

# Understanding the Key Retirement Issues that are Avoided and Misunderstood

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# Conflicts and Confusion

- **Two issues:**
  - **Secure lifetime income**
  - **Protection from unexpected expenses, especially long-term care**
- **Obstacles:**
  - **Objective information sources**
  - **Resolving uncertainty**
  - **Trade offs**

# The Annuity Problem

- **\$200+ billion sold each year**
- **Lots of critics, but...**
- **Economists: Not enough people own annuities**
- **Few people understand**
- **People own the wrong annuities, don't know what they own**

# Major Types of Annuities

- **Variable annuities**
- **VAs with special riders**
- **Immediate annuities**
- **Deferred fixed annuities**
- **QLACs/Longevity annuities**
- **Fixed index annuities**
- **Annuity combos**

# Why to Buy Annuities

- **Most buy wrong way, for wrong reasons**
- **Purposes:**
  - **Principal protection**
  - **Savings**
  - **Income**
  - **Other: legacy, long-term care**
- **Core reason: Risk transfer**

# **Variable Annuities: Very Briefly**

- **Reason: Growth investing**
- **Disadvantages:**
  - **Fees. Some times very high fees**
  - **Capital gains to ordinary income**
- **Terms can change at any time**
- **Can lose value, but not deduct loss**
- **Who should consider?**

# Annuities for Savers

- **Fixed Deferred Annuities**
  - **Intermediate bond yield**
  - **Safety of principal**
  - **Income compounds tax-deferred**
  - **Alternatives to CDs, bonds**
  - **No separate fees, low commissions**
  - **Some access to account**

# Who Should Consider

- **Conservative savers**
- **Don't need immediate liquidity**
- **Two year or longer horizon**
- **Fear rising interest rates**
- **FDAs vs. bonds**



# Annuities for Savers

- **Fixed Index Annuities (a.k.a. EIAs)**
  - **Potentially higher interest than FDAs**
  - **Interest determined by index returns**
  - **Principal Protection/Guaranteed return**
  - **Liquidity?**
  - **Convert to income?**

# Details of FIAs

- **Key factors in formulas**
  - **Indexes – can they be changed?**
  - **Index – At least 6 calculation methods**
  - **Participation rate**
  - **Annual ceiling/Index cap**
  - **Spread/fees**
- **Very important: The Lock-In or Reset**

# Who Should Consider

- **Conservative savers: Max 5%-10%**
- **Seek higher yield than CDs**
- **Can tolerate 0% years**
- **Don't need immediate liquidity**
- **Five-year or longer horizon**
- **Fear rising interest rates**
- **FIA vs. bonds or CDs**

# **Annuities for Income**

- **Variable annuity with income rider**
- **Immediate annuity**
- **Fixed Index Annuity with income rider**
- **QLACs/Longevity annuities**
- **Charitable annuities**

# VA with Income Rider

- **Guaranteed lifetime withdrawal benefits or guaranteed minimum withdrawal benefits**
- **Withdraw fixed percentage for life**
- **Potential for increase**
- **Full access to account before distributions**
- **Potential legacy**

# VA with Income Rider

## Disadvantages:

- **Expensive**
- **Account value  $\neq$  benefit base**
- **Investment options limited**
- **No inflation adjustment**
- **Insurer can change terms**

# Immediate Annuities

## Simple and Classic – The Private Pension

- **Lump sum premium (SPIA)**
- **Fixed payment for life or years**
- **Can't outlive your income**
- **No additional fees/low commission**
- **Usually better payout than income riders**

# Immediate Annuities

## Disadvantages:

- **No inflation protection**
- **No liquidity**
- **No legacy**



# Immediate Annuity Tips

- **Shop around**
- **Purchase age 70 or later to increase payout**
- **Can ladder annuities**
- **Consider inflation protection**
- **Should you wait for higher yields?**
- **Know tax rules on income payments**

# FIA with Income Rider

- **Similar to VA with Income Rider**
- **Investment period, then income period**
- **Receive fixed percentage for life**

## Disadvantages:

- **Extra costs**
- **Account value vs. benefit base**
- **No inflation protection**

# Final Words on Income Riders

- **Occasionally some strong income riders**
- **General rule: Focus on growth and income separately**
- **Work with experienced, independent agent**

# QLACs & Longevity Annuities

- Also called **Deferred Income Annuity**
- **Introduced in 2004**
- **Defer 2-45 years, then guaranteed annual income**
- **Payments must start by 85**
- **IRS made more attractive in 2014**
- **Longevity annuity  $\neq$  QLAC**

# QLACs & Longevity Annuities

- **No liquidity after purchase**
- **Legacy, spouse protection possible**
- **Inflation protection possible**
- **Principal protection, lifetime guarantee**
- **No annual fees**
- **No changes in policies**

# The Annuity Puzzle

**Annuities are a trade off/risk transfer**

- **Transfer risks of low returns, long life**
- **Give up some control, flexibility**
- **Certainty vs. potential**
- **Compare annuities to systematic withdrawals**

# Prevailing in the Long-Term Care Crisis

# Prevailing in the Long-Term Care Crisis

- **Major worry of most Americans**
- **Don't want to talk about it**
- **Insurance in upheaval**
- **Misunderstandings and mistakes**



# Will You Need LTC?

## Battle of Statistics:

- **70% of those 65 and over will need some kind of LTC**
- **Only 19% of men and 31% of women should buy LTCI**

# Low Probability, High Cost

- **Costs \$200,000+ annually**
- **Increases faster than CPI**
- **Even home care is expensive**

# Why to Plan

- **Burden on family**
- **Protect assets: Yours and family's**
- **Avoid dependence**

**Should be part of every retirement plan**

# What Medicare Pays For

- **100 days or less following hospital stay of more than three consecutive days**
- **Nursing home stays of 50% of men and 40% of women qualify**

# What Medicaid Pays For

**Most costs if you qualify. But...**

- **Must be “impoverished”**
- **Rules tightened regularly**
- **Must give away money five years before**
- **State still can pursue your estate, family**
- **Lower quality of care**

# Other Tools

- **Self-insurance**
- **Permanent life insurance**
- **LTCI: Personal, employer, group policies**
- **Combination policies**

# Long-Term Care Insurance

**About 13% of 65-and-overs own LTCI.**

- **Not likely to need. Expire unused.**
- **Misunderstand costs of care**
- **Think family will take care of them**
- **Insurance is expensive, complicated**
- **Premiums will rise**

# When Should You Buy?

- Ideally in your early 50s

<b>Age</b>	<b>Decline Percentage</b>
<b>55 to 59</b>	<b>37%</b>
<b>60 to 64</b>	<b>39%</b>
<b>65 to 69</b>	<b>46%</b>
<b>70 to 74</b>	<b>50%</b>
<b>75 to 79</b>	<b>63%</b>



# Customizing LTCL

- **Daily benefit – don't forget extras**
- **Inflation protection**
- **Elimination period/deductible**
- **Maximum length of coverage**
- **Coverage eligibility and scope**
- **Hospital stay required?**

# Enhancing LTCI

- **Purchase joint policy**
- **Shop around**
- **Don't jump at lowest premium**
- **Check claims history**
- **Long-term care partnership**

# Combination Policies

- **Annuities or permanent life insurance**
- **Might be easier to qualify**
- **Consider same factors as for LTCI**
- **Coverage might not be as robust**
- **Avoids use-it-or-lose it**
- **Usually uses non-LTCI portion first**
- **Should need annuity or life insurance**

# Annuity/LTCI Example

- **Lump sum deposit earns 3%, fixed yearly**
- **LTC benefits up to three times deposit**
- **No change in LTCI cost. Compounded interest increases benefit**
- **90-day waiting period; 0 for home care**
- **Withdraw up to 10% annually**
- **Married couples can be jointly covered**

# Annuity/LTCI Example

- **Insurer determines maximum monthly benefit**
- **Recently \$4,200 or 72 months/\$100,000**
- **LTCI benefits reduce your account first**
- **Might be tax-free under 2006 law**
- **Penalty for early liquidation**

# Plan to Use All The Tools

- **Family**
- **Medicare**
- **Medicaid**
- **Self-insurance**
- **Permanent life insurance**
- **LTCL: Personal, employer, group policies**
- **Combination policies**