ACE IN THE DECK

PLANNING AGAINST LONGEVITY RISK WITH ANNUITIES

HD MONEY INC.

What is Longevity Risk and Why Should I Worry?

It's difficult to find the negative in living longer but outliving your money is a justifiable reason to complain. After all, we're living longer and healthier lives! We have technology, medicine, science, and centuries of natural selection to thank for that, but it does present the very real risk of miscalculating what you will need to save for retirement.

As of 2020, American retirees are living an average of 20 years after they retire[1] and will spend an average of $43,000 per year[2]. That amounts to $860,000 over the course of their retirement without accounting for any major medical needs that may arise. The average American between ages 56-61 has saved only $163,577[3]—a long way from what they are projected to need. With so many Americans already at risk for outliving their nest egg, longevity risk acts as a multiplier of so many other risks they already face:

- ✦ **Uncertainty of government benefits:** our system is projected to pay out more in benefits than it takes in as more baby boomers retire daily.
- ✦ **Rise of healthcare costs:** healthcare costs have tripled over the past 20 years[4] and are expected to continue on this trajectory.
- ✦ **Market volatility:** the uncertainty of the stock market is constant, but the risk becomes more imminent as we near retirement and have far less time to recuperate from market losses.

The Ace: Guaranteed Lifetime Income

Aside from Social Security and pensions, annuities are the only products that provide guaranteed lifetime income. By including one as part of your retirement plan, you may better position yourself to face these financial challenges. Guaranteed lifetime income means being able to plan and budget with confidence, providing a failsafe measure to cover your basic needs, and additional flexibility in developing your portfolio as you plan for your financial future.

"Average life expectancy is simply a mid-point suggesting half of the whole will live longer than that point, and half will not. Averages aren't indicators of the length of YOUR retirement. You need to plan to live well beyond your life expectancy..."

– TOM HEGNA, RETIREMENT EXPERT AND FIG PARTNER

Play the Ace: Supplementing Retirement with an Annuity

Cover essential living expenses such as food, housing, and healthcare.

- ✦ **Estimate your "income floor:"** calculate the cost of your basic expenses.
- ✦ **Itemize and total the monthly cost of each expense:** these are the costs you'll need to cover over the course of your life.
- ✦ **Add up your income:** include sources such as Social Security or pension plans.
- ✦ **Now, do the math to determine if you have an "income gap."**

If Social Security and pensions don't cover all essential expenses, investing a portion of your assets into an annuity can generate income that lasts as long as you do.

Protect Your Portfolio Against a Market Downturn

Preparation and diversification are key to protecting your investments from market volatility. While stocks, bonds, and real estate may help portfolios grow, they do not necessarily mitigate these risks. Annuities provide an avenue to diversify your portfolio while providing a reliable income stream that doesn't depend on the stock markets.

Allow Flexibility to Fund Unexpected Events

It only takes one unexpected expense to derail your financial plan. Longer life spans also mean more illnesses and degenerative diseases. When life takes unexpected turns you will have greater flexibility with an income stream from your annuity.

Protect Your Legacy

In the event that you pass away prematurely, your assets won't be lost. They can be passed to beneficiaries while avoiding the costly probate process.[5]

Finding the Right Annuity for You

There are many options when it comes to choosing an annuity, but there are three basic categories which are determined by whether the payouts will be a fixed sum, tied to market performance, or a combination of the two:

1. **Variable annuities** are tied to market performance, providing the opportunity to participate in greater returns with greater risk for the owner.

2. **Fixed annuities** are not tied to market performance, and instead offer a secure, but fixed, return—regardless of market conditions.

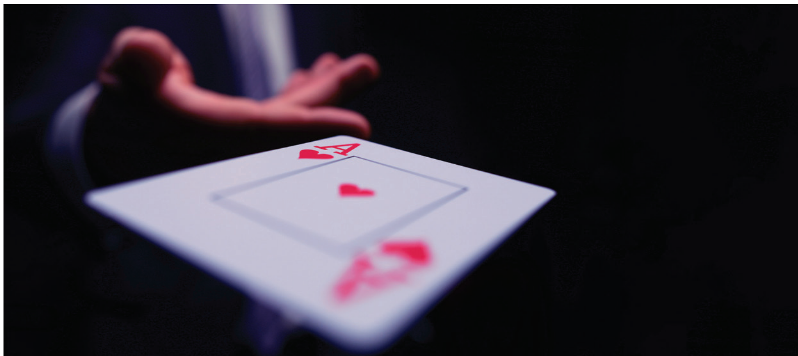
3. **Fixed indexed annuities** provide a combination that allow the owner to earn interest based on a market index but protects the principal investment from any loss.

Once you have determined which annuity is right based on your goals and risk tolerance, you can select how to schedule your payouts.

- ✦ **Deferred annuities** can begin with a lump sum payment or periodic payments that accumulate tax-deferred over time until you elect a payout schedule (known as annuitization).

- ✦ **Immediate annuities** begin with a lump sum upfront and are annuitized within the first year, skipping the accumulation phase. These payments continue for the remainder of your life or a specified period.

The growth in life expectancy over the past couple of decades means that living through your 80s and 90s is increasingly common, tasking retirees to plan for more years down the road. If you want to see how an annuity can help you plan for decades to come, a financial professional can help you understand where to start—a step in your retirement planning journey that will pay in spades!



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