5 *Types of* GUARANTEED INCOME in Retirement

Compliments of
Lynn Toomey

RETIRE SMART NETWORK

Lynn Toomey

Lynn Toomey is the chief RetireMentor and co-creator of Retire Smart Network.

As a "RetireMentor," with several years of experience helping people learn about retirement income planning, Lynn is dedicated to making sure you actually implement an income plan for your retirement versus just thinking about it. After all, as Dale Carnegie said, "Inaction breeds doubt and fear. Action breeds confidence and courage. If you want to conquer fear, do not sit home and just think about it. Get busy."

Lynn has been pushing the business and marketing envelope for 30 years as an employee, consultant or owner of her own companies. She loves the thrill of strategizing and implementing engaging platforms and content that help people live better lives.

30 Great Rd. | Suite 204 | Acton, MA 01720
508.798.5115 | lynnt@retiresmartnetwork.com | www.retiresmartnetwork.com

Income. If you're in retirement or approaching it, you probably think about income frequently. You're not alone. In fact, according to a 2014 survey from Wells Fargo, nearly half of retired and nearing-retirement Americans are concerned they don't have enough guaranteed income and will outlive their assets.[1]

There's good reason for this concern. Retirement used to be funded mostly by Social Security and employer-defined benefit pensions. According to the Social Security Administration's 2015 Annual Report, retirement benefits may need to be reduced starting in 2034.[2] Defined benefit pensions are quickly fading from the retirement landscape. Since 1998, the percentage of Fortune 500 companies offering pensions has dropped from 60 percent to 22 percent.[3]

[1] Wells Fargo/Gallup: Investor Optimism Highest Since 2007; September 24, 2014; Wells Fargo; https://www.wellsfargo.com/about/press/2014/3q14pr-investor-optimism-gallup-survey_0924.content

[2] A Summary of the 2015 Annual Reports; Social Security Administration; http://www.ssa.gov/OACT/TRSUM/index.html

[3] Retirement in Transition for the Fortune 500: 1998 to 2013; Towers Watson; Brendan McFarland; September 3, 2014; https://www.towerswatson.com/en/Insights/Newsletters/Americas/Insider/2014/retirement-in-transition-for-the-fortune-500-1998-to-2013

Add that up and you have a retirement in which you are more responsible than ever for accumulating assets and strategically taking distributions so your money lasts your lifetime. Of course, that's easier said than done. You don't know when you're going to die, and you don't know what unexpected medical expenses you may have. How can you know how much money to withdraw each year with so many unknown variables in the equation?

The good news is you have options available. If you've done a good job accumulating funds for retirement income, there are a number of ways you can convert those assets into guaranteed retirement income. By combining some of those methods with Social Security, and even a pension, you may be able to fully fund your retirement with completely guaranteed income.

The following are five of the top sources for guaranteed retirement income. Talk to your insurance professional about how you can incorporate some of these income sources into your retirement income plan.

1 Social Security

It's popular to speculate about how long Social Security will last. The good news is it's projected to last until 2034 at the full benefit level. At that point, benefits may need to be reduced to three-fourths of current levels.[2] Of course, that's assuming no action is taken to stabilize the fund or prolong the benefits.

Another big decision with Social Security involves when exactly you should start your benefits. You can begin taking them at age 62, but taking them that early can reduce your benefits by 25 or 30 percent, depending on what your Full Retirement Age (FRA) is. Similarly, by delaying your benefits, you can increase your payment by 8 percent for each year you wait past your FRA.

If you utilize some of the other sources of guaranteed retirement income we'll discuss, you may be able to put off Social Security, thereby increasing your total Social Security benefits. Social Security planning involves a lot of moving pieces, so it's important to consider all of your options before deciding when and how to take it. Talk to your insurance professional to see how you can maximize your benefits and your guaranteed retirement income.

[2] *A Summary of the 2015 Annual Reports; Social Security Administration; http://www.ssa.gov/OACT/TRSUM/index.html*

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2 Defined Benefit Pensions

The number of companies offering defined benefit pension plans has been declining, but there are still plenty of businesses offering them. If you're fortunate enough to have a defined benefit pension, you can use it to cover a big portion of your guaranteed income in retirement.

Even with a defined benefit pension, you may still need to find other sources of guaranteed income. Maybe your pension won't cover all of your monthly expenses, or, perhaps, the pension will be significantly reduced or even eliminated when you pass away, leaving little guaranteed income for your spouse.

One common wrinkle with defined benefit pensions is the offer of a buyout. Many companies are trying to rid themselves of the long-term obligation of pensions. To get pensions off their books, they offer participants lump-sum payments instead of an annual stream of payments.

If a lump-sum option appeals to you, there are many ways you can convert that lump sum into guaranteed retirement income. When making pension decisions, you should consult with your insurance professional so you are aware of other guaranteed income opportunities.

3 Reverse Mortgages

Reverse mortgages have risen in popularity in recent years because they offer a convenient way to get income out of the equity in your home. With a reverse mortgage, a lender essentially buys the equity in your home. As the name suggests, it's a mortgage paid backward. So instead of you making payments to buy down a mortgage, your lender pays you money and your mortgage balance goes up.

To be eligible for a reverse mortgage, your home must be completely paid off or close to being paid off. Also, you must be age 62 or older. Finally, you must complete mandatory counseling to make sure you understand all the terms and consequences of the mortgage.

When you take out a reverse mortgage, you'll get monthly income payments, which will be tacked on, with interest, to a mortgage balance. Your payment will be based on your age, the value of the home and the interest on the loan. The mortgage doesn't have to be repaid until you pass away or sell the home.

A reverse mortgage may be the best approach for you. However, there are a few important points to consider. First, you'll be creating new debt on an asset that's already free-and-clear. When you die, your kids likely won't get much equity out of selling the home. If you need to move into a costly long-term care facility, you may not be able to sell your home to cover the medical expenses.

Also, reverse mortgages can sometimes be pricey. You may have to cover significant out-of-pocket closing costs. The interest could also be higher than you might find on a traditional mortgage.

Before you opt for a reverse mortgage, make sure you look at all your income options. Also, make sure you talk it over with your heirs, as they'll likely be the ones settling your estate.

4 Immediate Annuities

Immediate annuities are one of the oldest methods of creating guaranteed income. They were even used by ancient Romans to pay for future expenses. Romans would make one-time payments to the emperor's annua fund, and in exchange, they would receive a lifetime stream of income.

Immediate annuities aren't much different today, aside from the fact you don't make payments to the emperor. Today's immediate annuities are offered by life insurance companies.

First, you make a lump-sum payment to the insurance company. They calculate a regular income payment based on your life expectancy, the initial amount of money and prevailing interest rates. You then receive that payment for the rest of your life, no matter how long you live.

There are a few twists to the immediate annuity that can help you customize the payment to meet your specific situation. You can choose a joint payment that covers two lives. You can also choose a period certain payment. If you pass away within a certain period of time, your beneficiaries will continue to receive the payments for the remainder of the predetermined time period.

You can also add optional features, such as an inflation rider, so the payment increases each year. Some of these variations may lower the actual payment, so you'll have to analyze each option and weigh it against the costs and benefits.

Immediate annuity payments are backed up by the faith and credit of the insurance company that's underwriting the annuity contract. Most insurance companies that offer immediate annuities are longstanding, stable and successful businesses, so you probably don't need to worry about them not making the payment. However, it is worthwhile to at least look at their financial ratings to make sure you're comfortable with their stability.

Finally, if you purchase an immediate annuity, you'll want to make sure you have other liquid assets. Once the annuity starts, you can't stop it. Those guaranteed income payments will be nice, but you'll also need to have a safety net to cover unplanned expenses outside of your budget.

5 Indexed Annuities with a Guaranteed Lifetime Withdrawal Benefit

A deferred indexed annuity is different from an immediate annuity in the sense that you retain control of the deferred annuity. You own the contract and are able to take withdrawals if you need them. Most contracts have a surrender penalty schedule, which means if you take money out during the contract term, there is a penalty assessed to the value. Once past that schedule, you can close the contract and take your money out if you want to.

In an indexed annuity, your premium has the potential to earn interest based on the performance of an external index. An index measures how well the stock market, or part of the market, performs. The interest credited on your annuity will be determined by the calculation method used in the fixed indexed annuity and the performance of the index you choose. If the index performs positively, or better than your guaranteed minimum interest rate, you'll benefit by receiving more interest on your premium. If the index performs negatively, or below your guaranteed minimum interest rate, the insurance company will still pay you the minimum rate, based on the terms of your contract.

An indexed annuity can provide additional income options when you add an optional feature known as a guaranteed lifetime withdrawal benefit (GLWB). This feature allows you to take income withdrawals up to a certain percentage. As long as you stay within the allowable withdrawal amount, your withdrawals are guaranteed for life, no matter how long you live or how the contract performs.

Depending on your age, the guaranteed withdrawal amount could be less than you might get from an immediate annuity. However, you'll retain some liquidity in the money, and, depending on the annuity features, it may even increase your income if the contract performs well. Also, you may even be able to leave a death benefit for your children or other beneficiaries.

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For more information, talk to your insurance professional. Having guaranteed income in retirement is important, but it's also important it is the right kind of guaranteed income. You need to make sure your income sources work for your unique situation.

A skilled and experienced insurance professional can review your retirement income strategy with you. They can help you map out your planned income sources and expenses and identify any gaps. Then, you and your insurance professional can develop a plan to maximize your guaranteed income so you can enjoy retirement to its fullest.

Lynn Toomey

508.798.5115

Licensed Insurance Professional.

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30 Great Rd., Suite 204
Acton, MA 01720
508.798.5115
lynnt@retiresmartnetwork.com
www.retiresmartnetwork.com

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