USING PROTECTED LIFETIME INCOME AS "SUNSCREEN" FOR LONGEVITY RISK

Are your clients confident they won't outlive retirement savings? Amid current inflation rates and market volatility, it may be a good time to address their primary concerns and discuss income protection.

Did you know that July was Ultraviolet (UV) Safety Month? Yes, it exists—and it's important all year long! Fortunately, we have sunscreen to help us mitigate our personal risk from the harmful effects of the sun.

And much like sunscreen protects our skin, annuities can offer protection for your clients' retirement income. According to the most recent Retirement Confidence Survey conducted by the Employee Benefit Research Institute (EBRI) and Greenwald Research, only 27% of current workers feel "very confident" they will have enough savings to live comfortably throughout retirement[1]. With current inflation, changes to the tax-management environment, and continuing market volatility, it's easy to see why.

But with careful planning, you can help clients equate the mindset of protection against risk they already use to prevent UV exposure to a helpful mindset they can adopt regarding their retirement savings. Considering annuity products as financial "sunscreen" can open clients to new opportunities that may help them avoid financial roadblocks during their next adventures.

Deferred Annuities

Variable, fixed, and fixed indexed annuities can be great financial tools for protecting clients' retirement savings. Annuities offer tax-deferral advantages if structured appropriately, and each type has different features that can help combat various retirement-planning risks. With strategic implementation, they can:

- Shift market and longevity risks to an insurance company. Insurance companies can help manage and mitigate clients' risks by combining the risk of all its annuity owners and fulfilling the terms of each client's contract and providing any guaranteed lifetime income payments. Shifting those risks is similar to putting on a layer of protective clothing in the sun.
- Bridge the gap between retirement and claiming Social Security retirement benefits. For an additional cost, optional guaranteed withdrawal benefits may provide clients with principal protection and income through withdrawals, allowing them to delay and maximize their Social Security benefits. This most closely resembles maximizing the amount of time you spend in the shade.

The less time you spend in the sun, the easier it will be to manage the negative effects of UV exposure.

- Facilitate legacy planning with optional enhanced beneficiary benefits. Available for an additional fee, these benefits can increase the value of an annuity contract for beneficiaries, extend the payout period, or both, depending on the terms. This could be comparable to buying your loved ones a more expensive, high-SPF, waterproof sunscreen that allows them to enjoy the sunshine longer.

Income Annuities

Another option to help protect against investment risks is an income annuity. These can take the form of single premium immediate annuities (SPIAs), which start income payments within 12 months of issue, or deferred income annuities (DIAs), which start payments no sooner than 13 months from issue. Choosing which income annuity is right for your client is similar to choosing which SPF level and formula your sunscreen must have to meet your specific needs.

- SPIAs can be used to help bridge income gaps for claiming Social Security retirement benefits. Instead of claiming early or at his or her full retirement age, a client may choose to purchase a SPIA to delay claiming and maximize benefits.
  - Some companies offer inflation-protection benefits for an additional cost, which can help to further protect against inflation.
- DIAs can be used for income needs later in life, such as healthcare or assisted living.
  - Assets used to purchase a DIA specifically as a QLAC will not be included in the calculation of RMDs. As a result, clients can defer those RMDs up to age 85. The longer QLAC income payments are deferred, the greater they will be.

Lock in Protected Lifetime Income for Your Clients

It's always a good idea to be prepared, so start the conversation now to develop strategies to help protect clients' assets and begin planning for lifetime income now.

Actions You Can Take Right Now

- Reach out to clients planning to retire within 10 years.
- Evaluate delaying claiming Social Security retirement benefits to increase lifetime payments.
- Determine whether additional income protection strategies are needed.

Additional Resources and Links

[Ages and Stages]

[2023 Retirement Confidence Survey]

[Using Retirement Funds to "Mind the Gap" for Social Security Benefits]

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
PacificLife.com

[1] Employee Benefit Research Institute and Greenwald Research. "2023 Retirement Confidence Survey." (April, 2023).

Optional benefits are available at an additional cost.

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Annuity withdrawals and other distributions of taxable amounts, including death benefit payouts, will be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal income tax may apply. A withdrawal charge and a market value adjustment (MVA) also may apply. Withdrawals will reduce the contract value and the value of the death benefit, and also may reduce the value of any optional benefits.

Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These features include lifetime income, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

In order for the contract to be eligible as a QLAC, certain requirements under Treasury Regulations must be met, including limits on the total amount of purchase payments that can be made to the contract.

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