RETIREMENT PLANNING FOR LIFE

11.2019

Retirement has changed, and your financial preparation should too.

RETIREMENT PLANNING FOR YOUR WHOLE LIFE

Rewirement. Third stage. Retirementhood. Encore life. These are just some of the latest expressions people are using in place of the word "retirement." Why? Because more and more, people don't see retirement as an end but rather as the start of a whole new chapter.

However, just changing your lexicon won't necessarily guarantee that you'll have an enjoyable and fulfilling retirement. A diversified portfolio and source of protected monthly income are important considerations that may help the later phase of your life be as good as — if not better than — its opening acts.

No matter what you choose to call it, retirement usually brings with it uncertainty and stress. And while there's a bounty of investment products out there designed to minimize the risks, only one can help eliminate the risk of running out of money — an annuity. It can offer protected lifetime income that can guarantee you'll never run out of money, no matter how long you live.

Many investments — such as mutual funds, ETFs and bonds — are often used with the goal of generating income over a lifetime. However, their value can fluctuate based on market performance, and they can't completely protect you against loss of income. With an annuity, you can decide how much risk you're comfortable with and how much of your income is protected.

The reason an annuity affords you these unique benefits is because of risk pooling. By spreading the financial risk among a large number of participants, everyone in the pool is provided protected lifetime income because those who live longer receive subsidized payments from the individuals in the pool who did not live as long. It's a concept that goes back 5,000 years when shippers needed a way to protect against the loss of cargo and crews at sea.

WEATHERING MARKET DOWNTURNS

If recent history has taught us anything, it's that financial and real estate markets are volatile. An untimely downturn can throw a major wrench into your retirement plans. A portfolio that's made up entirely of stocks, bonds and mutual funds is a risky prospect, especially as you enter retirement. That's not to say there isn't a place for these investment products in your portfolio, but by adding a source of protected lifetime income, you'll have a monthly income stream to cover the basics.

For those who want to take advantage of potential gains in the stock market but still maintain a level of protection against losses, an index annuity is something to consider. You can earn interest, up to certain limits, based on the performance of a specific market index, such as the Standard & Poor's 500 Index. However, the principal of your annuity is not affected even if the index declines. It's designed for people who want to take advantage of both income protection and growth but are willing to take on a bit more risk with their money in hopes of a higher return rate.

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If your appetite for risk is even a bit bigger, there is a variable annuity that ties your rate of return directly to professionally managed funds, much like a mutual fund. You stand to gain when the investments go up, but you're also susceptible to losses if the stocks and bonds that comprise the fund decline. However, there is an option with variable annuities to purchase features that protect your income even if the market falls, although these features may come with certain limitations.

Something else to consider when setting up your portfolio is the sequence-of-returns risk. When you begin to draw income from a fund's underlying investments, you're susceptible to market fluctuations. If you're forced to sell your investments in a down market, you may have to take a greater portion of the fund to maintain your income. That, in turn, leaves you with less remaining money invested, reducing the amount you can earn on your principal.

By adding an income annuity to your portfolio, you can lower the risk of outliving your money. Remember, similar to other investment products, annuities have fees associated with them, and some types may limit the liquidity of your money. Be sure to consult with a financial advisor about how an annuity might work for you.

Basically, the goal when building any retirement portfolio is trying to figure out exactly how much money you're going to need to enjoy "retirementhood." But it's that inconvenient reality of not knowing how long you're going to live that will make even the most freewheeling spenders a bit more fiscally stringent. So how do you consider a vacation or new Jacuzzi when you have no idea if you'll have enough money? An annuity can alleviate some of that uncertainty by allowing you to see exactly how much money you'll have each month so you can spend and enjoy retirement accordingly.

You can call retirement whatever you want because it is many different things to many different people. The common denominator is the desire to minimize the worry and maximize the enjoyment. Adding an annuity to your retirement portfolio can help you achieve precisely that. Consider sitting down with a financial advisor to find out more and see if you have what you'll need to enjoy retirement. No matter what you choose to call it.