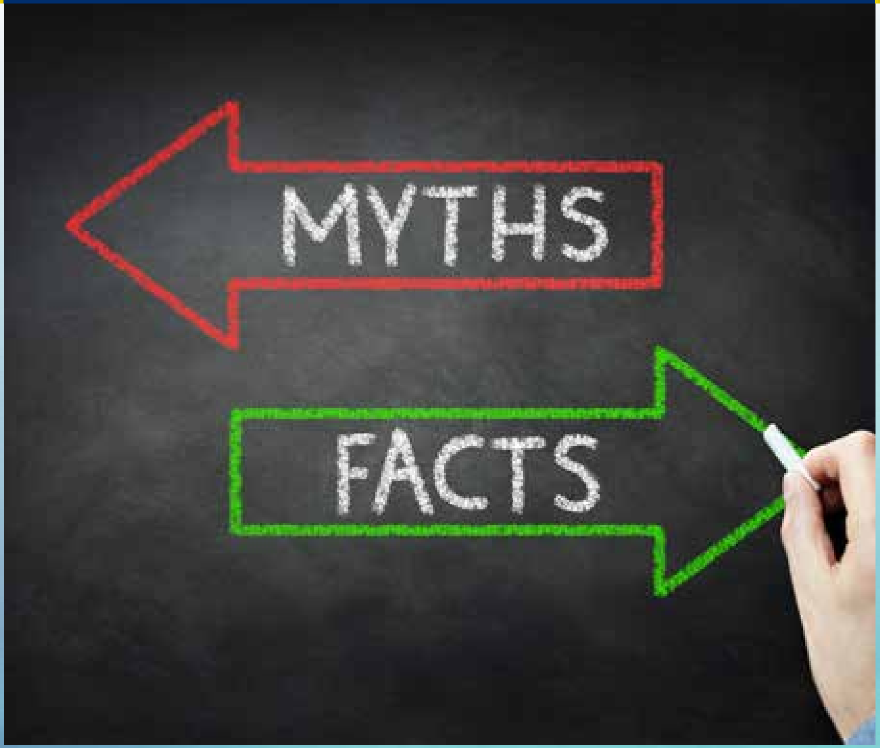
10 Myths/Misconceptions That Can Threaten Retirement Security

LIMRA
Secure Retirement Institute™

10 Myths/Misconceptions That Can Threaten Retirement Security



The number of myths and misconceptions are plenty when it comes to retirement and retirement planning. Some of these misconceptions are held by retirees and pre-retirees because of personal biases, lack of knowledge, or wishful thinking, and some are circulated in the industry by media and financial professionals. Not addressing these misconceptions means many consumers will discount the realities at the risk of ruining their retirement security.

There are many risks in retirement, and for several, its outcome is pretty uncertain. No one can predict how many years they will live, the rate of inflation, interest rates, market returns, health status, or healthcare costs. The best retirees and pre-retirees can do is to become knowledgeable about the risks, get help from advisors, and reduce some of the uncertainties in retirement.

Myths and misconceptions get in the way of planning well for a secure retirement. Some of the myths are quite dangerous. Take for example, underestimating longevity. It could result in serious planning errors such as not saving enough, not purchasing guaranteed lifetime income products, or not addressing a spouse's income risk if the other dies, thereby potentially running out of money or significantly changing lifestyles. A plan is only as good as its underlying assumptions. The media, advisors and their firms, government, and organizations like the LIMRA Secure Retirement Institute should take proactive roles in debunking these myths and educating consumers.

10 Myths/Misconceptions That Can Threaten Retirement Security

1	I won't live that long.	People are living longer. An average life expectancy for a 65-year old female to age 89 means there is 50 percent chance of her living beyond that. A plan based on average life expectancy is dangerous! A retirement plan should ensure income until death.
2	I'll keep working and never retire. Or, I'll retire when I want to.	Nearly half of all people are forced into retirement. Bad health, family situations, and work conditions are some of the major causes of early retirement. Once retired, lack of skills may deter one from going back to work, particularly for those who are laid off.
3	Medicare will take care of health and long-term care costs in retirement.	Typically, Medicare pays a little more than half of a retiree's medical bills. Average out-of-pocket expenses in retirement are over $6,500. One needs to plan for the costs of Medicare supplemental, prescription plans, and long-term care insurance coverage.
4	A low-risk conservative portfolio is appropriate for me in retirement.	For retirees facing 30+ years of retirement, a no-risk portfolio of bonds and CDs is very risky, making it difficult to sustain income and fend off inflation. Advisors may suggest that retirees invest a substantial portion in equities.
5	It's best if I claim Social Security benefits at age 62.	Claiming Social Security early can be a costly move when examined with life expectancy. Based on life expectancy, claiming at age 62 offers only a 7 to 9 percent chance of receiving the highest cumulative Social Security benefits.
6	I'll remain healthy enough in retirement to make financial decisions myself.	Forty percent of Medicare beneficiaries (age 65+) have four or more chronic illnesses. While good physical and mental health in retirement is the goal, retirees should plan for rising healthcare costs as well as secure help from an advisor to manage money in retirement.
7	My taxes will be lower in retirement.	If the retiree needs as much income after retirement as they did before to maintain their lifestyle, it is not credible to think that the tax burden will be less, particularly if the retiree needs to withdraw from retirement plan savings which are fully taxable at ordinary income rates.
8	I can safely withdraw 4 percent of my assets and not run out of money.	Retirement outcomes are unpredictable for most. A low market return, and high inflation, if experienced in the early years of retirement, can be devastating.
9	Annuities are bad investments.	Many investors and advisors have negative attitudes about annuities. However, retirees feel more confident in their retirement security when they have an annuity. Annuities are superior for creating a guaranteed income floor compared to a systematic withdrawl plan (SWP) from a portfolio.
10	If I die tomorrow, the insurance company keeps all the money I put into annuities.	Though the media, investors, and some advisors may think that, 9 out of 10 immediate income annuity buyers choose to receive guaranteed income at least near or equal to their original investment.

Source: LIMRA Secure Retirement Institute, 2019.

Myth #1 I won't live that long.

Americans may live well into their 90s. The media, retirees, pre-retirees, advisors, and even the government tend to underestimate longevity risk. Recognizing the fact that half of all retirees will live longer than the average life expectancy is critical. The use of the term "average life expectancy" fails to recognize that half of retirees will live beyond it.

GAME PLAN

- A plan based on average life expectancy is dangerous! Advisors must use at least mid-90s as the minimum for any planning tools and client communication so their clients' retirement income planning adequately reflects the financial consequences of living beyond the average life expectancy.
- Underestimating longevity and using a systematic withdrawal strategy to manage longevity risk is a tricky combination for retirees. It increases the odds that they may exhaust their financial resources except for Social Security benefits and pensions.
- Purchasing a guaranteed lifetime income product reduces the risk that retirees will outlive their savings or be forced to compromise their retirement lifestyle.

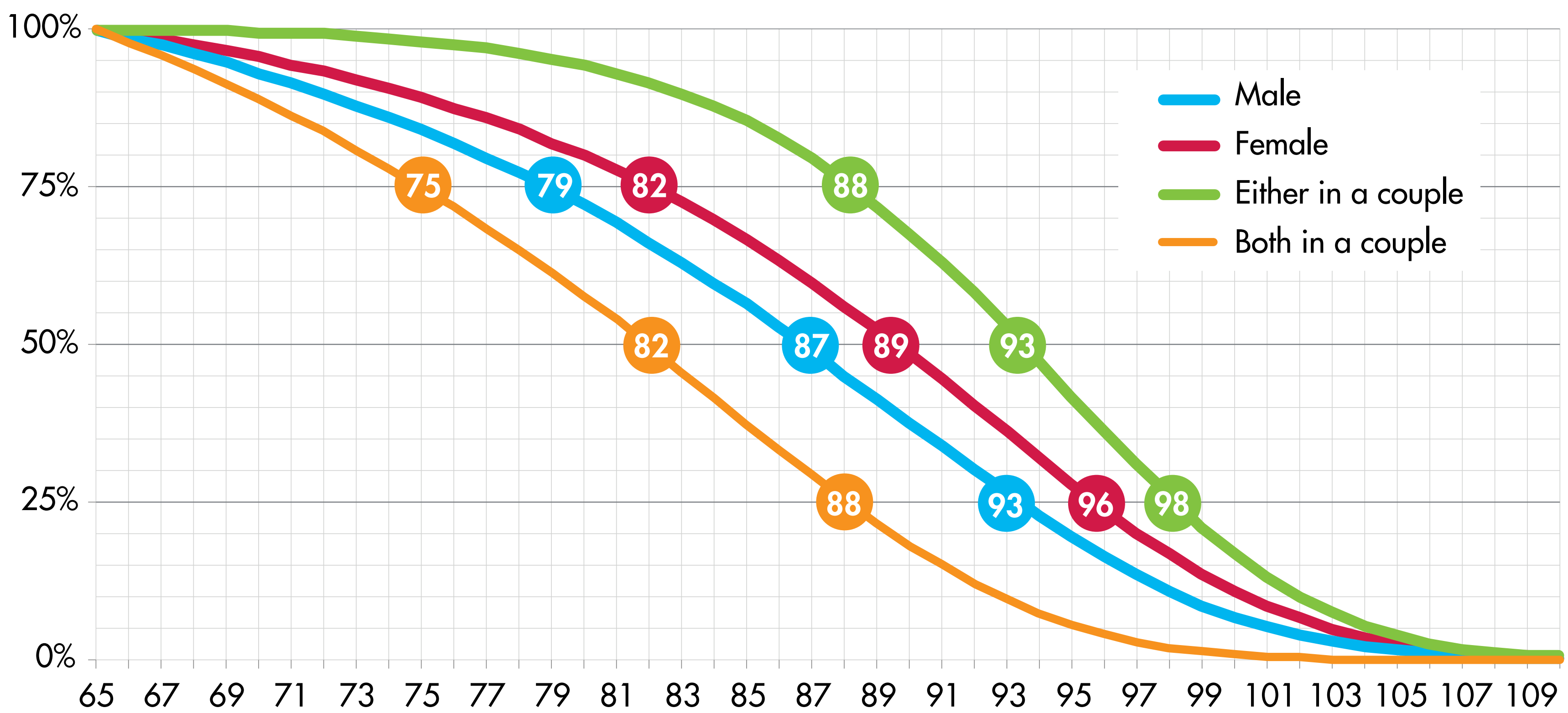
30-SECOND FACTS

- An average "life expectancy" of 22 years for a 65-year old man means he has a 50 percent chance of dying by year 21 and a 50 percent chance of living past age 87.
- One in four 65-year-old men of average health will live to age 93. One in four 65-year-old women will live to age 96.

RELATED FACTS

- People with excellent health should add 2 to 3 years to the average longevity.
- Couples must plan for one spouse outliving the other. For nearly 75 percent of couples, one member will outlive the other by at least five years, and for half, one spouse will outlive the other by 10 or more years.

Probability of 65-Year-Olds Surviving to Select Ages (Average Health)



Note: "Either" or "Both" assume lives are independent. Health is assumed to be average in all cases.

Source: LIMRA Secure Retirement Institute analysis of the Human Mortality Database, University California, Berkeley (USA), and Max Planck Institute for Demographic Research (Germany) and 2015 U.S. population mortality. Available at www.mortality.org or www.humanmortality.de.

Myth #2 I'll keep working and never retire. Or, I'll retire when I want to.

For many, retirement is not a choice. Half of retirees retire earlier than planned. Health problems, negative workplace conditions, and layoffs/buyouts at employers are other common reasons for early retirement. Advisors can help clients understand the perils of retiring earlier than planned, and the ramifications to their savings, psyche, and lifestyle.

GAME PLAN

Individuals retiring early will need to wrestle with many issues:

- Retiring early usually means a longer retirement horizon and necessitates a very conservative starting withdrawal rate to make the portfolio last.
- Early heavy withdrawals from assets are likely until Social Security or pension benefits kick in. Such withdrawals may expose retirees to sequence-of-return risk in their early retirement years.
- Retirees need to finance health insurance premiums and out-of-pocket healthcare costs until Medicare kicks in at age 65, in case they do not have employer-provided health insurance.
- Retirees are likely to opt for claiming Social Security benefits early, and are thereby forced to accept reduced income throughout retirement.
- These possibilities make it clear that advisors who help clients create formal retirement plans with contingencies built in will be very useful.

30-SECOND FACTS

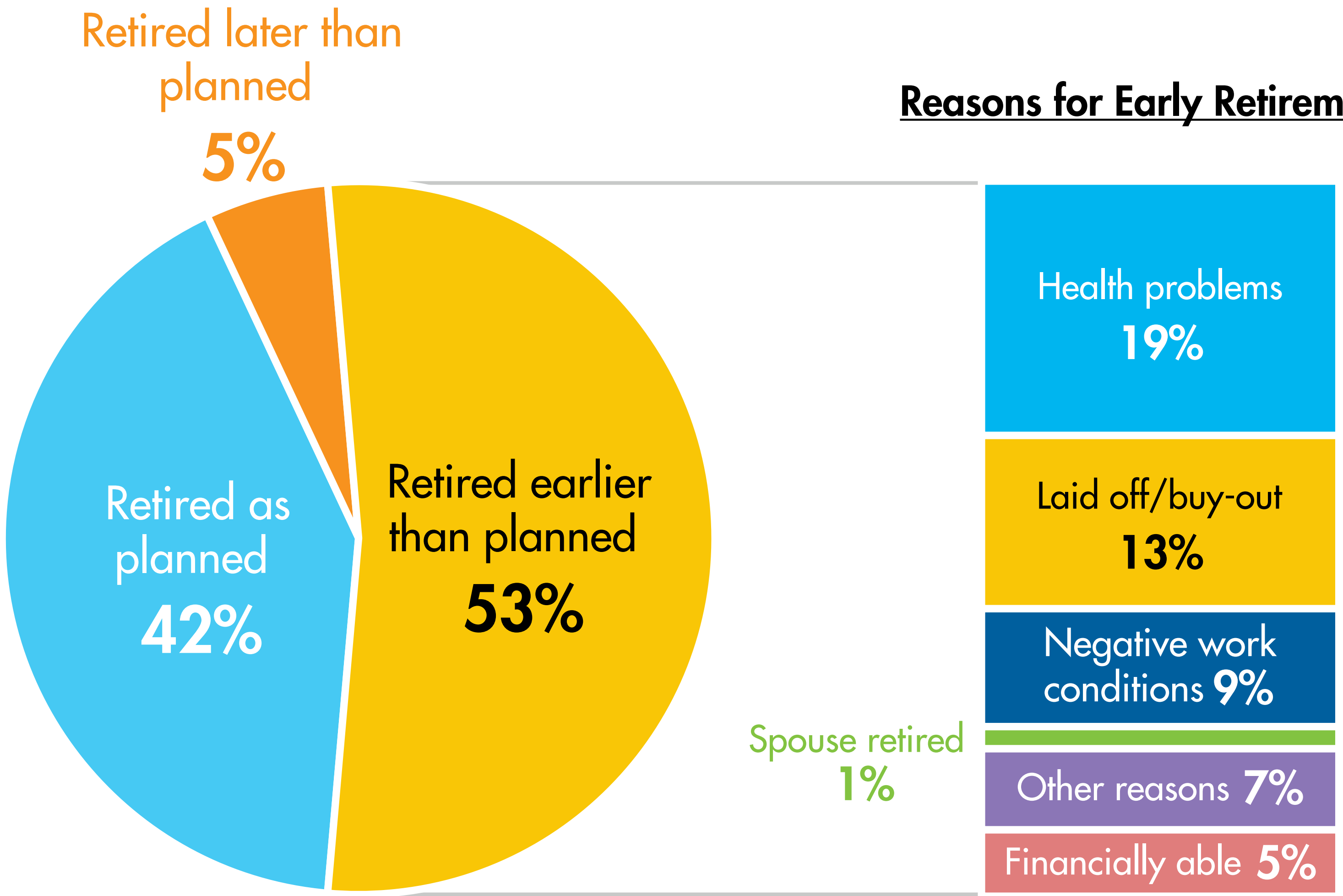
- On average, retirees are forced to retire three years earlier than they planned. Women generally retire two years earlier than men do.
- Two most common reasons for early retirement are health problems and being laid off/buy-outs at work.

RELATED FACTS

- Working in retirement is not the norm. Only 1 in 6 retirees work part- or full-time in retirement.
- In contrast, more than 7 in 10 non-retirees expect to either work in retirement or transition to retirement slowly. The odds are against most pre-retirees who plan to work during their retirement years to supplement their income.

Retired Earlier or Later Than Planned

Percent of Retirees



Source: *2017 Consumer Survey,* LIMRA Secure Retirement Institute, 2017. Based on experience of 1,360 retirees.

Myth #3 Medicare will take care of health and long-term care costs in retirement.

Rising healthcare cost is a significant challenge for retirees. Medicare ***does not*** cover the cost of dental care, vision, hearing aids, and most long-term care services and supports including custodial care. Retirees need to buy supplemental policies to cover these expenses. Medicare offers health and financial protection to nearly 60 million adults aged 65 and over, and people with disabilities. However, the high cost of premiums, cost-sharing, and gaps in the Medicare benefit package can result in high healthcare costs.

GAME PLAN

- Health and long-term care cost including prescription drugs are the highest concerns among pre-retirees and retirees.
- Many pre-retirees and retirees may lack knowledge about the healthcare system. For many, navigating the confusing healthcare insurance environment is overwhelming.
- For advisors, guiding clients through the maze of Medicare and supplemental plans is one of the most important tasks in keeping their healthcare costs manageable. Different Medicare solutions have different financial implications for the client.
- Advisors can also motivate clients to set aside funds (for example, through HSAs) to pay for future healthcare costs. Other options include buying disability or whole life insurance with long-term care combo solutions or an annuity to fund healthcare and long-term care costs.

30-SECOND FACTS

- Average out-of-pocket healthcare spending in 2017 for Medicare households (age 65 or older) was over $6,500.
- A 65-year-old man with median drug expenditures will need $72,000 in savings and a 65-year-old woman will need $93,000 to have enough money to cover healthcare expenses in retirement.[1] A couple may need $165,000.

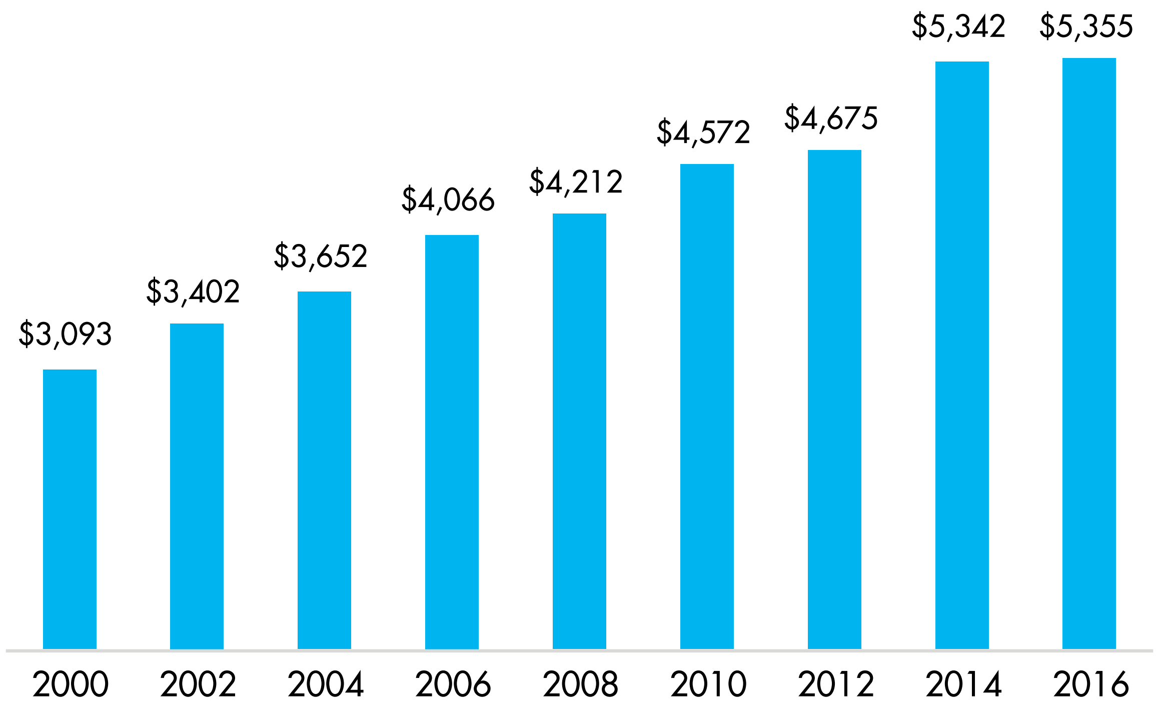
RELATED FACTS

- Custodial care in a nursing home may cost more than $80,000 a year,[2] and is covered for the poor under Medicaid. So, it requires Medicare patients to "spend down" almost all their financial assets on the nursing home bill before they become eligible for Medicaid.

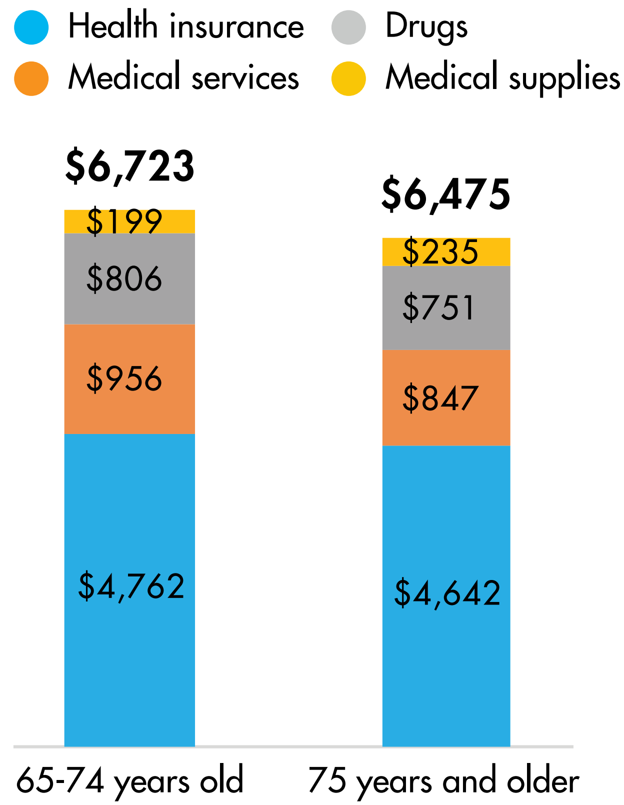
[1] Fronstin, Paul, Dallas Salisbury, and Jack Van Derhei, *Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as $350,000*, EBRI, Notes, Vol. 38, No. 1, January 2017.

[2] National average costs in 2016, LongTermCare.gov., https://longtermcare.acl.gov/costs-how-to-pay/costs-of-care.html.

Medicare Households — Average Healthcare Cost: 2000 — 2016



Average Healthcare Cost for 65+ Year Olds: 2017



Source: *The Financial Burden of Healthcare Spending: Larger for Medicare Households than for Non-Medicare Households*, The Henry J. Kaiser Family Foundation, March 2018 and Ann C. Foster; Table 1300. *Age of reference person: Annual expenditure means, shares, standard errors, and coefficients of variation, Consumer Expenditure Survey, 2017*, U.S. Bureau of Labor Statistics, https://www.bls.gov/cex/2017/combined/age.pdf.

Myth #4 A low-risk conservative portfolio is appropriate for me in retirement.

The true 'safe withdrawal rate' remains elusive. The 4 percent withdrawal rate is really the lowest sustainable withdrawal rate the financial industry has propagated over the years. It is based on what would have been safe in a worst-case scenario experienced in a moderate portfolio held by a retiree. However, the safe withdrawal rate from a conservative and moderate portfolio are not the same. The chart on the following page shows 62 historical scenarios of the maximum sustainable withdrawal rates for retirees from 1926 to 1987 for 30-year retirement periods in both moderate and conservative portfolios. A 4 percent withdrawal from a conservative portfolio can be quite dangerous, particularly in a low interest environment.

GAME PLAN

It's impossible to predict when a bull or bear market phase will start or end.

- Advisors and pre-retirees need to ask: Is it prudent to rely on the traditional risk/reward of a portfolio for creating income, or support it by creating guaranteed retirement income? The first offers a belief that the market will eventually offer superior returns based on risk/reward preferences, and the second ensures retirement security and peace of mind — an assured retirement lifestyle — by covering most expenses with lifetime guaranteed income.
- Insurance and annuity products can be great solutions for protecting income against many retirement risks like longevity, sequence-of-return, and market fluctuation.

30-SECOND FACTS

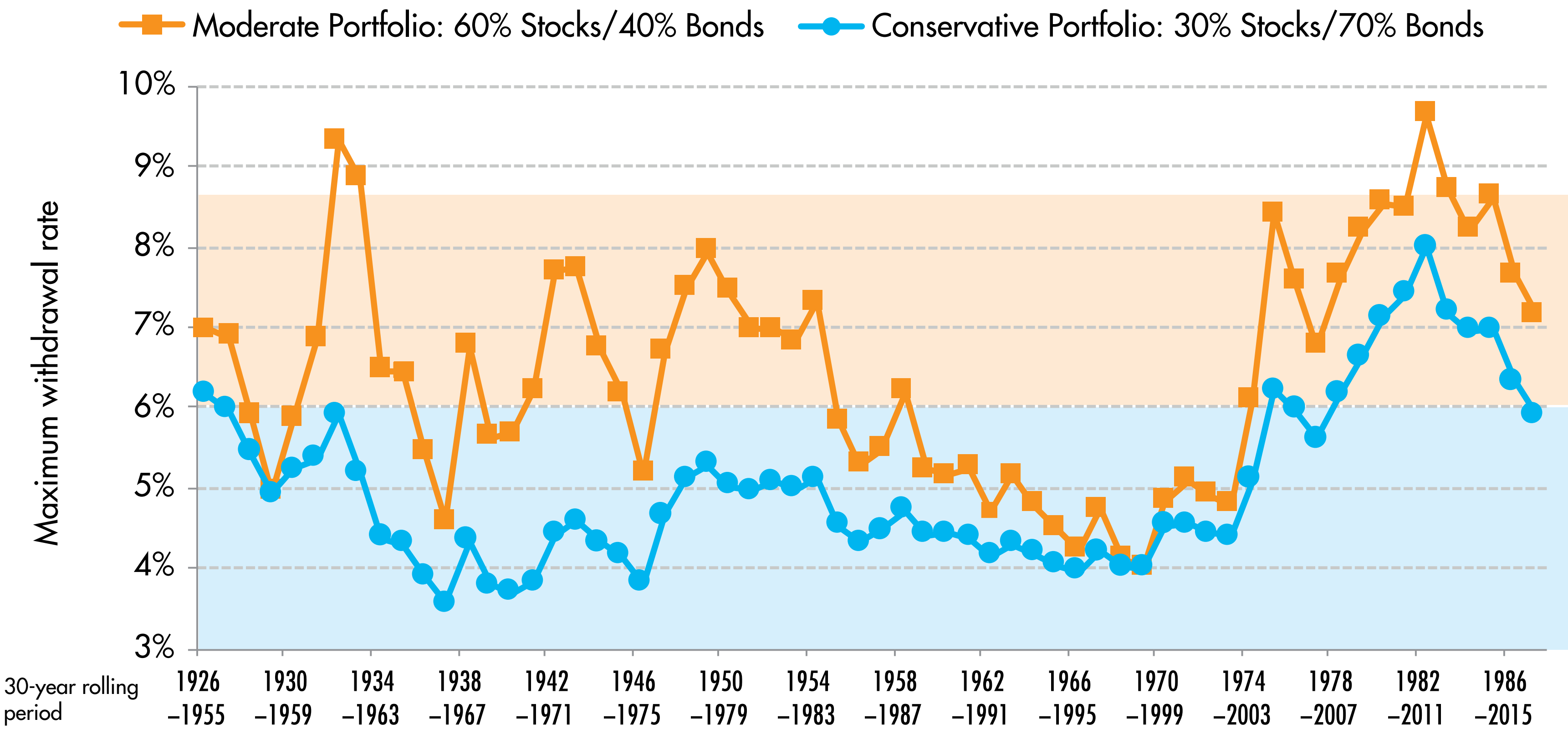
- Typically, low sustainable withdrawal rates tend to follow rising markets while higher sustainable rates tend to follow the prolonged down market.
- The 4 percent rule presupposes a specific (i.e., moderate) portfolio composition. The actual portfolio of a retiree may be different and change over time.

RELATED FACTS

- A number of retirement experts have warned that the 4 percent rule might not prevent running out of money as it has historically — given the low bond yields and modest projected returns for stocks in recent years as well as increased longevity.
- With the 4 percent rule, retirees need to be alert and ready to adjust withdrawals in concert with market ups and downs.

Historical Maximum Safe Withdrawal Rates in a Moderate or a Conservative Retirement Portfolio

$500,000 initial portfolio and inflation-adjusted withdrawals for 30-year rolling period: From 1926–1955 to 1987–2016



Source: LIMRA Secure Retirement Institute, 2018. The moderate portfolio has an asset allocation of 42.5 percent large company stocks, 17.5 percent small company stocks, and 40 percent intermediate-term government bonds and is rebalanced annually. The conservative portfolio has an asset allocation of 22.5 percent large company stock, 7.5 percent small company stock, 50 percent intermediate-term government bonds, and 20 percent treasury bills. The initial withdrawal amount is a percent of initial portfolio. Monthly withdrawal amounts remain the same within each calendar year, and are adjusted annually with the prior calendar year's inflation rate. Portfolio fee is assumed to be 1 percent. Fund returns are from Ibbotson, Morningstar.

Myth #5 It's best if I claim Social Security benefits at age 62.

Claiming Social Security early can be a costly move considering extended life expectancy. In 8 out of 10 cases, couples can win by delaying Social Security. Based on life expectancy, claiming at age 62 offers a 7 to 9 percent chance of receiving the highest cumulative Social Security benefits. Benefits claimed at age 70 have the cumulative joint probability of 77 and 83 percent (8 out of 10 cases for single and dual earners respectively). As individuals live longer, the total benefit becomes increasingly favorable if Social Security is claimed at age 70 for a couple of average health. Claiming strategies for Social Security emerges as the first and most important step for any retirement income planning.

GAME PLAN

- A Social Security benefit is not just a monthly check, it provides an income stream that is guaranteed for life, has inflation hedge, and provides survivor benefits. That is why retirees — and their advisors must insist upon it — should not make Social Security claiming decisions in isolation.
- As any Social Security claiming strategy will have significant impact on income now and later — and on portfolio management and tax planning — a financial advisor should review all the options, and how the strategies fit into the overall retirement income plan. Even more important is the role of Social Security income as the most dependable source of lifetime income in retirement.

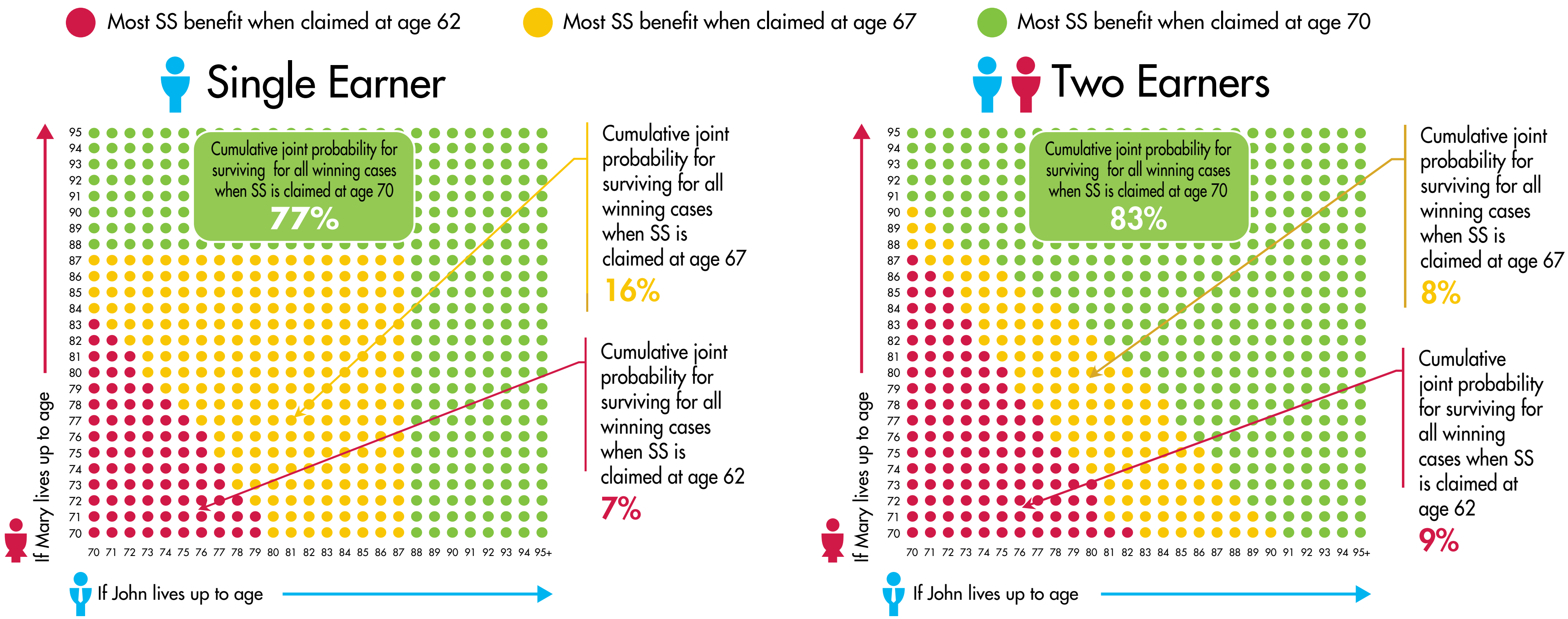
30-SECOND FACTS

- Thirty-eight percent of income in an average retiree household comes from Social Security.
- Only 3 in 10 Americans claim Social Security benefits at full retirement age (FRA) or later.
- On average, the early claimants in 2018 began with a monthly benefit of $1,273 in contrast with $1,807 per month received by claimants who started at FRA or later.

RELATED FACTS

- Between 2010 and 2018, the percent of men claiming Social Security at age 62 dropped steadily from 43 percent to 27 percent.
- In addition, men claiming Social Security benefits at FRA or later age has increased from 19 percent to 34 percent. Women claimants show similar improvements.

Probability of Winning Cases When Social Security Is Claimed at Age 62, 67, and 70 by Comparing the Total Social Security Benefits Received Up to a Particular Age When One or Both of the Spouses Are Living



Source: LIMRA Secure Retirement Institute, 2018. The analysis is based on comparison of the highest cumulative Social Security benefits received, when claimed at age 62, 67, and 70, up to a certain age when one or both spouses are living. The assumed primary insurance amount (PMI) for single earner case (John) is $2,000 per month. For the two-earners case, PMIs are $2,000 and $1,500 per month for John and Mary respectively. The analysis uses 2015 U.S. population mortality and health status is assumed to be average in all cases.

Myth #6 I'll remain healthy enough in retirement to make financial decisions myself.

Nearly 40 percent of Medicare beneficiaries (age 65+) have four or more chronic illnesses. While good physical and mental health in retirement is the goal, retirees should plan for rising healthcare costs as well as secure help should it become necessary from an advisor or family members to manage money in retirement. Many pre-retirees and retirees think they can keep managing money forever when the data shows a majority of them will experience diminished mental and physical capacity.

Retirees and pre-retirees should be justifiably concerned about health and long-term care costs in retirement. They should become more knowledgeable about Medicare and all the supplementary plans available. On average, 70 percent of 65-year-old adults may need long-term care services and support.

GAME PLAN

- Most Medicare Advantage plans allow retirees to put a cap on out-of-pocket spending each year. The cap amount varies from plan to plan, and can change each year. Still, advisors would do well to recommend that retirees purchase the right supplemental and prescription drug plans so the financial impact of getting sick during retirement years is minimal.
- Many advisors are not conversant with healthcare costs either, and are often ill-prepared to make suggestions. Medicare also does not cover long-term care. Retirees should make a clear plan for managing their finances, health, and long-term care decisions with their family members or advisors while they can.

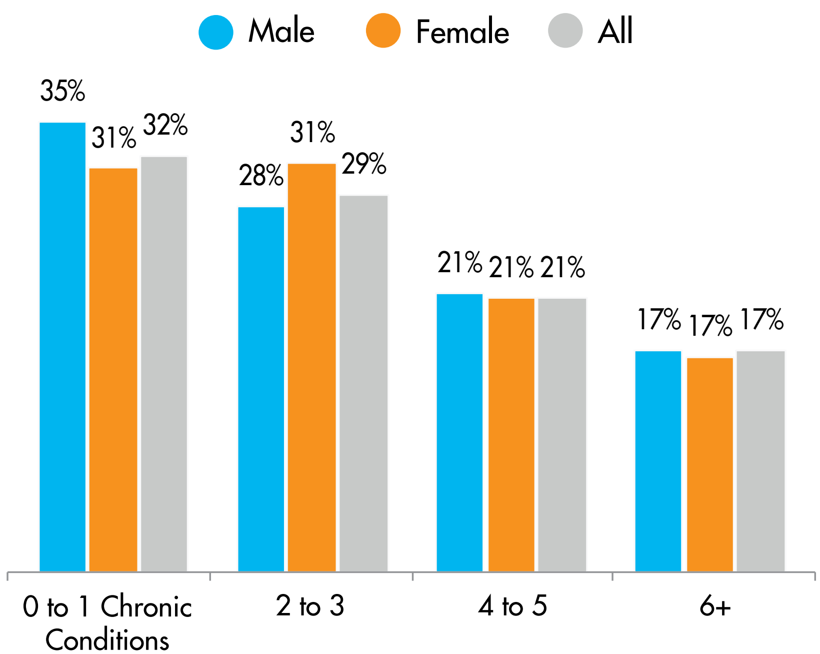
30-SECOND FACTS

- Seventy-five percent of 65-year-old women are likely to develop severe long-term care needs before they die, compared with 64 percent of men.
- The prevalence of dementia among older adults increases with age, from 2 percent among adults aged 65-69 to 33 percent among adults aged 90 and older.

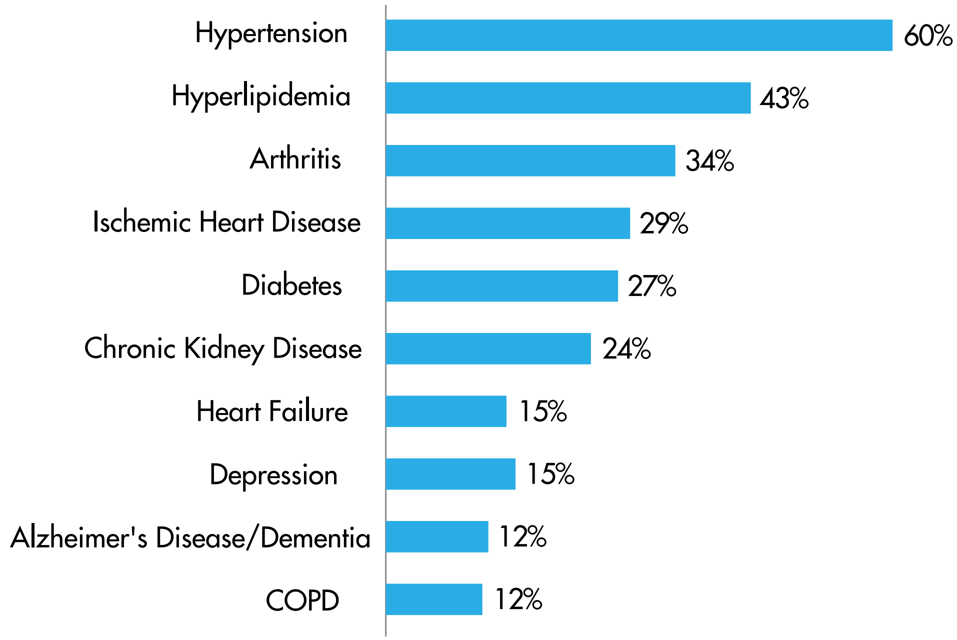
RELATED FACTS

- Seventy-seven percent of total Medicare spending in U.S. is used for beneficiaries who have four or more chronic conditions.

Prevalence of Chronic Conditions Among Individuals — 2017



Top 10 Chronic Conditions Among Medicare Beneficiaries — 2017



Source: Chronic Conditions Chart, 2017, CMS (Centers for Medicare and Medicaid Services), 2018.

Community-Dwelling Older Adults with Dementia and Their Caregivers: Key Indicators from the National Health and Aging Trends Study, US Department of Health and Human Services, January 2018.

Fronstin, Paul, Dallas Salisbury, and Jack Van Derhei, *Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as $350,000,* EBRI, Notes, Vol. 38, No. 1, January 2017.

Myth #7 My taxes will be lower in retirement.

Tax rates are now at their lowest since 1950. If a retiree needs nearly as much income after retirement as they did before to maintain their lifestyle, it is not credible to think that the tax burden will be less, particularly if the retiree needs to withdraw from traditional retirement plan savings which are fully taxable at ordinary income rates.

Retirees need to consider tax implication on withdrawals they would be making from their pre-tax 401(k)/403(b) or IRAs — either to fund their living expenses or to satisfy RMDs at age 70 ½ or older. These withdrawals are typically fully taxable at ordinary income tax rates. Retirees need to be aware of the tax burden in retirement as even moderately high retirement income impacts many other variables like deductions, exemptions, taxes on Social Security income, and Medicare Part B and Part D premiums.

GAME PLAN

- Advisors can be very helpful for retirees planning to minimize taxes in retirement. Retirees can have income from diverse sources — some of this income is to be fully taxed (like pensions), taxed at the long-term capital gains rate (like qualified dividends), partially taxed (like Social Security benefits), or not taxed at all (like withdrawals from Roth IRAs or HSAs). Retirees need to have a strategy for withdrawal sequence from their assets to find the right balance based on qualified and non-qualified withdrawals.
- Advisors can also help retirees and pre-retirees to see whether Roth conversion is a beneficial option considering the initial tax hit, time, and cost. However, if pre-retirees and retirees need IRA savings to fund immediate living expenses, Roth IRA conversion may not be advisable.

30-SECOND FACTS

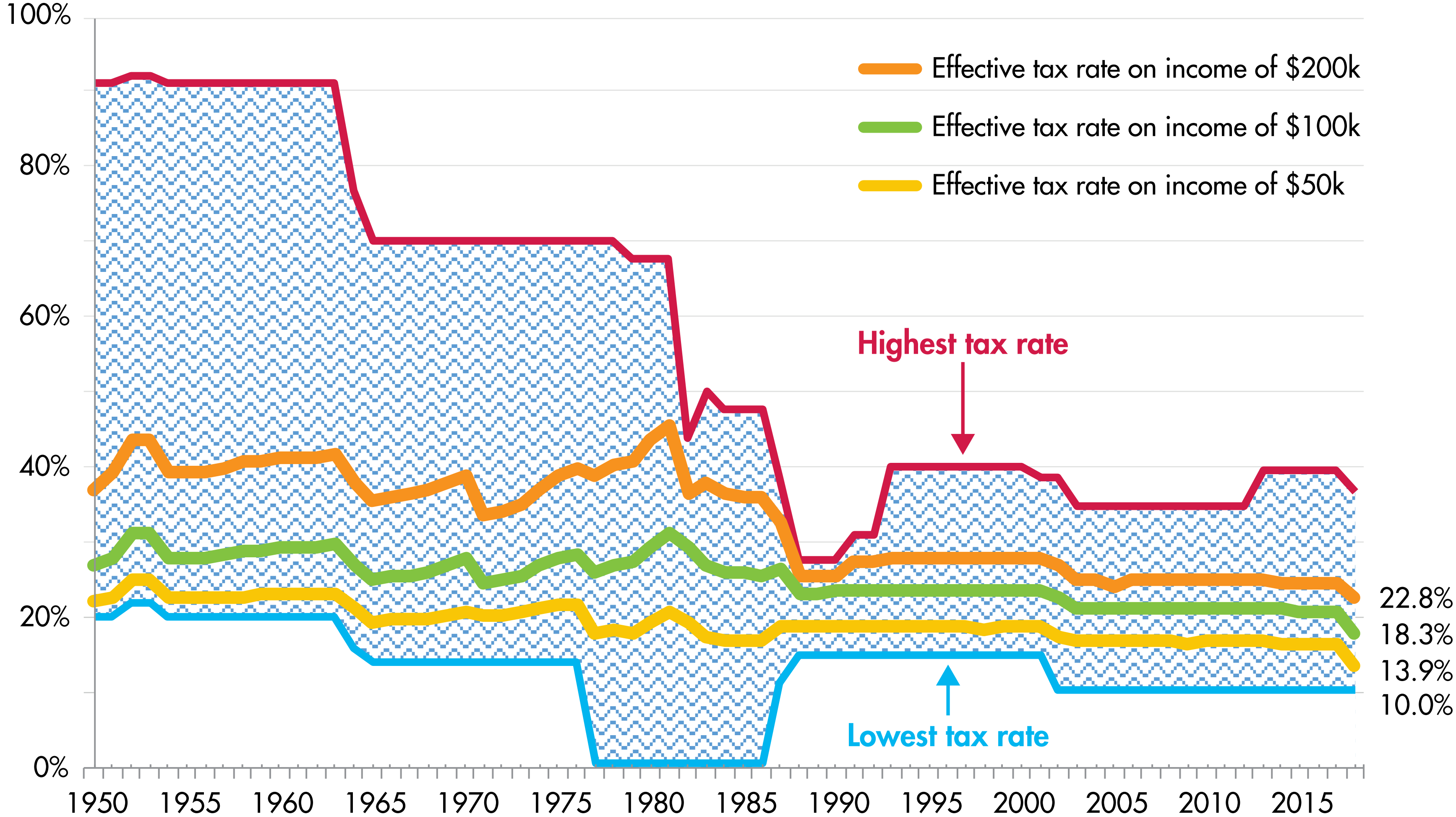
- Social Security benefits are subject to tax:
  - Up to 50 percent of benefits if income is $25,000 to $34,000 for an individual, or $32,000 to $44,000 for a couple filing jointly
  - Up to 85 percent of benefits if income is more than $34,000 (individual) or $44,000 (couple)

RELATED FACTS

- Top rate for ordinary income and non-qualified dividends: 37%/40.8%*
- Top rate for short-term capital gains (assets held <12 months): 37%/40.8%*
- Top rate for long-term capital gains (assets held 12 or more months): 20%/23.8%*

*3.8% Medicare tax on net investment income beyond Modified Adjusted Gross Income (MAGI)

Effective Historical Tax Rates:* 1950 — 2019



*Effective tax rates calculated are based on individual income filed on a single return, and inflation adjusted equivalent income of $200,000, $100,000 and $50,000 for years prior to 2012.

Source: LIMRA Secure Retirement Institute, 2019. The data is from Quartz media LLC at https://qz.com/74271/income-tax-rates-since-1913/, accessed on 6-6-2018, and U.S. Tax Center at IRS.com.

Myth #8 I can safely withdraw 4 percent of my assets and not run out of money.

Retirement outcomes are unpredictable. No one knows exactly the right time to retire. Retirement security remains uncertain, as an individual's retirement portfolio is impacted by a confluence of unpredictable factors like market returns, inflation and interest rates, and the economic environment.

The chart shows portfolios of 10 retirees who started their retirement at age 62 at the beginning of each quarter from January 1, 1968 to April 1, 1970 — 90 days apart — with a $500,000 portfolio. All had identical asset allocations and cost, followed asset rebalancing and started income at the same initial withdrawal rates — yet their portfolio outcomes could not be more different. Despite adequate planning made under traditional methods of income generation from a retiree's portfolio, two of the retirees ran out of money. The retirement timing risk is almost impossible to predict and eliminate, at least when the retiree relies solely on systematic withdrawals for creating income.

GAME PLAN

- Advisors should educate their clients: Unlucky timing can be bad for retirement. Bad assumptions lead to bad outcomes. And bad decisions or mistakes become costly in later life when retirees have little or no control.
- Retirees and their advisors need to monitor portfolios periodically and suggest adjusting the withdrawal rates based on portfolio value.
- An income annuity can ensure a stable and higher income stream throughout retirement, allow peace of mind by covering essential expenses in retirement, and higher income to enjoy, particularly during the early years of retirement when retirees are most active.

30-SECOND FACTS

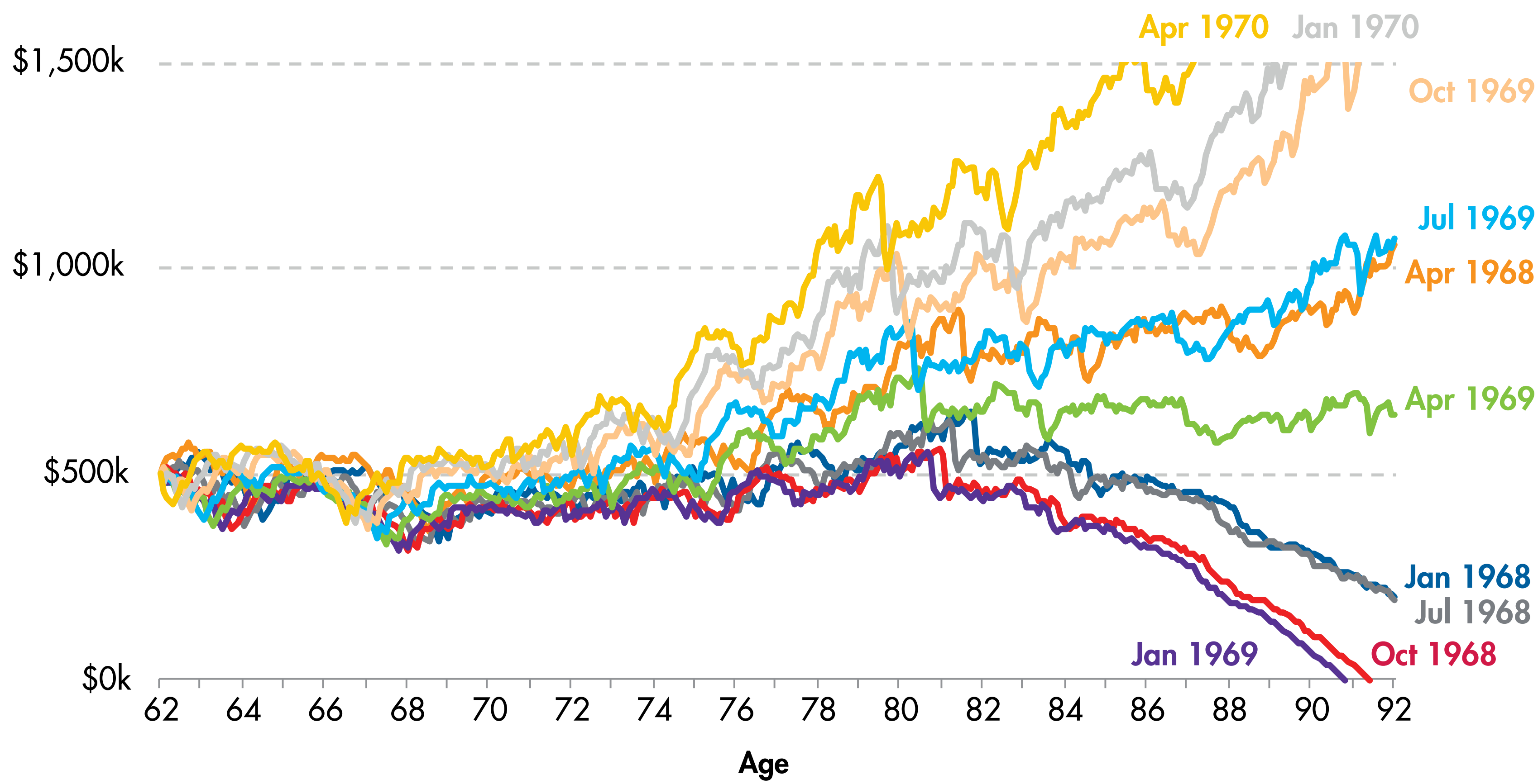
- The 4 percent rule isn't meant to ensure the retiree will have enough income to live on and maintain their retirement lifestyle. Spending needs are not part of the analysis.
- Under the 4 percent rule, the chances are good that a large portion of the portfolio may remain unused or become available only in late retirement years when the retiree's mind and body are likely to be fragile.

RELATED FACTS

- Moderate to aggressive asset allocation is key to the 4 percent safe withdrawal rate practice.
- While implementing the 4 percent rule, retirees should not become conservative (i.e., sell equities and buy fixed income if there is market volatility or decline). Temptation to be conservative is disastrous to the success of the 4 percent rule.

Value of Retirement Portfolio of 10 Retirees Retiring at the Beginning of Each Quarter From 1968 — 1970

Retirement at age 62, $500,000 initial portfolio, 4.05% initial withdrawals



Source: LIMRA Secure Retirement Institute, 2018. The portfolio has an asset allocation of 42.5 percent large company stocks, 17.5 percent small company stocks, and 40 percent intermediate-term government bonds and is rebalanced annually. The initial withdrawal amount was $1,686 per month, or for the first year $20,235 or 4.05 percent of beginning assets. The individual retiree withdrew the same dollar amount within each calendar year, and adjusted annually for the prior calendar year's inflation rate. The cost of funds in the portfolio is 100 bps annually. Fund returns are from Ibbotson, Morningstar.

Myth #9 Annuities are bad investments.

Income from a life annuity never runs out and is more reliable than SWPs. A simulated analysis of SWPs for a 70-year-old male with different portfolio mixes shows that SWPs can be a poor match for creating the same guaranteed lifetime income as annuity payouts for retirees living to age 90 or 95. Also many retirees with low risk tolerance may find it difficult to adjust producing sustainable income from an aggressive portfolio through SWP.

A simple income annuity offers a guaranteed, reliable, and attractive return even in today's low-interest-rate environment. The SWP method remains susceptible to the vagaries of market volatility, the interest rate, and inflation — three major risks in retirement. Also, as they face an uncertain time horizon, retirees who elect an SWP method risk running out of income or assets.

GAME PLAN

- Advisors should suggest that an annuity is an alternative to self-managing periodic distributions from savings. The time has come to seriously consider creating 'pension-like' income from annuities in most portfolios.
- Advisors and retirees should note that the SWP concept is based on historical rates of return, and there is no assurance that future investment returns will match the historical pattern.
- Income annuities can relieve retirees of the anxiety of managing their investments at older ages when their mental and physical capacity may diminish. Advisors must remind their clients of all that annuities can offer — including peace of mind.

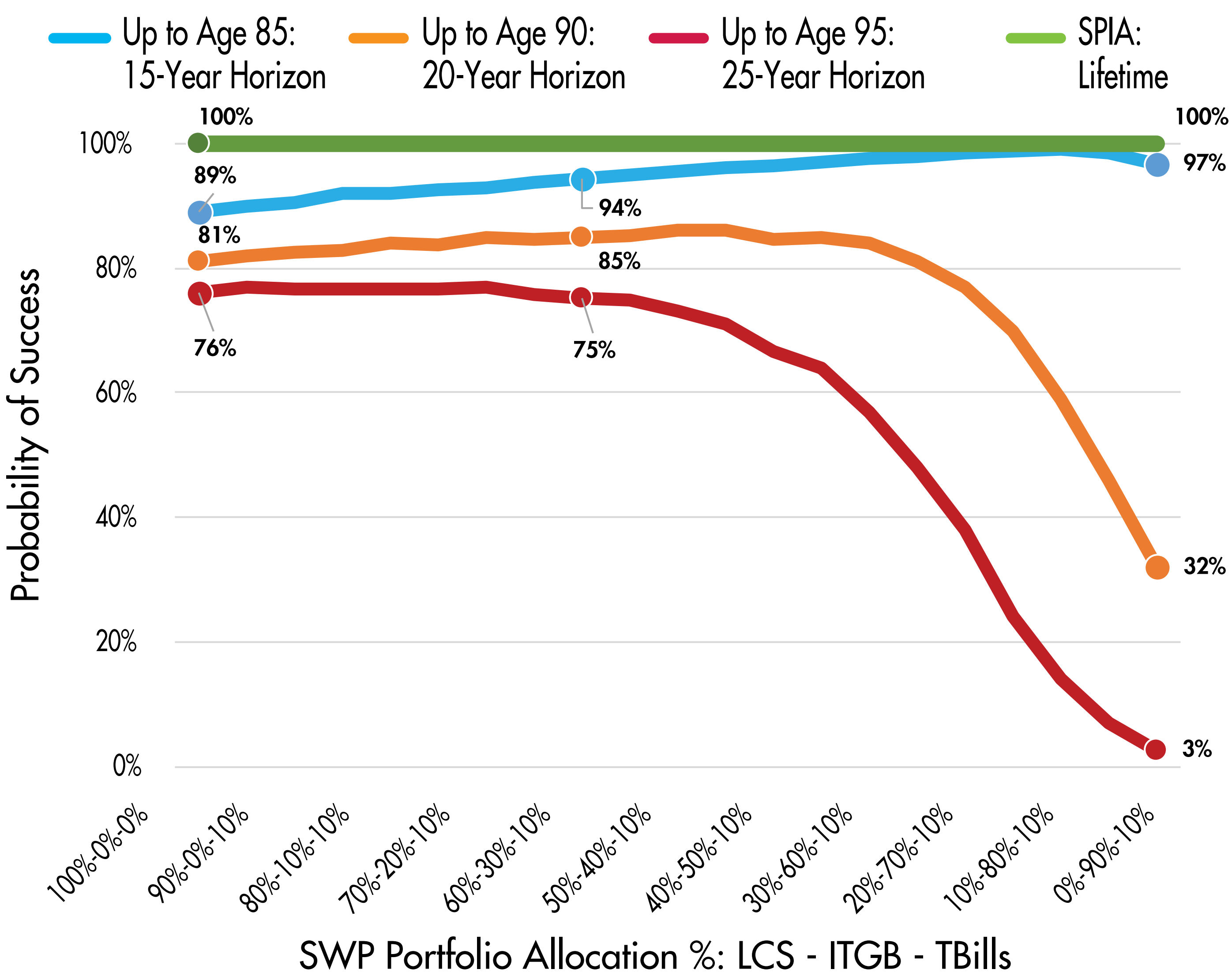
30-SECOND FACTS

- All traditional investments have inherent risk and are subject to market volatility. Income annuities add the certainty of guaranteed income as long as someone lives.
- An annuity is one of a few financial products that can guarantee income for both spouses as long as they live. Nearly one third of lifetime income annuity contracts are joint-lives contracts.

RELATED FACTS

- Aside from addressing the longevity risks in retirement, an annuity is the only financial solution that can address timing or sequence-of-return risk in retirement.
- Retirees across all wealth segments are more confident in their retirement security when they have an annuity.

Success Rates* for Creating a Matching-SPIA*-Income in a SWP Portfolio for an 70-Year-Old Male



Note: For each of the scenarios, 5,000 cases were run. The fund returns used in the analysis in Large Cap Stock (LCS) are since 1926. Intermediate Term Government Bonds (ITGB) and Treasury Bills (T. Bills) returns are since January, 1988. Fund returns are from Ibbotson.

Source: LIMRA Secure Retirement Institute, 2019. SPIA rate is based on a 70-year-old male annuitant, a fixed lifetime payout of $7,500 annual income on $100,000 fixed immediate income annuity investment with no period certain or refund options, or a fixed payout of 7.5% lifetime guaranteed income that the SWP portfolio needs to produce. Rates are from www.immediateannuities.com, effective as of July 30, 2019. The hypothetical portfolio is shown as a 120-basis-point charge assessed on a monthly basis (before the withdrawals taken at the beginning of each month and investment growth or loss). No cost of living adjustment was made.

*Single Premium Immediate Annuity (SPIA)

Myth #10 If I die tomorrow, the insurance company keeps all the money I put into annuities.

Most income annuity buyers opt for both income and recovering principal. Annuities offer many different options for taking income. Only 1 in 10 income annuity owners choose guaranteed lifetime income based on 'life only,' i.e., income stops at death with no guarantee to recoup the principal. The vast majority of income annuity clients opt for guaranteed lifetime income as well as to recuperate a substantial or all of the principal investment in the event they die prematurely.

Eight out of 10 income annuity owners choose 'Life With 10+ Year Period Certain' and 'Life With Cash Refund' and are guaranteed their investment back for beneficiaries.

GAME PLAN

- Advisors and insurers need to fight against the stigmas surrounding income annuities.
- The media often adds to the stigma with statements like, "Studies show that retirees worry they won't get their 'money's worth' if they die before recouping their investment, and many are uncomfortable giving up control of savings. Consumers don't love that there is no liquidity."[3] The media often fails to note that advisors and clients can choose from many current income annuity designs to suit their needs and preferences.

[3] *How to Make Your Money Last as Long as You Do*, The New York Times, February 18, 2017.

[4] *The Nation's Safety Net 2016 Edition,* National Organization of Life and Health Insurance Guarantee Association, 2016.

[5] Insurance Information Institute website, https://www.iii.org/fact-statistic/facts-statistics-industry-overview viewed on 5-10-2019.

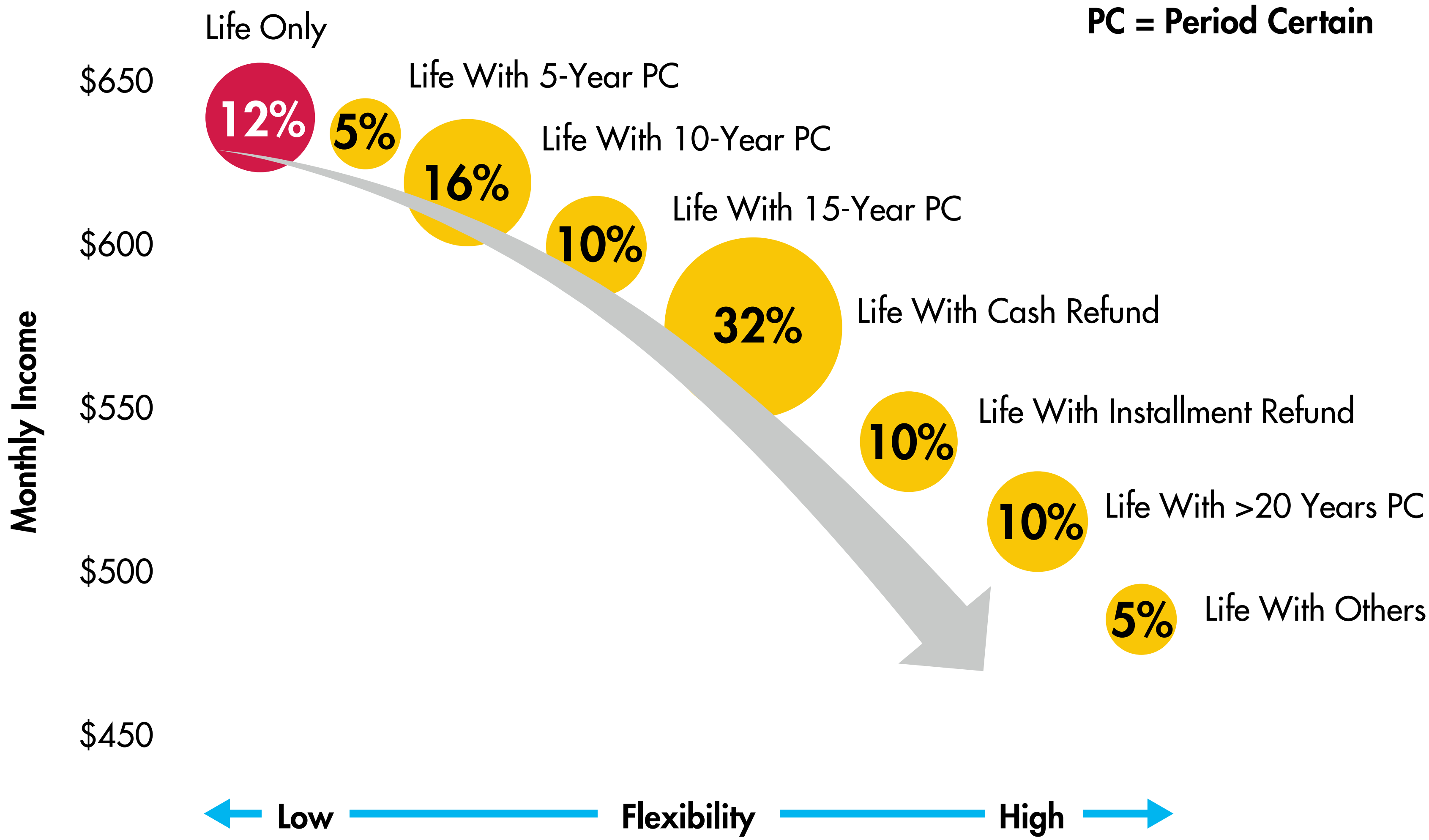
30-SECOND FACTS

- Today, 7 out of 10 income annuity contracts have liquidity features that enable clients to access part or all of their annuity benefits in case of emergencies or other needs.
- Some advisors and investors worry about insurance company bankruptcy. Of 852 life/annuity companies in 2017, only three (0.4 percent) were declared impaired or insolvent[4] during 2017-2018.

RELATED FACTS

- There is a safety net for investors to protect their annuity benefits. Associations in 38 states guarantee coverage of a minimum of $250,000 in annuity benefit protections, nine states guarantee up to $300,000 and four states guarantee up to $500,000 if an insurance company goes bankrupt.[5]
- Financial strength ratings are publicly available for insurance companies.

Immediate Annuity Lifetime Income Contracts by Type of Guarantees



Source: *Creating Guaranteed Lifetime Income: Income Annuity Buyer Study,* LIMRA Secure Retirement Institute & CANNEX 2016. Based on 176,076 fixed immediate income annuity contracts issued between 2012 and 2015. The income annuity quotes are based on $100,000 for a 70-year-old male as of 4-30-2018 at www.immediateannuity.com.

Jafor Iqbal
Assistant Vice President
LIMRA Secure Retirement Institute
jiqbal@limra.com

LL Global, Inc.®

The LIMRA Secure Retirement Institute® was established in 2013 with the goal of providing comprehensive, objective research and education to help improve retirement outcomes. Our research agenda covers all aspects of the industry and examines issues related to saving, investing, and generating retirement income.

LIMRA Secure Retirement Institute® • www.secureretirementinstitute.com

009255 - 9/2019 - 50700-10-408-23518