Annuities Can Help Reduce the Risk of Outliving Your Retirement Assets

Creating a sound retirement income strategy can require investors to shift focus from market performance to maximizing the probability of meeting their long-term income needs. Factors such as the stability and longevity of your income sources may become more important than investment performance.

Sequence of Returns and Longevity Risk

If you are withdrawing assets for income from a retirement portfolio consisting only of traditional stocks and bonds, the sequence of your returns can have a drastic impact on how long your assets will last. The chart below depicts three investors who started with a portfolio worth $1 million, took $60,000 a year in income and averaged a 7.6% return over 25 years.

Investor A had a 7.6% average return and experienced positive returns for their first three years of retirement.

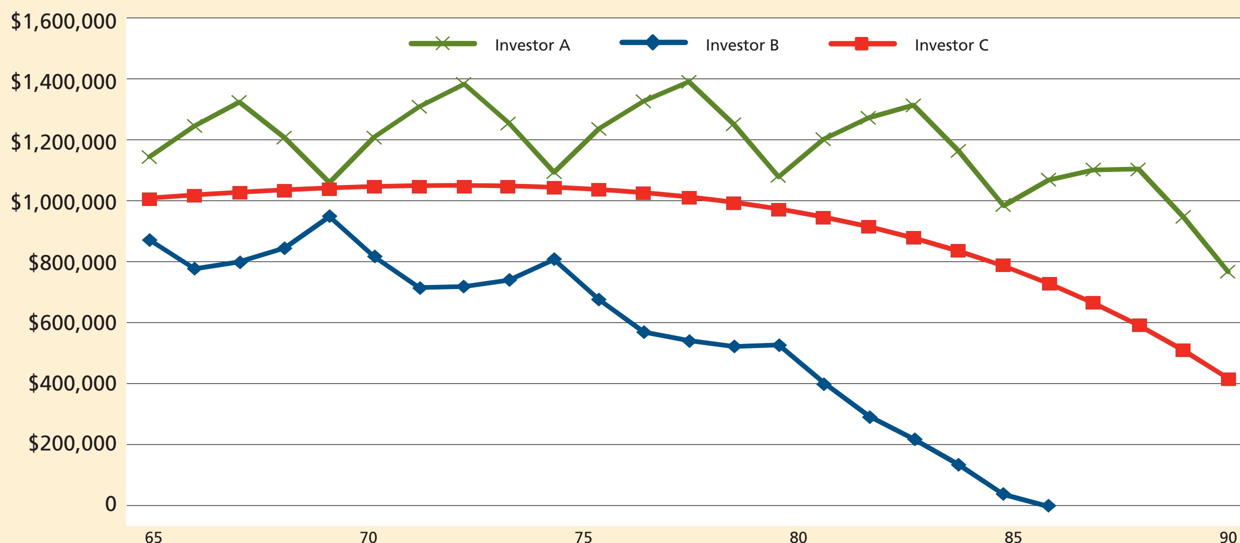
Investor B had the same 7.6% average return but experienced negative returns in their first two years of retirement.

Investor C had a constant 7.6% return for all years of retirement.

By changing the sequence of returns for Investor B to reflect a few poor years of market performance early on, Investor B runs out of assets much sooner than Investor A or C. This is due to the effect of poor market performance and the negative compounding caused by withdrawals on the portfolio.

How an Annuity Can Help

The unique characteristics of an annuity allow you to take market risk and longevity risk and transfer them to an insurance company. By investing a portion of your assets in an annuity, you can lock into a future stream of income that you can't outlive regardless of market performance.



(Source: Janney)

Today's Deferred Variable Annuity Offers Income and Flexibility without Traditional Annuitization

In the past, if you wanted an annuity contract to guarantee a stream of income for life, you bought an immediate annuity for a single or joint life expectancy with or without a period certain (minimum number of payments even if death occurs). The problem is that this required giving up control of your assets to the insurance company in exchange for this guarantee.

The improved, modern, deferred Variable Annuity provides a stream of income without giving up control of your assets to the insurance company. Here's how it works:

- The guaranteed benefit amount generates a set percentage of monthly income or withdrawals that will not decrease, and that you can't outlive.
- The investment value (the amount invested in a diversified portfolio) will decrease if you decide to take any lump sum withdrawals from your account—but it has the potential to increase or decrease in value based on the markets.

The Potential for Rising Income

Investors can increase their income or withdrawals if the investment value increases by using what is called a step-up provision. This means that if the investment value is higher than the guaranteed benefit amount, your guaranteed benefit amount will "step up" to the contract value. Going forward, if the equity value goes down, your guaranteed benefit amount remains at the new stepped up level.

One consideration is that the cost of an annuity is generally higher than that of traditional investments. This added expense is how annuities can provide guaranteed income for life.

For More Information

Your Janney Financial Advisor can help you determine if an annuity is right for your situation and how it can complement your existing retirement portfolio to help generate a stable retirement income now and in the future.

Most annuities have surrender charges that are assessed during the early years of the contract if the contract owner surrenders the annuity. In addition, if you surrender the contract before age 59 ½, you may be subject to a 10 percent federal tax penalty.

Please note that the illustration/chart on page 1 is hypothetical and is not intended to be a projection of future value or representation of any particular investment. Annuities usually carry mortality and expense charges, administrative fees and possibly sales charges. If these fees and charges were included in the illustration above, the performance would have been lower. Withdrawals of tax-deferred accumulations are subject to ordinary income taxes.

The guarantees of an annuity contract, including fixed returns, payouts, and death benefit guarantees, are contingent on the claims-paying ability of the issuing insurance company.

Variable annuities are sold by prospectus, which describes risk factors, fees, and surrender charges that may apply. Variable annuities are long-term investment vehicles designed for retirement purposes. Remember that you, not the insurance company, bear the risk associated with a variable annuity. Upon redemption, the value of a variable annuity may be worth more or less than the original cost.

Janney Montgomery Scott Financial Advisors in their capacity as Financial Advisor do not provide tax, legal, or accounting advice. Please consult with the appropriate professional for advice concerning your particular circumstances.

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