Securing a Guaranteed Income for Life

Many of us understand the need for protection against the financial consequences of unexpected illness and death. But what about the financial impacts of living a long life?

Americans are living longer into retirement than ever before. That means retirement savings need to last longer, too — and withstand significant stock market and inflation risk.

Consider:

- A 65-year-old man has a 41% chance of living to age 85 and a 20% chance of living to age 90. A 65-year-old woman has a 53% chance of living to age 85 and a 32% chance of living to age 90, according to the Society of Actuaries.
- If they are married, then there is a 72% chance that one of them will live to age 85 and a 45% chance that one will live to age 90.

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Most seniors are interested in securing a lifetime income that they can never outlive, regardless of economic conditions, and regardless of how long they may live into retirement. And indeed, doing so is very easy, using the most straightforward of products — the lifetime income annuity.

How annuities work

An annuity is simply a contract. You pay an insurance company a sum of money - the premium. In return, the insurance company promises in writing to provide a stream of income for a set period of time, or for as long as you live — you choose.

You can also select a joint and survivor annuity, which means the insurance company will pay a specific income for as long as either you or your spouse, or other designated individual live. This means your income will last as long as either of you survives - guaranteed, in writing.

Some mutual funds and some bonds or bond portfolios are also designed to kick off an income. But none of these products does so on a guaranteed basis, regardless of market conditions. Only annuities protect you in writing against stock market declines or big swings in interest rates that can affect bond portfolios.

Lifetime income annuities

While more complex forms of annuities opt for a number of additional promises and guarantees, the simplest, most straightforward annuity variant is the lifetime income annuity. These provide the maximum monthly income for a given amount of premium. But you can elect other options, as well. For example:

- **Inflation protection** — A guarantee that your payments will increase with the cost of living over time.
- **Joint life annuities** — Payments that last until the second annuitant dies.
- **Death benefits** — If you die before you receive the amount of premium you contributed to the annuity contract in income payments, the insurance company will forward the difference to your heirs.

Who should consider a lifetime income annuity?

Consider a lifetime income annuity if you meet these criteria:

- You are concerned that systematic withdrawals from an investment portfolio may result in you running out of money during your lifetime, or the lifetime of a spouse or partner.
- You are in unusually good health for your age.
- Your parents and grandparents lived well into old age.
- You want to guarantee more lifetime income than you will receive from Social Security or a pension.
- You want to pass on a stream of income to a loved one - some people name grandchildren as joint annuitants - resulting in a check every month to a child or grandchild for as long as they live, long after you are gone.

If you have health problems or otherwise expect you may die earlier than the average person your age, a lifetime income annuity may not be the best option for you.