RETIREMENT INCOME PLANNING

WITH FIXED INDEXED ANNUITIES

INTRODUCTION

For many, retirement is a time of incredible change, perhaps the most dramatic change in your adult life. After working for many years, you're starting a new chapter where you have more time to spend on things like family, friends, traveling and hobbies. While you're excited to have reached the finish line, it might also be one of the most stressful times of your life. Many retirees worry about their finances in retirement and are concerned about depleting their retirement savings.

If you are financially prepared for retirement, it's likely because you budgeted and set aside money every month. Now you are stepping away from your career, and you are moving from the "accumulation" phase of your life to the "distribution" phase. A common view of retirement is that you flip a magic switch and change from "saver" to "spender," but it can be more complicated than that. The paycheck you have been receiving for the past 40 years is gone, and it's time to turn your retirement savings into income that will last.

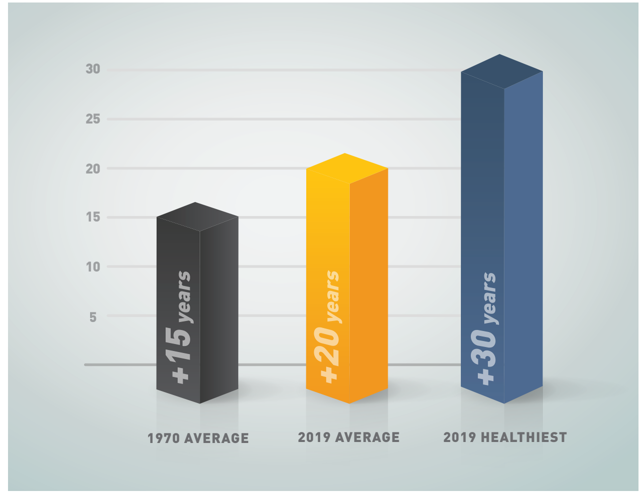
30 PERCENT OF CPA FINANCIAL PLANNERS REPORT THAT RUNNING OUT OF MONEY IS THE TOP FINANCIAL CONCERN OF CLIENTS PLANNING FOR RETIREMENT.[1]

THIS GENERATION OF RETIREES IS CONFRONTING A SET OF CHALLENGES UNLIKE PREVIOUS GENERATIONS.

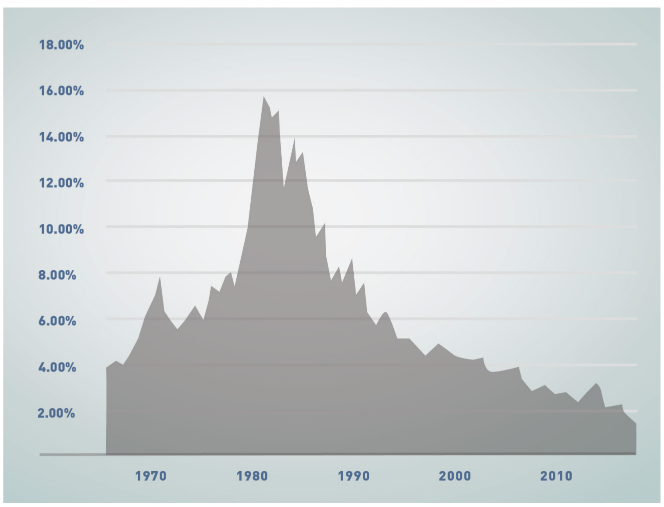
- Retirees are living longer and may need to plan for more years in retirement. Back in 1970, the average 65-year-old retiree lived another 15 years.[2] Today's average is about 20 years. And for the healthiest Americans, it could be more than 30 years![3]

  Increased longevity is one factor behind recent changes that may allow seniors to contribute to some retirement accounts later in life, as well as postponing the age to begin required minimum distributions (RMDs).[4]

Life expectancy

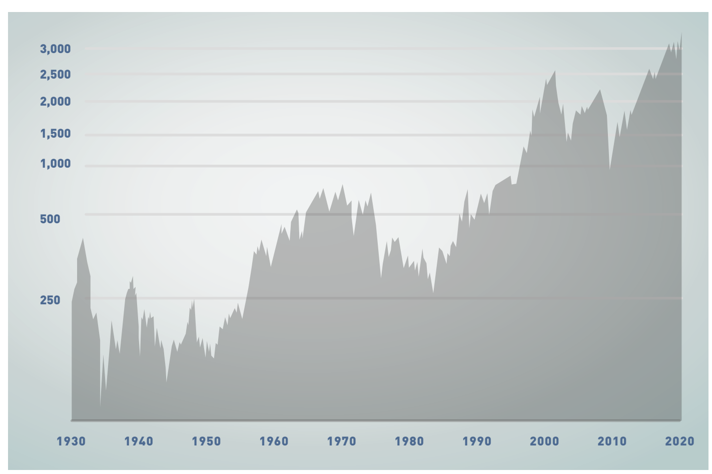


Interest rates



- A period of historically low interest rates (shown in the chart to the left) has made it more difficult to generate adequate retirement income in traditional retirement vehicles like money markets and CDs.[5]

S&P 500®



- Unpredictability in the economy and politics, as well as rapidly changing technology, likely means more uncertainty in the performance of the stock market. The S&P 500® experienced great growth in the years after the 2008 financial crisis, but will that growth continue? As you can see from the chart to the right, the economy historically tends to experience periods of expansion and contraction, and that is reflected in the ups and downs of the stock market.[6]

LONGEVITY RISK, LOWER INTEREST RATES AND A FLUCTUATING MARKET MAKE RETIREMENT MORE CHALLENGING THAN EVER BEFORE.

YOU AND YOUR RETIREMENT

Typically, how you manage your finances changes in retirement. Among other things, you will likely want to:

- **Manage your lifestyle change**
- **Define your attitude about risk**
- **Understand how your savings will be impacted**

MANAGE YOUR LIFESTYLE CHANGE

You have a vision of what your retirement will be like – maybe it includes things like spending time with family, traveling and pursuing hobbies. You may have a retirement strategy to help make this vision a reality. However, you never really know what life has in store for you. Your strategy needs to be flexible enough to ensure it can accommodate the reality of your retirement.

There is no better time than now to review your retirement strategy. It is crucial that your assets are positioned to grow and generate income, but also flexible enough to address the unexpected.

DEFINE YOUR ATTITUDE ABOUT RISK

When you were in your 30s and 40s, it was easy to have a relaxed attitude about the risk exposure of your assets because you had two important things on your side:

- **Time**
- **Steady income from employment**

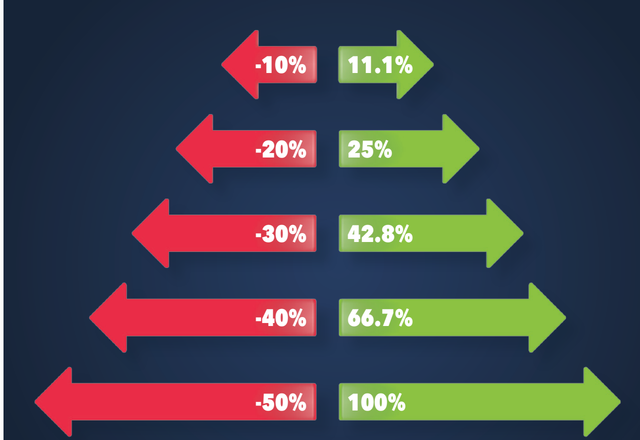
If the market took a downturn, you had plenty of time to recover. As you near retirement, you may no longer have the luxury of a long-term time horizon.

Look at the graphic below to explore a scenario that could happen if you are at or near retirement and experience a market loss of 20%. You may not have time to wait for a market recovery and may have to adjust your retirement income plan with 20% less in retirement savings. Additionally, if you were to lose 20%, a corresponding 20% recovery would not get you back to your previous amount. In order to recoup the loss, you would need a 25% gain. For example, if you had $100,000 and lost 20%, your new balance would be $80,000. If the account grew in the following year by 20%, the account balance would be $96,000.

In years past, you had a regular income stream, and if the need arose, you could set aside additional funds to get your retirement savings back on track. That may no longer be true.

MATH OF REBOUNDS

WHAT DOES IT TAKE TO RECOVER FROM LOSS?



If you were to lose this much, it takes approximately this much to get back to 0%.

Rate of Recovery

Percentage of Loss	3.0%	5.0%	7.0%	9.0%
-10.0%	3.6 yrs	2.2 yrs	1.6 yrs	1.2 yrs
-20.0%	7.5 yrs	4.6 yrs	3.3 yrs	2.6 yrs
-30.0%	12.1 yrs	7.3 yrs	5.3 yrs	4.1 yrs
-40%	17.3 yrs	10.5 yrs	7.6 yrs	5.9 yrs
-50%	23.4 yrs	14.2 yrs	10.2 yrs	8.0 yrs

Years to Rebound from Loss

UNDERSTAND HOW YOUR SAVINGS MAY BE AFFECTED

For much of your adult life, you were likely accustomed to getting a paycheck twice a month and paying bills once a month. This structured flow of money in and out might be second nature to you.

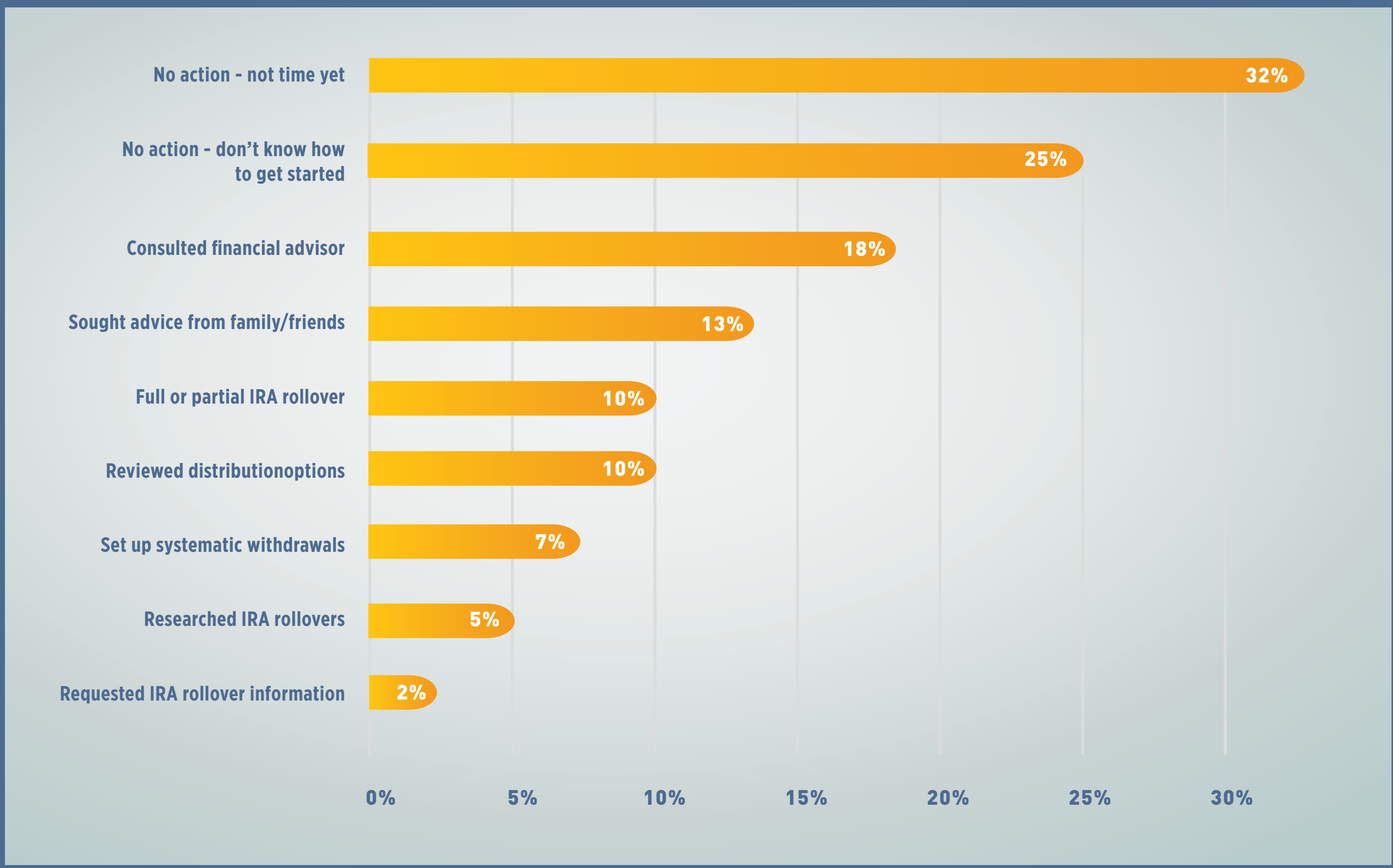
During retirement, your employment checks stop and any additional income you require must be developed through your retirement income plan. Creating a regular income stream from a lump sum of money can be complicated.

STRATEGIES

How do you address these realities and create a lifetime income for your retirement?

You are not the only person confronted with this dilemma and many in your situation have not yet addressed these challenges. According to a recent report, 57% of baby boomers have taken no action regarding their 401(k),403(b) or other retirement plan at work.[7]

Actions taken with workplace defined contribution plan



Many retirees who feel unsure about their retirement are looking for a financial vehicle that can:

- **Provide opportunity for growth and help keep pace with inflation**
- **Provide protection from market downturns**
- **Create a lifetime income stream**

Financial services companies created fixed indexed annuities to offer potential solutions to these issues.

FIXED INDEXED ANNUITIES

Fixed indexed annuities are insurance products that earn interest, in part, based on the performance of an external market index, like the S&P 500®. Fixed indexed annuities are different than more traditional annuities, which typically earn a set amount of interest each year and have no connection to an external market index. Fixed indexed annuities were designed to provide policyowners with **growth potential** through the upward movement of a market index, while also offering **protection from market downturns.** Fixed indexed annuities are not direct investments in any stock, bond or other security. Fixed indexed annuities offer a minimum rate of return and no loss of principal or interest credits if the market index declines. Additionally, any interest that is credited to the annuity has the benefit of tax deferral. This means that you will not be taxed on the annuity interest credits until funds are withdrawn from the annuity.

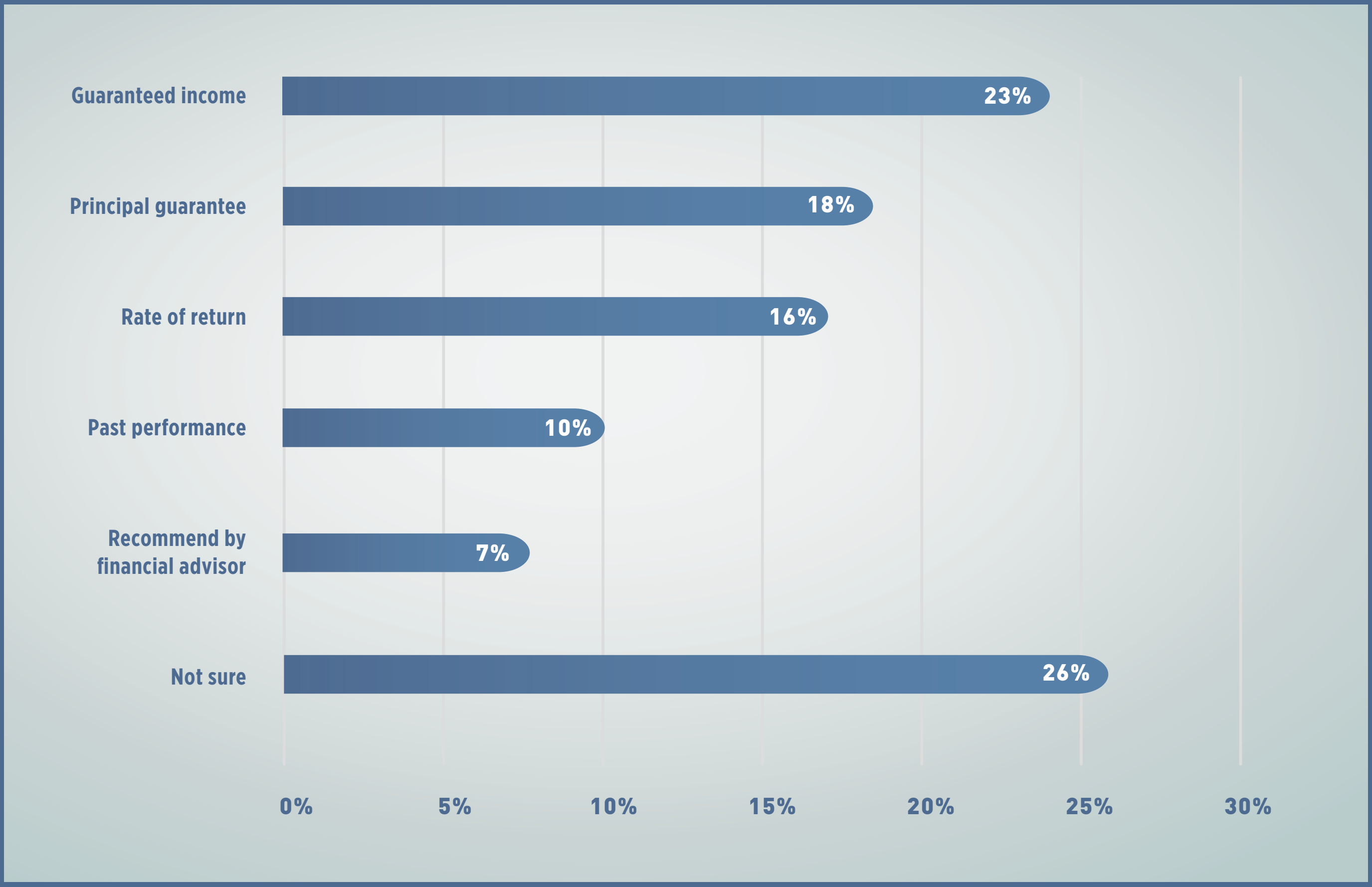
It is important to remember that fixed indexed annuities are long-term products. If you need access to the funds before the contract matures, there may be a penalty for the withdrawal. This is commonly know as a surrender charge. During the surrender charge period, if you take a withdrawal greater than the free withdrawal amount, there may be a percent surrender penalty. The percent varies based on the product, but they may be around 10% in year one and decline by 1% each subsequent year (9% in year two, 8% in year three, etc.). Many annuities allow a free-withdrawal amount each year that is not subject to a surrender penalty. That amount is typically 10% of the contract value or the interest earned.

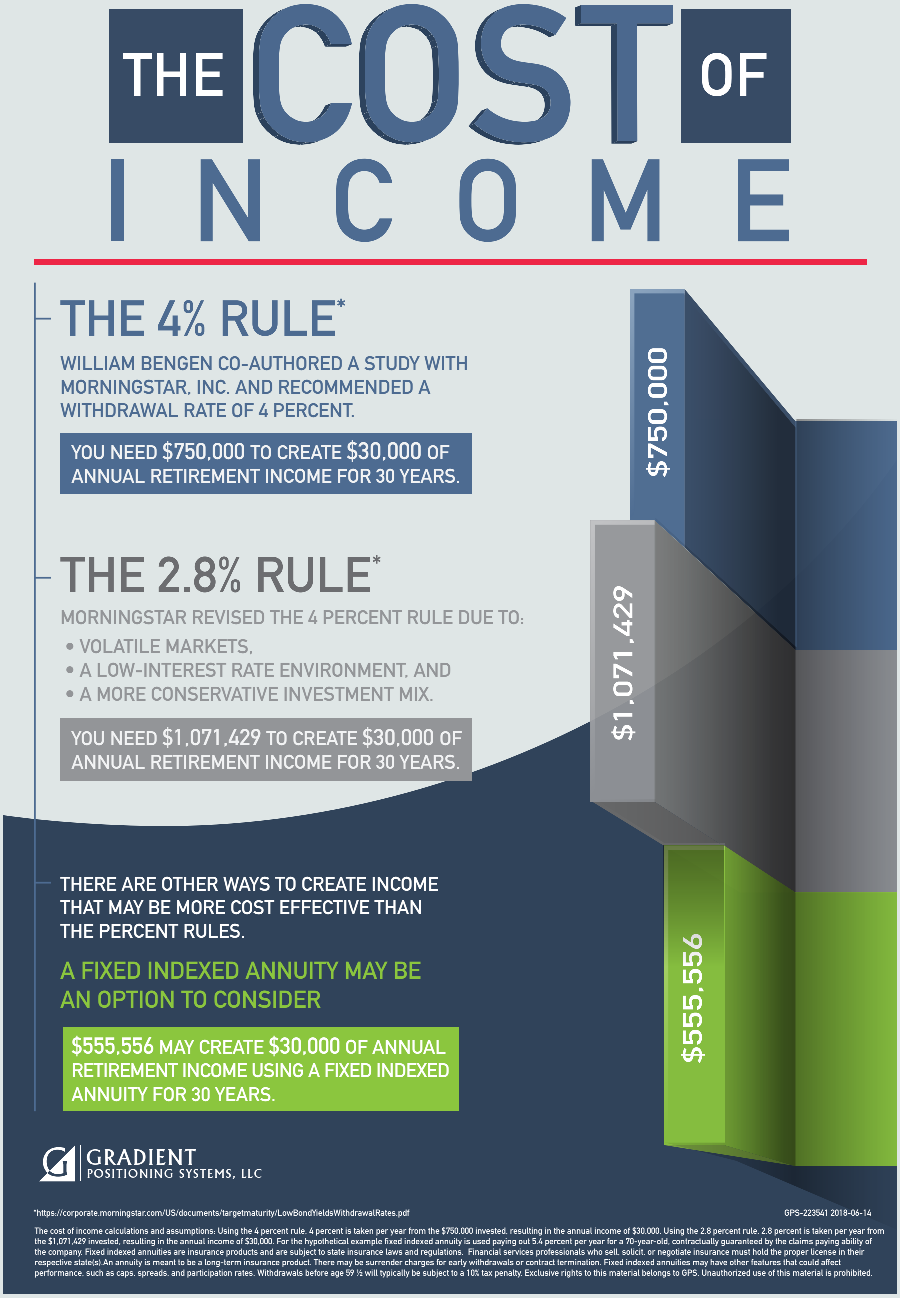
LIFETIME INCOME FROM A FIXED INDEXED ANNUITY

Many financial products are designed for a specific purpose. For example, life insurance is designed to provide a death benefit to loved ones in case of premature death. Checking accounts are designed to pay bills and provide short-term cash. One of the primary purposes of fixed indexed annuities is to provide **lifetime income,** either today or at some point in the future. One benefit of a fixed indexed annuity is it may require less funds to create a lifetime income stream compared to other retirement options.

Although the number of workers retiring with pensions is decreasing, people still understand that guaranteed income is important in retirement. Fixed indexed annuities are meant to provide lifetime income like the lifetime income that previous generations received from pension plans.[7]

Most important trait of a retirement asset





A common rule of thumb for retirement spending in recent years is known as the 4% rule. Generally, the 4% rule states that a person in retirement could withdraw 4% of their account balance each year with the likelihood of generating 30 years of retirement income. The 4% rule was introduced by author William Bengen in a 1994 study. Recently, Morningstar reexamined the 4% rule using today's interest rates and market environment and revised the withdrawal rate to 2.8%. With the change from 4% to 2.8%, a retiree would need a larger amount of total retirement assets in order to generate enough income to last for 30 years.

IMPORTANCE OF GREEN MONEY

When appropriate, there are scenarios where funds from qualified plans (plans that “qualify” for tax-deferred status under the Internal Revenue Code, such as 401(k) plans) and individual retirement accounts (IRAs) can be transferred to an annuity. Establishing a guaranteed income stream through the purchase of a fixed indexed annuity may assist in creating a level of financial security that is comforting to some retirees.

Understanding the transition from your working years to your retirement is an important step. If creating financial stability and dependable income is one of your retirement goals, a fixed indexed annuity may be a strategy to consider.

INDEXING

Since a fixed indexed annuity is linked to the performance of an external market index, like the S&P 500®, if the external market index increases, your fixed indexed annuity will be credited with interest. If the external market index decreases, your fixed indexed annuity will not lose principal or credited interest. The interest credited to a fixed indexed annuity may vary based on other contract features, like caps, spreads and/or participation rates.

In addition to potentially providing a death benefit, a fixed indexed annuity within an overall retirement strategy may provide benefits like:

Growth and help with keeping pace with inflation through offering:

A minimum interest rate

Potential interest credits through the upward movement of an external market index, like the S&P 500®

Protection from market downturns through offering:

A minimum interest rate

Principal protection

Protection from sequence of returns risk

A lifetime income stream through offering:

Guaranteed lifetime income

WILL YOUR RETIREMENT INCOME BE SUBJECT TO THE

SEQUENCE OF RETURNS?

$1,000,000 PURPOSE: ACCUMULATION

	ACCOUNT A		ACCOUNT B	
	AVG. RATE OF RETURN = 7.68%			
YEAR	RETURN	VALUE	RETURN	VALUE
		$1,000,000		$ 1,000,000
2000	-9.10%	$909,000	31.49%	$1,314,900
2001	-11.9%	$800,920	-4.38%	$1,257,307
2002	-22.10%	$623,917	21.83%	$1,531,778
2003	28.68%	$802,856	11.96%	$1,714,978
2004	10.88%	$890,207	1.38%	$1,738,645
2005	4.91%	$933,916	13.69%	$1,976,665
2006	15.79%	$1,081,381	32.39%	$2,616,907
2007	5.49%	$1,140,749	16.00%	$3,035,612
2008	-37.00%	$718,672	2.11%	$3,099,664
2009	26.46%	$908,832	15.06%	$3,566,473
2010	15.06%	$1,045,702	26.46%	$4,510,162
2011	2.11%	$1,067,767	-37.00%	$2,841,402
2012	16.00%	$1,238,610	5.49%	$2,997,395
2013	32.39%	$1,639,795	15.79%	$3,470,684
2014	13.69%	$1,864,283	4.91%	$3,641,094
2015	1.38%	$1,890,010	10.88%	$4,037,245
2016	11.96%	$2,116,055	28.68%	$5,195,127
2017	21.83%	$2,577,990	-22.10%	$4,047,004
2018	-4.38%	$2,465,074	-11.89%	$3,565,815
2019	**31.49%**	**$3,241,326**	**-9.10%**	**$3,241,326**

WHEN YOU ACCUMULATE, THE SEQUENCE OF RETURNS DOESN'T MATTER.

$1,000,000 PURPOSE: INCOME $50,000 ANNUALLY, 3% ANNUAL INCREASE

	ACCOUNT A		ACCOUNT B	
	AVG. RATE OF RETURN = 7.68%			
YEAR	RETURN	VALUE	RETURN	VALUE
		$1,000,000		$ 1,000,000
2000	-9.10%	$861,275	31.49%	$1,257,028
2001	-11.9%	$710,431	-4.38%	$1,151,598
2002	-22.10%	$506,242	21.83%	$1,344,156
2003	28.68%	$588,961	11.96%	$1,447,014
2004	10.88%	$593,704	1.38%	$1,410,319
2005	4.91%	$588,023	13.69%	$ 1,541,460
2006	15.79%	$557,124	32.39%	$1,971,368
2007	5.49%	$299,367	16.00%	$ 2,220,374
2008	-37.00%	$304,710	2.11%	$2,203,217
2009	26.46%	$278,344	15.06%	$2,464,870
2010	15.06%	$214,275	26.46%	$3,040,989
2011	2.11%	$171,568	-37.00%	$1,859,415
2012	16.00%	$141,820	5.49%	$1,888,252
2013	32.39%	$80,429	15.79%	$2,107,184
2014	13.69%	$3,103	4.91%	$2,133,160
2015	1.38%	$0	10.88%	$2,283,112
2016	11.96%	$0	28.68%	$ 2,846,168
2017	21.83%	$0	-22.10%	$2,143,654
2018	-4.38%	$0	-11.89%	$1,808,712
2019	**31.49%**	**$ 0**	**-9.10%**	**$1,560,434**

WHEN YOU TAKE INCOME, THE SEQUENCE OF RETURNS CAN HAVE A SIGNIFICANT IMPACT!

What is the sequence of returns risk?

Fixed indexed annuities may help avoid a reduction in principal that can happen during the distribution phase. When you begin withdrawing funds from an account, the annual returns you experience will have an impact on the account value over time. This is commonly known as the sequence of returns risk.

LIFETIME INCOME OPTIONS

Many fixed indexed annuities offer the policyholder the option of lifetime income. This option may come built-in to the policy, or you may elect to include a lifetime income rider that provides this feature for a fee (depending on the product). The lifetime income option allows you to receive set payment amounts that will continue for your life, even if the annuity account value is depleted. Lifetime income payments are different than electing to annuitize the policy.

Many lifetime income features on fixed indexed annuities will set a guaranteed amount of interest that will be credited to the policy's income benefit each year until you begin taking lifetime income withdrawals.

For example, let's say you place $100,000 in a hypothetical fixed indexed annuity with a lifetime income option. You intend to begin taking lifetime income withdrawals in year five of owning the annuity policy. The income benefit amount is guaranteed to grow by 8% each year. Beginning in year five of the contract, you will be paid 5% of the income benefit amount each year for the remainder of your life. In year five, the contract will have an income benefit amount of $146,933. This will provide a lifetime annual income amount of $7,347!

Initial premium: **$100,000**

Income benefit annual interest rate: **8%**

Income benefit in year five: **$146,933**

Annual lifetime income amount: **$7,347**

SUMMARY

As you approach retirement, you may experience changes in your finances. Regardless of how you get to retirement, one thing is clear: how you manage your finances in retirement is different than your working years. Also, retirement strategies today are different than for previous generations.

Preparing for retirement and considering your options can help you address many of the challenges of this next chapter in your life. Fixed indexed annuities may be an option to explore as you prepare for the retirement of your dreams.

1. https://www.aicpa.org/press/pressreleases/2019/going-broke-remains-top-concern-in-retirement.html
2. https://www.cdc.gov/nchs/data/hus/2016/015.pdf
3. https://www.ssa.gov/cgi-bin/longevity.cgi
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6. https://www.macrotrends.net/2324/sp-500-historical-chart-data
7. https://www.myirionline.org/docs/default-source/default-document-library/iri_babyboomers_whitepaper_2019_final.pdf?sfvrsn=0

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