Guaranty Association: <http://www.nolhga.com>



Truth #6

Retirement savings and investments can be depleted without an income guarantee.

- Given the previous scenarios...
- At best, the savings/investment portion of retirement assets runs out at age 81 under these scenarios. In order to receive a 9% return on your savings/investments, you'll likely need to be heavily invested in stocks or mutual funds—both carrying market risk. You can lose some of these assets due to market downturns and/or underperformance.
- Adding a fixed annuity into the portfolio mix optimizes income, especially once savings/investments deplete. Without an annuity in the mix, savings/investments may burn out, leaving Social Security as potentially the sole income source. Only annuities offer a safety net for longevity risk because the income stream continues into one's final days, at any age.

Truth #8

A substantial portion of retirement income should be longevity insured.

- Up to 75% of total wealth can be justified, under a variety of methods, to be longevity insured, which implies 75% of desired (retirement) income.
- For retirees concerned about outliving their assets, or not having an income to last throughout retirement, fixed income annuities have a rightful place in their portfolio of assets. Income from Social Security and defined benefit pensions (that are Pension Benefit Guaranty Corporation insured) are considered longevity insured to researchers in this calculation. You'll still need to assess how income from these sources keeps up with inflation over time, and whether these sources will remain reliable.



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About this presentation and publication

The RSI bases its work and analysis on top academic researchers' findings in the field of risk management and individual finance decisions. The work of Wharton professors and University of Toronto's research institute on finance decisions ranks highly, but also the research and analysis of credible public sources and think tanks play a role. Author Jennifer Warren utilizes her finance and economic background of over twenty years alongside the most credible information available.

About the work of the Retirement Security Institute (RSI)

The RSI's mission is to provide credible analysis and meaningful information about retirement security issues, focusing on health care and financial matters. The RSI is a knowledge company which produces a synthesis of research, information, and new ideas for both professionals serving the retirement market and retirees who need useful, straightforward information.

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