

Protect, Guarantee and Decide Later

Situation

Nelly is a single female I met when she was 61 years old. She had just inherited \$400,000. Since she was in the home stretch of retirement and still feeling shell shocked from the 2008 market crash, she was determined to keep this money safe.

Circumstance

She had over \$1 million in the market and was someone who needed a lot of attention from her advisor when the market drop hit in 2008. Her advisor spent a great deal of time with her and convinced her to stay totally invested. It was very clear the inherited money needed to be in a much safer and guaranteed investment per her wishes.

Problem

Bank rates were very low in 2013. It was likely if she kept the money in a CD, she would lose value with a low return and some inflation. A bond fund was going to be an issue when interest rates started going up and a single bond would likely have too much risk for her.

A single premium annuity was not an option as she did not need income now. A deferred income annuity was not appropriate as she wasn't sure when she would retire. At the time she was thinking of slowing down, potentially wanting some income but not all of it. A deferred annuity with an income rider was considered but didn't work well if she slowed down and only wanted some income, because it can only be turned on for full income when ready.

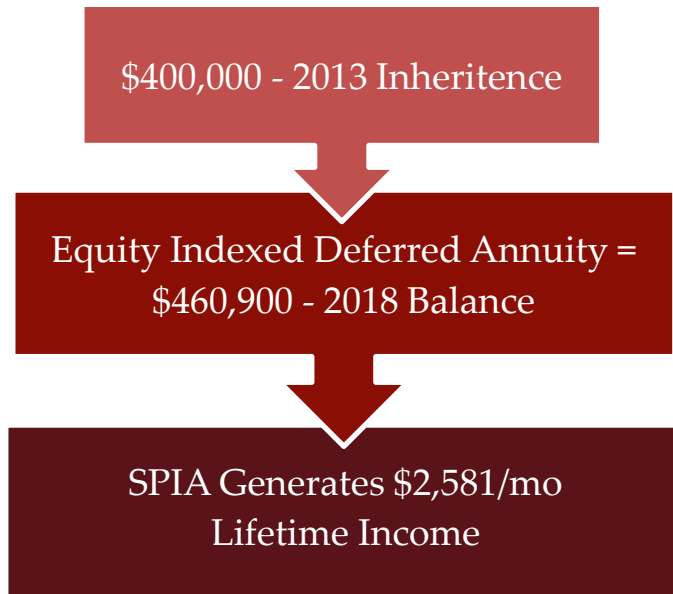
Solution

Nelly decided to use a two-stage approach to provide income later. She purchased a deferred annuity with a 5-year surrender charge. After 5 years she could find the best SPIA rate and annuitize some or all the money as needed. Although fixed rate annuities were paying a point or better than a similar length CD they were not exciting, so she decided to use an indexed annuity for some upside return while protecting her principal. In 2018, she officially retired. At that time, we took her annuity and shopped for the best SPIA rates available. At age 66 she began receiving \$2,581 per month for the rest of her life.

Takeaways

- An annuity is just a tool. In some situations, it can be the best tool to use.
- A fixed annuity is one of only a few places you can guarantee principal and return.
- The client ended up annuitizing about \$461,000 making her Stage 1 return for the 5 years an annualized 3.1% return. Her income yield is over 6% but of course she gave up the principal.
- The success of Stage 2 will now depend on how long she lives. The longer the better!

The Numbers



Stage 1: At 61, Nelly invests \$400,000 into an Equity Indexed Deferred Annuity w/a 5-year surrender charge.

5 years later her annuity balance is \$460,900 (3.1% Yield).

Stage 2: At 66, Nelly transfers her indexed annuity balance into a SPIA generating \$2,581/month for the rest of her life (6% Income Yield).

Time will determine the ultimate value of the income annuity. As with all income annuities the longer you live the better the overall return of the SPIA.

Like other guaranteed income situations, the client has piece of mind and the ability to pay her bills from her income. This allows her to be less concerned about the market portfolio and less nervous about her future.