EXPERT SERIES

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OUTLIVING YOUR INCOME

Will you run out of money in retirement?

OUTLIVING YOUR INCOME

One of the most common fears people share when considering retirement is the very real possibility of outliving the money they've worked so hard to save.

One of your main concerns when planning retirement is to ensure your money lasts throughout your life. After all, you worked hard and saved your entire life — you shouldn't have to worry about reducing your lifestyle.

Making sure your retirement is properly funded is more challenging than ever before given the number of risks and concerns you'll face. Risks like market volatility and economic uncertainty. On top of that, we're living longer than we used to.

The steady income for life provided by company pension plans — if you were lucky enough to have one — countered some of those risks, but pensions are disappearing from the American landscape. Today, only 18 percent of American workers have access to a defined-benefit pension plan, according to a Bureau of Labor Statistics survey in 2016.

Even with all of the risks and concerns a person has as they face retirement, there is some good news: You can replace that kind of protected monthly income by investing in an annuity.

"Put simply, an annuity is the only financial product that can generate income that will last as long as someone may live, whether that is to age 80, 90, 100 or 110," explains Frank O'Connor, vice president of research and outreach at the Insured Retirement Institute.

Annuities are long-term investments offered by insurance companies which can provide this lifetime guarantee because they're able to pool the risk among a wide range of individuals.

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>
> FRANK O'CONNOR

Putting a portion of your retirement savings into the protected monthly income you receive from an annuity also helps avoid a second issue with working with lump-sum investments, says William G. Gale, the Arjay and Frances Miller Chair in Federal Economic Policy and director of the Retirement Security Project at the Brookings Institution think tank in Washington, D.C.

If you draw down your lump-sum savings too aggressively, and live longer than you expected, you might have to rely on less in your later years, he says. But, conversely, if you draw down your savings too conservatively and pass away earlier than you expected, you could end having less and not enjoying your retirement years as much as you could have.

Having some portion of your retirement assets in an annuity lessens these two risks, Gale says. You can have a standard of living that's higher than in the conservative draw-down case and be assured that protected lifetime income will last as long as you do.

O'Connor believes that the temptation to overspend is greater when you see your savings as a lump sum. "Retirement savings will seem like financial windfall at first," he says, "but using that 'pot of gold' without a plan creates a high probability of exhausting those savings while you still need them."

Annuities can also protect you from outliving your income in retirement by decreasing your need to make financial decisions late in life. "We're all vulnerable to the challenges of old age," says Jack Dolan, vice president of the American Council of Life Insurers.

Remember — not all annuities are alike. For example, some annuities provide a family benefit, beyond one person's life, whether a joint benefit or a death benefit. Your need for an annuity will also depend on your other sources of retirement income, such as Social Security, required minimum distributions from retirement plans and other sources of regular income. So confer with a financial advisor before investing in an annuity.

Whatever your asset mix is, all retirement planning comes down to one thing: feeling more secure. And having the protected lifetime income an annuity provides can help you focus less on concerns such as health-care costs in the future and more on enjoying your golden years to the fullest.