

EDITORIAL & OPINION

# The right annuity can fill in retirement income gaps



**WEALTH MANAGEMENT**  
BY MONTGOMERY TAYLOR

If you're a baby boomer like me, you witnessed your grandparents and parents retire on pension checks that arrived on the first of every month until the day they died. It was like their company paycheck never stopped. It kept coming, but as a fixed amount without hope of growth, every month, every year. They were certain of one thing: the exact dollar amount of their monthly check.

## Fixed income

At the time, it sounded dreadful. Living on a "fixed income" was like a judge handing down a life sentence to you and hitting his gavel on the bench. Court adjourned. You knew how much money you'd have coming in every month for the rest of your life. People might talk behind your back and make excuses for you and your lifestyle... "oh, I'm sure they'd like to do more, but they're living on a fixed income, you know."

I think baby boomers heard this talk and vowed never to be sucked into the lifestyle of their parents. It seemed so stable, fixed, certain, boring, etc. Baby boomers wanted to break-away and live a life of more freedom, change, spice, excitement, etc. And that tied in nicely with corporate America dumping the defined benefit pensions and putting your retirement responsibility squarely on your back with defined contribution plans, aka: 401k plans.

## Volatile income

With a 401k plan you were given the power over your own retirement destiny. You were free to contribute – or not. Free to plan – or not. Free to gamble on the highest growth investment choices. You were afforded the wonderful opportunity

to create your own retirement paycheck – no "fixed income" for you! You can be very certain, your retirement income will be uncertain.

Well, it must be at about the time when someone hits the age 60 milestone, they begin craving some certainty in their lives. Especially, their future financial lives. At this point, there is no more down-talking people on "fixed incomes." They are now the lucky ones. They have the certainty of income for the rest of their lives. The rest of us are all wondering if we'll run out of money someday in retirement.

All of a sudden, guaranteed lifetime income sounds really, really sweet. If you're not agreeing with this, it's either that you already have several million dollars socked away in your retirement nest-egg or you are purposefully ignoring the inevitable. So, how do you sign up for a secure, stable, and certain retirement?

## Looking for certainty

In reviewing dozens of proxy statements from public corporations, I noticed many highly paid, successful executives had annuity payments or annuity calculations as a major piece of their final retirement package. Annuities to fund executive retirement packages make tremendous business sense. First, payment to the executive is guaranteed when the risk is transferred to an insurance company. Second, the payment is not dependent upon how well the company performs in the stock market years after the executive retires. Third, annuity payments are a valuable asset protection strategy for the retired executive in the event of bankruptcy, lawsuits, and so on.

Actually, an annuity, as the vehicle for guaranteed lifetime income, should not come as a surprise. Only life insurance companies can offer the consumer an in-

come stream, which is guaranteed for life.

People like the idea of annuitization of retirement plan assets. This is the process of converting a lump-sum investment into a series of periodic income payments. Some of the benefits of annuitization are no market risk, no interest rate risk, and no worries about who will get the balance of the funds or the income stream in the event of death. Better still, the annuity bypasses probate. With the reliable guarantees of income payments that an annuity provides, tax planning and cash flow projections can be done with confidence.

## Take a tip from Ben Bernanke

According to government disclosures, Federal Reserve Chairman Ben Bernanke has a majority of his liquid wealth – between \$1 million and \$2 million – invested in fixed and variable annuities. You would think that if anyone knew where to put his money, it would be Ben Bernanke. The truth is, investments are volatile and insurance products are generally stable. Perhaps Ben has it right by having both – annuities and stock market investments. How about you?

The right annuity used properly can fill gaps in your retirement income plan that no other financial product can. The wrong annuity can tie up your money and leave you trapped. Choosing the right annuity is not easy and requires professional assistance.

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