

Talk of the Town

What's the Beef with Annuities?



James D. Stillman

For those concerned that they may outlive their assets (which statistically speaking is most people), annuities can provide a guaranteed stream of income that might ease those worries. In general, a lot of financial professionals say that putting a part of one's portfolio into annuities opens the door for taking on more market risk with remaining assets. The proper combination of annuities and investing offers the possibility for portfolio growth while still protecting income, which is something many folks are looking for in retirement. Given that annuities can help to accomplish a lot of what retirees want, I don't understand why so many people have a problem exploring how to work them into their portfolio. Here's how we use annuities to help our clients' families make the most of their retirement...

One of the first questions folks ask us is how much of their portfolio should be put into annuities. While there is no set percentage or amount, and everyone's situation is a little bit different, we do have some basic guidelines that we apply at our firm. Overall we like to use what we call the "100 Age Rule" as a starting point. That simply means that we divide investable assets into two basic categories - safe money and risk money. Ideally, we look to have the amount of safe money approximately equal to your age (as a percentage), with the remainder as risk money. For example: If a couple is 70 years old, then we would look to have about 70% of investable assets in the safe category and 30% in the risk category. The logic behind this is that as you get older you have less time to make up for stock market losses and should position assets accordingly. *Asset preservation becomes more of a priority than asset accumulation as we grow older. I firmly believe that retirement income should be guaranteed, so it must come from a safe and guaranteed strategy.* To make up the safe portion of an overall portfolio, many times we combine cash (for 100% liquidity) and annuities (for guaranteed income). Those are not the only vehicles that would be classified as safe, so there are alternative mixes. The remaining assets can be invested more aggressively for higher growth potential within the risk portion of a portfolio.

While we use the "100 Age Rule" as a guideline, the real answer to the question of how much to put into annuities is based on how much (guaranteed) income you require/desire. Other income sources such as Social Security, pensions, rental income, etc. are first considered. Then we calculate the least amount we need to put into annuities to supply enough income to fill any income gaps. Inflation protection can also be built into the annuity income, if needed. Using annuity strategies to

"lock down" income allows you the ability to invest the "risk money" for higher growth potential, while still protecting your retirement lifestyle even if there are market downturns, which there will be from time to time.

The other thing that's important to understand with newer annuities is that there are ways to get income from them aside from annuitizing. Many have very attractive income riders that can be added to increase benefits. Lifetime income can be created by annuitizing or by triggering lifetime withdrawals, but we like the lifetime withdrawal benefit option by far, in most cases. This option allows you to maintain control of your money while drawing income, can build in long term care benefits, and can be triggered as a single or joint payout. Also, laddering annuities and triggering income streams at specific times can be very beneficial when maximizing annuity income. Knowing the right combination of annuities to ladder is critical. We've been able to show people how to get 10% - 30% more income from annuities by applying the right strategies for annuity income. Not all annuities or strategies for drawing annuity income are created equal. It takes some knowledge and skill to optimize them.

Be sure to tune in to "The Safe Harbor Retirement Planning Show" every Saturday at 10am and Wednesday at 8am on WSIC AM 1400 & FM 100.7. Also, feel free to check out our website for a ton of information, lists of our free reports, our uploaded radio shows, to request copy of my book "Finding Safe Harbor in Retirement" or a free consultation, or to sign up for any of our upcoming seminars.

And, as always, remember: The purpose of the money dictates where you put it!

Until next month,

James D. Stillman

"Annuities - Fact vs. Fiction"

Thursday March 9th & Tuesday March 14th

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