How to Make Your Retirement Savings Last As Long As You Do

What’s the one source of retirement income that nearly every American is eligible for that pays monthly income for life? The answer is Social Security. But Social Security was never meant to be anyone’s entire retirement income. So, we all have to come up with ways to add to it.

Maybe you’re among the 20% or so of Americans who will retire with a traditional pension and receive monthly income from it for life. But for the rest of us, we need to come up with our own way of making our retirement income last as long as we do. This is where “annuities” may come in.

Annuities are insurance products sold by insurance companies. They come in different shapes and sizes, but the goal with them is generally the same: to produce a stream of income. They can play an important role in protecting you from outliving your savings. Because of this, you want to make sure the insurance company you buy from is financially strong and will be around for a long time.

Before you consider whether an annuity is right for you, figure out how much income you’ll need in retirement, and how close you are to getting there with your current resources and savings. AARP’s Retirement Calculator, found at [www.aarp.org/retirementcalc](http://www.aarp.org/retirementcalc), is a great tool to find the answer.

Types of Annuities

Immediate Annuity

Let’s say you’ve been saving through a 401(k) or IRA for retirement. In retirement, you can take part of your account balance and turn it into a lifetime income stream with an immediate annuity. Want to know how much monthly income you can buy with the savings you have? Check out [www.immediateannuities.com](http://www.immediateannuities.com) for a quick and painless estimate.

The amount you’d receive in monthly income depends on your age, gender, current interest rates and whether or not you’re married. It also depends on whether you choose certain add-ons, like inflation protection. Based on today’s rates, a 67-year-old man could buy around $580 a month for life with $100,000. If he wanted inflation adjustments or the kind that would continue to pay benefits to his spouse after he dies, his monthly benefit would be lower.

Some people don’t like the idea of immediate annuities. They figure if they die in a few years, the money they spent on the annuity was wasted. You could look at it that way. Or you could say that it did its job and gave you the income you needed while you were around to use it.
 Deferred Annuity
Unlike an immediate annuity, you pay into a deferred annuity over time, and either you or the insurance company chooses investments for your contributions. At a predetermined age, you will begin receiving payouts based on how well the investments do, and on the type of deferred annuity you choose.

» A “fixed” deferred annuity will pay a fixed interest rate for a certain period of time, and then the rate varies.

» An “indexed” annuity will pay out based on how a given investment index does, like the S&P 500, but there is a guaranteed minimum payment.

» With a “variable” annuity, you choose the investments, and your payout is based solely on investment performance.

Unlike most immediate annuities, deferred annuities usually come with a death benefit. If you die, your beneficiary will receive either what’s in your account or some guaranteed minimum amount. You also have the option to “surrender” the annuity, or cancel it. This comes at a high price, though, so you need to understand the fees involved.

Deferred annuities are complicated products. To make sure you understand them before you make a decision to invest in one, check out information on the Securities and Exchange Commission’s Investor Education website, at www.sec.gov/investor.

Is an Annuity Right for You?
If you’re looking to create an income stream for life or an investment product that will produce a stream of retirement income, an annuity is an important option to consider. Because our focus here is on income for life and not on investing, we’re going to focus on immediate annuities. An immediate annuity may make sense for you if:

» You have enough savings that some of it can go into the immediate annuity, some can be available for unexpected expenses, and the rest can be invested for the 20-30 years (or more!) you’ll have in retirement.

» Your retirement expenses will be higher than your Social Security income plus any income from a pension.

» You’ve researched your options. Focus on how much you can get for your money and the fees, but just as important, how financially healthy the insurer is. Check with your state insurance department before you buy (start at the National Association of Insurance Commissioners at www.naic.org).

» You’re not planning to leave money to your kids. Once you buy an immediate annuity, you’re locked into it.

Take Action!

square First, figure out how much income you’ll have in retirement based on what you’re saving, Social Security, and any pension you may have. Use AARP’s Retirement Calculator at www.aarp.org/retirementcalc for help.

square Decide if you’re looking for an investment vehicle that offers a stream of income in retirement (a deferred annuity) or to turn a sum of money into a stream of income (immediate annuity).
If you are considering a deferred annuity, learn more about how they work, fees, expenses and more at www.sec.gov/investor.

Compare immediate annuity products before you buy. You can start with a quote at www.immediateannuities.com and compare products from there.

Always check with your state insurance department to find out how health insurance companies are before you enter into a contract. Begin at www.naic.org.