Income for the Rest of Your Life

Why Retirees Might Want to
Take a Closer Look at Annuities

Death and taxes are life's two certainties.

But if Benjamin Franklin was alive today, he may have included a third:

Guaranteed lifetime income from annuities.

With longer life expectancies, gyrating inflation and the ever-present specter of uncertainty, annuities can have a place in some portfolios to cover certain retirement expenses.

Maybe even **yours**.

Yet, only 15% of investors include these in their retirement plan.[1]

What you're about to read will cover:

- How much you can expect your retirement to cost
- Explanations of four common annuity types
- How they can help
- Our thoughts on each

No matter your current stance on annuities, we hope to reinforce that you have options when it comes to your retirement—and how to pay for it.

Best,

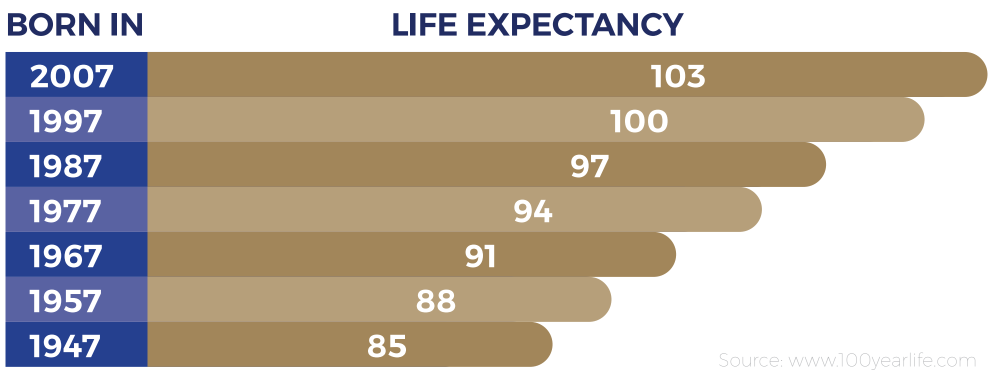
Tim Adams, CIMA®
Owner, President
The Princeton Group

UNDERSTANDING ANNUITIES

Where Will Your Money Go?

Your retirement will hopefully be rewarding.

But it can also come with some sticker shock, thanks in part to the double-edged reality that we're living longer on average than ever before.[2]



It's simple math that the longer we live, the more we'll spend. And longer lives can strain the rule-of-thumb 4% Safe Withdrawal Rate (SWR) that posits **you should withdraw no more than 4% of your retirement savings annually** during retirement.

And during retirement, you might need to buckle down and budget even more for certain expenses.

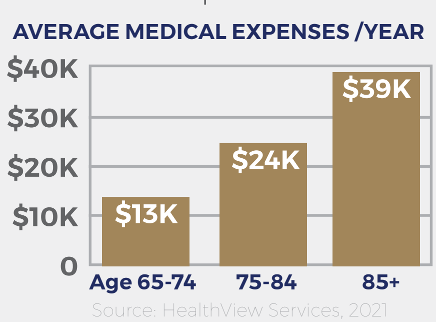
Housing
Even if you own your house, there's still maintenance and (depending where you live) property taxes, which can add up.

In fact, surprise home repairs are retirees' most unexpected expense[3].

To prepare, we recommend including **1% of your home's value** each year as part of your annual budget to pay for a new furnace, roof or other maintenance and repairs.

Healthcare
You expect to visit doctors and health professionals more often the older you get.

What can catch retirees off-guard—even those with sizeable savings—is just how much those visits can add up.



Regular checkups, exercise and eating healthy foods can go a long way toward minimizing those costs.

Long Term Care
Contrary to popular belief, Medicare **does not** cover costs associated with long term care.

And once you reach the age of 65, there's a 70% chance[4] you'll need this type of care, which can be jaw-droppingly expensive.

In-Home Health Aides:
$55k per year Source: Genworth

Nursing Home Private Room:
$106k per year Source: Genworth

If you haven't already, you might want to consider long term care insurance to possibly lessen this expense.

Now that you have more concrete amounts designated for retirement's larger expenses, let's cover how annuities can help you budget and pay for them.

UNDERSTANDING ANNUITIES

So, What Is An Annuity?

One technical definition is:

"An insurance contract created with the intention of distributing invested funds in a future, fixed income stream."

If you read closely, a few words should stick out: **Contract, fixed and income.**

Since annuities are **legally binding documents**, they are obligated to provide some level of guaranteed income. That might be appealing for some retirees, depending on their existing portfolio and other income sources.

How Annuities Work

You fund (or accumulate) annuities in one of two ways:	**Lump Sum**	OR	**Installments**
You collect (or distribute) annuity income in one of two time frames:	**In One Month Or Less**	OR	**Defer To Maximize Growth Potential**

Regardless of annuity type, **you're generally in control of how often you get paid:** Monthly, quarterly or yearly.

In all, you could choose from more than a dozen different types of annuities. We'll just focus on the four most common.

Fixed

Variable

Immediate

Deferred

UNDERSTANDING ANNUITIES

Fixed Annuities

Fixed annuities provide a predictable return.
In fact, the return is formulaic, based largely on the amount you invest upfront and the prevailing interest rate.

Before you ask, yes: Certificates of Deposit (CDs) and High Yield Savings Accounts (HYSAs) offer safe, predictable returns.

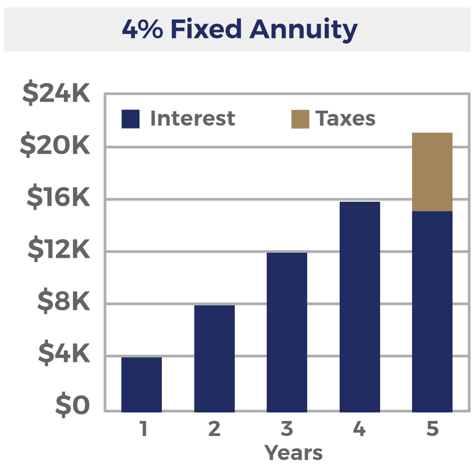
However, those instruments may come with lower interest rates and are not tax-deferred.

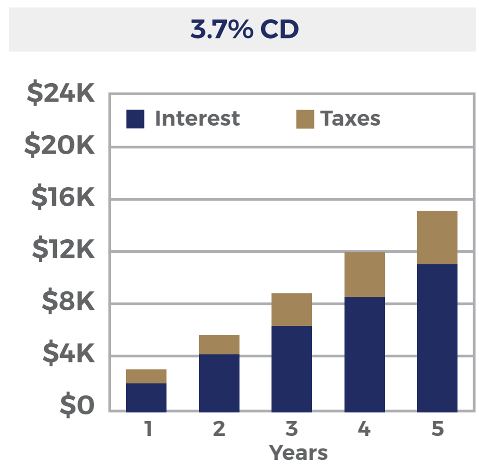
Here's a hypothetical comparison to illustrate the difference.

Gary

Age 60

Initial Investment: $100,000





Source: Annuity.org

Fixed Annuities at a Glance

ONE MAJOR PRO:
No surprises

ONE MAJOR CON:
Limited growth potential

	YES	NO
Principle Protection:	✔	
Access to Principal:	✔	
Inflation Protection:		✔
Risk:		✔
Fees:	Minimal	

THE PRINCETON PERSPECTIVE: If you're a risk-averse investor who values stability and principal protection above all else, fixed annuities might make sense. But if you want more growth, this annuity likely isn't for you.

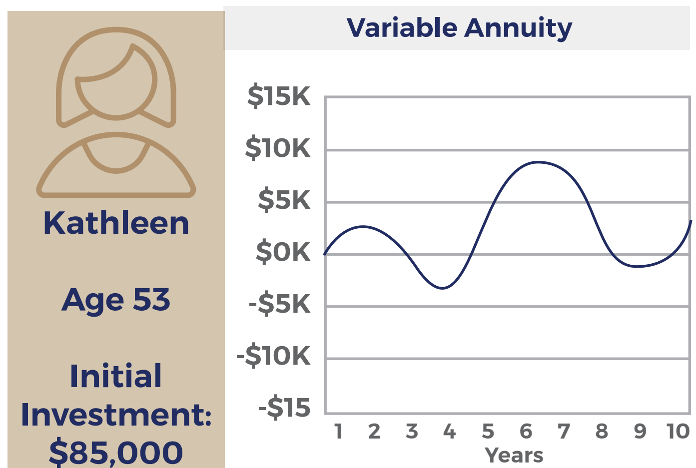
UNDERSTANDING ANNUITIES

Variable Annuities

As the name suggests, **variable annuities provide fluctuating returns.**

While fixed annuity income boils down to the amount invested, the interest rate and the duration of the contract, variable annuity returns **depend on the underlying investments** (typically stocks, bonds or mutual funds called sub-accounts) that *you* select.

Since **their value can go up or down**, your retirement income from these would be tightly tied to its performance. The example to the right shows how this type of annuity might perform.



Source: Annuity.org

Given the greater risk involved, variable annuities are generally recommended for not-quite-ready-to-retire investors who have a longer time horizon.

Variable Annuities at a Glance

ONE MAJOR PRO:
Potential for greater returns

ONE MAJOR CON:
Potential of forfeiture if you die before receiving payout from deposited funds

	YES	NO
Principle Protection:		✔
Access to Principal:	✔	
Inflation Protection:	Maybe	
Risk:	✔	
Fees:	Higher	

THE PRINCETON PERSPECTIVE: If growth is more important than stability and if you can stomach market downswings and prefer to handpick your investments, a variable annuity might make sense for you.

UNDERSTANDING ANNUITIES

Immediate Annuities

With **immediate annuities, you can receive income... well, immediately**. But you don't have to.

These are funded lump sum, up front. Much like fixed annuities, prevailing interest rates play a fundamental role in what kind of return you can expect—along with *your* decision of how frequently you want disbursements.

Hypothetical Estimated Immediate Annuity Income

Life	**$1,146/mo**
5 Year Period Certain	**$4,482/mo**
10 Year Period Certain	**$2,247/mo**

*The example above supposes a $250,000 investment with immediate income purchased by a 65-year-old male living in Pennsylvania with an option for a joint life 2-person annuity with a 65-year-old female. Life Payout Rate is 5.50%. 5 Year and 10 Year Period Certain Payout Rate is 21.51%. For illustrative purposes only.

Some terms you should know from the above:

- **Life:** You would receive the estimated amount every month for the rest of your life.
- **5 Year Period Certain:** You would receive the estimated amount monthly for five years only.
- **10 Year Period Certain:** You would receive the estimated amount monthly for 10 years only.

Immediate Annuities at a Glance

ONE MAJOR PRO:
No delay in your upfront investment and return

ONE MAJOR CON:
Once you receive payments, you're "locked in" and there's no going back

	YES	NO
Principle Protection:	✔	
Access to Principal:		✔
Inflation Protection:	✔	
Risk:		✔
Fees:	None	

THE PRINCETON PERSPECTIVE: We view this as an option if you want to supplement your Social Security disbursements or have a rigid, fixed budget—especially if you plan to live longer than most.

UNDERSTANDING ANNUITIES

Deferred Annuities

Deferred annuities delay gratification. The longer you wait to receive disbursements, **your growth potential rises**, along with your potential income for the **rest of your life**.

That's because during your accumulation phase, compounding interest—that unofficial eighth wonder of the world—is working its magic in the background.

These are also some of the most complex annuities to understand, with multiple options to weigh.

So, what could your payouts look like?

Leslie

Age 65

Investment: $100,000

Time Deferred: 5 Years

Hypothetical Deferred Annuity Income

Life	$767.66/mo
5 Year Period Certain	$2,060.79/mo
10 Year Period Certain	$1,106.40/mo

Note: The above assumes a 2.85% APY and is for illustrative purposes only.

Deferred Annuities at a Glance

ONE MAJOR PRO:
You don't pay taxes on earnings during accumulation phase

ONE MAJOR CON:
Illiquid, meaning you can't access money until the payment date specified in your contract

	YES	NO
Principle Protection:	✔	
Access to Principal:		✔
Inflation Protection:	✔	
Risk:	✔	
Fees:	None	

THE PRINCETON PERSPECTIVE: If you've built up substantial retirement savings you could safely spend without going over your budget, deferred annuities offer a chance to give your income one last boost.

We've covered a lot and still barely scratched the surface of annuities.

But this much is certain.

If you value stability, have already maxed-out tax-advantaged retirement accounts or want to delay taking Social Security, it might make sense to have a more in-depth discussion about which annuity could work best to **help you avoid outliving your retirement savings**.

We'd honor the chance to have that discussion with you when you call one of our offices.

Yardley, PA
267.392.5189

Philadelphia, PA
267.758.9944

Collegeville, PA
267.227.0935

Cherry Hill, NJ
856.452.7100

Margate, NJ
609.246.7601

Wilkes-Barre, PA
570.852.5500

Clarks Summit, PA
272.722.2092

Norcross, GA
678.585.6513

Arlington Heights, IL
866.870.8750

Bluffton, SC
854.429.0037

Whether you end up purchasing an annuity or not, you'll be in a better position to make an informed decision about what's best for your future.

1. https://www.kiplinger.com/retirement/annuities/604254/annuity-payments-dont-make-your-retirement-they-make-it-better
2. https://www3.weforum.org/docs/WEF_White_Paper_We_Will_Live_to_100.pdf
3. https://www.soa.org/globalassets/assets/Files/resources/research-report/2017/shocks-inexpected-factor-retirement.pdf
4. https://acl.gov/ltc/basic-needs/how-much-care-will-you-need