ASK THE **ADVISERS**

The views and opinions expressed in “Ask the Advisers” are solely those of Keith Singer.

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Lifetime Income

Many years ago, retirees would often have a pension with lifetime income from a job when they retired. Nowadays except for government employees, it is rare for people to get a pension at retirement. Although most people will get social security, they typically must figure out how to generate surplus retirement income from their savings and investments.

Defined benefit pension plans have been replaced with defined contribution 401k plans. Instead of receiving monthly income after they stop working, retiree’s can typically rollover a lump sum from their work retirement account to their IRA account and will then attempt to select the correct investments to generate sufficient income while keeping up with inflation.

This can be a daunting task. If a retiree takes too much risk, we get a bad economy, or a bad stock market, they can run out of money. If they are too conservative and they live a long time, they can also run out of money.

I would contend that people who never received a lump sum but instead received a high level of guaranteed lifetime income regardless of the stock market’s performance or how long they live feel more secure than those who are relying on the whims of the stock market.

To make matters even more precarious, inflation has been running at its highest levels in fifty years and medical advances continue to extend life expectancies. The good news is it’s not too late to create your own pension plan even if your employer did not offer one. Many highly rated insurance companies are offering deferred annuities with high levels of guaranteed lifetime income.

These annuities will act as tax deferred savings accounts, but a special contractual provision will allow withdrawals for guaranteed lifetime income that continue even if the account is depleted. For example, a 63-year-old who deposits $500,000 into their annuity account would be entitled to approximately $50,000 of lifetime income starting in five years regardless of how long they live or how the stock market performs.