PROFESSIONAL

ANNUITIES

Conversation Guide: How to Explain Why Clients Should Consider Annuities

Baby boomers are entering retirement with fewer secure income sources than previous generations enjoyed. According to the U.S. Bureau of Labor Statistics, only 15% of private sector jobs offer any kind of pension plan.[1] What's more, memories of the 2008 financial crisis are raising concerns about the impact of future market downturns on retirement savings.

Annuities can play a valuable role for people approaching retirement who are worried about whether they will have sufficient retirement income. But to effectively position annuities within a financial planning discussion, financial professionals must understand how different types of annuities might fit each client's retirement needs. That means asking clients about their goals and concerns, helping them recognize other considerations in their planning, and then identifying whether an annuity could address each client's personal situation.

This conversation guide explores four retirement-related topics financial professionals can discuss with clients to begin exploring the potential benefits that many annuities can bring to their plans for retirement.

Conversation #1: A look at longevity risk

Discussion points: Life expectancy continues to rise. On average, a 65-year-old woman can be expected to live to age 86, while men age 65 are expected to reach age 84.[2] Greater longevity may lead to greater risk that retirees will outlive their savings.

Old guidelines such as the 4% rule – which calls for drawing down 4% of retirement savings each year to cover expenses – may not be dependable. Making withdrawals during years where the market is down takes a relatively larger chunk out of people's retirement savings, potentially exposing them to the risk of running out of money in later years.

Annuities can help protect against longevity risk through guaranteed lifetime income riders (available for an extra premium), which ensure that people will have a source of income to cover a portion of their expenses no matter how long their retirements last.

Conversation #2: Part of strengthening a retirement income plan

Discussion points: Some retirees have limited sources of stable monthly income – such as Social Security – and must fill gaps from income sources with fluctuating values, such as investment accounts that are directly tied to the markets. But this strategy exposes retirees to "sequence of returns" risk: If market downturns occur early in retirement, income withdrawals from investment accounts could deplete a retiree's savings before the markets have had time to recover.

By supplementing other stable income sources, income annuities and variable annuities with guaranteed income riders may provide a stronger foundation of reliable monthly income in retirement. As a result, clients may not have to withdraw as much money from market investments to cover their fixed expenses, giving those investments more time to recover from potential market downturns.

The impact of an annuity on a retirement income plan

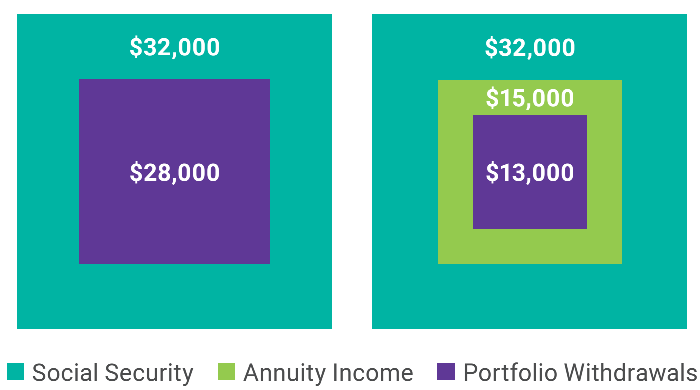
Compare these two strategies to generate a target of $60,000 in annual retirement income from a $650,000 portfolio.[3]

Hypothetical Example for illustrative purposes.

Example 1:

- Portfolio value: **$650,000**
- Stable income sources: **$32,000 annually** (Social Security)
- Portfolio withdrawals: **$28,000 in year 1** (4.3% withdrawal rate in year 1)

A comparison of retirement income strategies, Year 1



Example 2:

- Portfolio value: **$400,000**
- Annuity purchase amount: **$250,000**
- Stable income sources: **$47,000 annually** (Social Security $32,000, annuity income $15,000)
- Portfolio withdrawals: **$13,000 in year 1** (3.25% withdrawal rate in year 1)

Assumes an annuity providing a 6% withdrawal rate at age 65 or $15,000 annually from the initial investment of $250,000.This example is not specific to any one type of annuity, but it's a general understanding of a retirement portfolio with and without a guaranteed income stream.

Conversation #3: Help prepare for medical expenses

Discussion points: As clients live longer, there's a greater chance they'll experience major healthcare costs or require long-term care. Based on life expectancy, a healthy 65-year-old couple can expect to incur approximately $300,000 in healthcare costs, in today's dollars, over a 21-year retirement – even more if one or both exceed average life expectancy.[4]

Paying medical bills can deplete retirement savings, reducing the amount available to cover daily living expenses. Stable income from annuities can help cover everyday expenses when clients have to dip into other savings for healthcare costs.

Conversation #4: Mitigating inflation risk

Discussion points: Even the slightest uptick in the inflation rate can take a big bite out of retirees' savings. For example, a 65-year-old retiree planning to live on income of $50,000 a year would need roughly $90,000 of income a year to cover the same annual expenses at age 85 if inflation averaged 3% – and their savings must grow enough to meet that future need.[5]

Some annuities can be set up to help adjust income over time to help with cost of living changes. Additionally, receiving guaranteed income from an annuity may help clients feel more comfortable keeping some of their remaining assets in growth-oriented investments that help offset the impact of inflation.

These conversations help financial professionals and clients focus on how annuities may address specific needs and concerns

By taking a solution-oriented approach to this discussion, financial professionals can help clients feel that annuities are a solution they've chosen and that can contribute to their savings strategy. When clients understand how annuities can play an essential role in providing a guaranteed income stream in retirement, they may be more likely to remain satisfied with their choice and confident in their retirement strategy – a valuable benefit should the unexpected happen either in their personal lives or in the markets.

[1] 67 percent of private industry workers had access to retirement plans in 2020. U.S. Bureau of Labor Statistics, March 1, 2021.

[2] Retirement & Survivors Benefits: Life Expectancy Calculator. Social Security Administration, as of February 16, 2022.

[3] Assumes an annuity providing a 6% withdrawal rate at age 65 or $15,000 annually from the initial investment of $250,000. This example is not specific to any one type of annuity, but it's a general understanding of a retirement portfolio with and without a guaranteed income stream.

[4] How to plan for rising health care costs. Fidelity Viewpoints®, August 31, 2021.

[5] Assumes a 3% average annual inflation rate with an income value of $50,000 at age 65 and the equivalent value that has been accounted for inflation over a 20-year period.

Withdrawals of taxable amounts are subject to ordinary income tax. Withdrawals made before age 59½ may also be subject to a 10% federal income tax penalty. Distributions of taxable amounts from a non-qualified annuity may also be subject to the 3.8% Net Investment Income Tax that is generally imposed on interest, dividends, and annuity income if the modified adjusted gross income exceeds the applicable threshold amount. Withdrawals will reduce the death benefit and account value. Withdrawals may be subject to withdrawal charges.

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