



Search Stocks & Keywords

Search

Strange Inheritance Kennedy Earnings HQ National Gas Prices Trending Pension Crisis Market Check

Home Video Markets Industries Economy & Policy Investing Technology Personal Finance Business Leaders On Air Small Business

Home & Mortgage Career College Planning Lifestyle & Budget Health Care Retirement Taxes Tools & Calculators Job Search Slideshows

Should Annuities Provide Your Retirement Paycheck?

By Tom Hegna / Published May 11, 2012 / FOXBusiness



FOLLOW FOX BUSINESS



Get Our Free Newsletter

Enter Email Address

Sign Up

Like 265k

Follow @foxbusiness

RECOMMENDED VIDEOS



Sharpton getting pass on taxes due to Obama connections?



ISIS release video burning Jordanian pilot alive



The most valuable coin in the world... or a clever fake?

Print

Email

Share

Comments

Share 391

Tweet 57

Share 196

With traditional safety nets such as company pensions and Social Security dwindling, many of the 78 million baby boomers are left trying to answer one question: "Who's going to pay *my* retirement paycheck?"

Annuities are one investment that more and more prospective retirees are considering. These financial products are created by the insurance industry, and offer a lot more flexibility and advantages than other investments. Here are a few reasons why you should think about adding them to your retirement plan:

Monthly Paychecks and Playchecks

Which day of the week do you spend the most money? For most, it's Saturday. The day you retire, every single day becomes like Saturday. So in addition to paying monthly bills, you will be shopping, golfing, and vacationing more frequently. You're going to need a guaranteed source of income to help make ends meet

RELATED STORIES

- Taking a Bucket Strategy for a Lifetime of Income
- When Grandkids Ask for Money
- How to Use a Self-Directed IRA to Buy Real Estate

MORE FROM FOX BUSINESS



M&A, Higher Oil Prices Fuel Wall Street's Rally

Keeping Boomers' Brains Sharp

(paycheck) and to fund all the extras (playcheck).

The lifetime income annuity, what many insurance companies call a SPIA (Single Premium Immediate Annuity) is one tool that can help cover your expenses. Quite simply, in exchange for one, upfront, lump-sum payment, the insurance company provides you with a guaranteed monthly paycheck. The payments can be for a specific time period (e.g., five years) or for life. Essentially, the lifetime payment option allows you to create your own pension from your savings.

Income for Life

People are living longer and longer which means you are going to need more money. For instance, if you have a husband and wife who are age 65, there is a 50/50 chance that one of them will live to be age 92, and 25% chance that one lives until 97. These trends represent an amazing turn of events considering that just 100 years ago, life expectancy was closer to age 50.

When it comes to retirement planning, there are many risks: market risk, inflation risk, deflation risk, the risk of needing long term care, and more. However, the No.1 risk is longevity risk—the risk that you will outlive your resources. Longevity risk is actually a risk multiplier: the longer you live, the more exposed you are to all the other risks.

In order to retire optimally, you have to take longevity risk off the table. Social Security and pensions can help you manage longevity risk. But with many companies no longer offering pensions, and Social Security benefit levels facing an uncertain future, you will have to rely on your own savings and investments. The SPIA is one of the only financial products that can provide a guaranteed source of income for life. The payouts are based on factors such as your age and the prevailing interest rates at the time you purchase the annuity and can be paid over one life or joint lives (e.g., husband and wife).

A Safer Investment

The worst time for your investment portfolio to take a hit is the five years before and five years after the day you retire—some have called this time the “retirement red zone.” Lose money in this segment and it will greatly impact how you can spend and withdraw money throughout your entire retirement.

We all know what happened to the markets in 2008 and 2009, and for some boomers close to retirement, the financial panic may have had a devastating impact on their portfolio.



Hackers Hit Anthem with Massive Cyber Security Breach

Pfizer to Buy Hospira for \$15B to Boost Biosimilar Pipeline

FROM OUR SPONSORS



11 Things You Should Never Do Again After 50
AARP

Recommended by

MILITARY PERSONAL FINANCE [More >](#)

Sorting Through the Auto, Life, Health Insurance Maze

When You Can't Sell Your Home

Military Taxes: Doing Taxes Overseas

SPONSORED BY

Investing >

Can Trimble Navigation shares navigate your portfolio to success?

Yelp, Inc. Drops Again After Beating Expectations

GoPro Earnings: Camera Maker Shows Wall Street the Money

BANK RATES [Bankrate.com](#)

Mortgage	Home Equity	Autos	CD Rates	
Loan Type	Graph	Rate	+/-	Last Week
30 Y Fixed		3.85%		3.82%
15 Y Fixed		2.93%		2.96%
30 Y Fixed				4.25%

Annuities provide a way to grow your investments without be subjected to big market declines and avoid the dismal interest rates of money markets and CDs. While the SPIA is useful for providing a lifetime income, another type of annuity allows you to invest in stock mutual funds while providing various types of protection for your principal. Some of these variable annuities even allow you to invest in the market while guaranteeing that your investment won't drop below what it started at.

Additional Considerations

As with any investment, you need to be very careful before putting your hard-earned money into anything. If you want to explore investing in an annuity, there are some things you need to be aware of and consider.







First, the contract terms for annuities are often complex. You need to work with a trusted advisor to really understand what you are purchasing. Make sure to identify any fees before signing anything, and do your due diligence and ask about annual fees and hidden charges. Ask if there are additional fees, surrender charges, and early withdrawal fees. Also, be wary of any annuity that pays the financial advisor more than 4 to 6 percent in commissions.

Next, remember that annuities such as a SPIA may not have inflation protection. Therefore, fixed annuities should only be a piece of your investing strategy and other investments in your portfolio need to compensate for inflation. Investing in commodity funds, energy, and growth stocks can be a good way to hedge your bets. Also, many SPIA's do allow you to have your guaranteed paycheck increase every year by 1% to 5%, which seniors often find a wise choice.

Last, be aware that current interest rates will affect the monthly payouts from an annuity. Lower interest rates will mean smaller payouts, since your payments are based upon a combination of your original investment, interest rates, and mortality credits. Interest rates do matter, but it's only one piece of the equation. Also, the older you are, the less these interest rates will matter when the insurance company calculates your income amount.

Is An Annuity Right For You?

So, is an annuity a good idea for you? That is for you and your financial advisor to determine, but it is certainly something you should strongly consider. For most retirees, Social Security is barely enough to get by on and benefits are expected to decrease further in the future. If you don't have a pension, an annuity can

Jumbo	 4.44%	
5/1 ARM	 3.52%	 3.25%
5/1 Jumbo ARM	 3.58%	 3.62%
Find Personalized Rates		
<input type="text" value="Enter Zip Co"/>	<input type="button" value="Search"/>	

14.2% 2013 Annuity Return

onlineannuityrates.com/TopAnnuiti...

Best Annuities for 2014 Revealed. Get the Details in our Free Report.

serve as its replacement and as a means to guarantee that week in and week out you have enough money to cover your basic expenses.

Tom Hegna is the author of the book [Paychecks and Playcheck: Retirement Solutions For Life](#) ↗.

+ Follow **Fox Business** on Facebook

SPONSORED STORIES

[Your 401\(k\) Isn't Growing As Fast As it Should - Here's Why](#) (Mint)

[An Extremely Brilliant Way To Pay Off Mortgage](#) (Bills.com)

[Retiring Soon? Hope You Don't Live in These 10 States](#) (Bankrate)

[The Little Known Benefits Rich Receive When Using Credit Cards](#) (NextAdvisor)

[Having 1 Of These 6 Credit Cards Means You Are Smart Like The Wealthiest Americans](#) (NextAdvisor)

[Retirement Planning: Here's What Your 401K Is Really Worth](#) (Smart Asset)

MORE FROM FOX BUSINESS

[Slow fade for the iPad and tablets?](#)

[Woman plans to marry her father after two years of dating](#)

[FLEX Moving into Breakout Mode](#)

[At least 31 dead after plane crashes into Taiwan river](#)

[IRS Sacks Tom Brady With 'Super' Tax Bill](#)

[Put Estate Planning on Your Bucket List](#)

Recommended by

SHARE THIS ARTICLE

391 Share

57 Tweet

1 g+1

• • • • •

FOX BUSINESS VIDEO



Buffett on cancer, 2016 elections and Apple



Low oil prices keeping boating afloat?

Sponsored Content You May Like



The #1 Way to Fight Tinnitus (Stop the Ringing)



The #1 Exercise That Accelerates Aging (Beware)



1 Fruit That "Fights" Diabetes



21 Day Body Change on 'Legal Steroid'



Secret Brain Pill Billionaires Are Using



Controversial "Limitless Pill"



U.S Presidents Ranked from Worst to Best



Remove Your Eye Bags Quickly

?

MORE FROM FOX BUSINESS

TOP STORIES

POPULAR VIDEOS



Reuters

RadioShack Files for Bankruptcy

Ailing electronics retailer RadioShack has filed for Chapter 11 bankruptcy protection, listing assets of \$1.2 billion and liabilities of \$1.39 billion in its petition in a Delaware court.

Technology

Twitter Reports 4Q Sales Jump of 97%

Markets

Wall Street Closes Higher on M&A, Oil

Entrepreneurs

IIC's App Helps SMEs in Latin America Compete

Personal Finance

IRS Sacks Tom Brady With 'Super' Tax Bill

Industries

LinkedIn Quarterly Revenue Jump 44%



One Puff and Pass Closer to Legal

MPP director of federal policies Daniel Riffe on the latest on marijuana legalization.



Is Leasing a Car Right for You?



Rep. Rangel: No Such Thing as a Limited War



The Biggest Threat to the September Stock Market



Hole-in-One Insurance?

ALSO ON THE WEB



Capitol Report: Lew says trade laws could thwart foreign QE efforts

Capitol Report: John Kerry rated worst secretary of state in 50 years

Capitol Report: U.S. growth may sputter with productivity and population growth so low

ETF Trader: Give consumers credit

Australia's central bank cuts growth forecasts



Coca-Cola Quits Twitter Campaign After Nazi Trick

Kirkland's Inc. Names New CEO, KIRK Stock Soars

Starbucks to Add Coconut Milk to Menu

Saved by the Bell Cast Reunites With Jimmy Fallon

Trojan Condoms Selling for \$755 a Box in Venezuela!

DailyFinance

Is Katy Perry the New Kim Kardashian in Mobile Gaming?

Are Taco Bell, KFC and Pizza Hut Enough for Yum Brands?

The 7 Best Things to Buy in February

Money Is Stressing Out America - So What Can We Do?

Making Toys Isn't Fun for Mattel, LeapFrog. And for Hasbro?

SECTIONS

- Home
- Video
- Markets
- Industries
- Economy & Policy
- Investing
- Technology
- Personal Finance
- Business Leaders
- On Air
- Small Business

BROWSE

- Trending
- Stock Quotes
- Video
- Anchor & Reporters
- TV Show Schedule
- Tools
- Topics
- Mobile
- Apps & Downloads
- Alerts

SHOWS

- After the Bell
- Cavuto
- Closing Bell
- Imus in the Morning
- Kennedy
- Lou Dobbs Tonight
- Making Money
- Money with Melissa Francis
- Opening Bell
- Risk & Reward
- Stoszel
- Strange Inheritance
- The Centsables
- The Willis Report
- Varney & Company
- War Stories

ABOUT

- About Fox Business
- Channel Finder
- Advertise With Us
- Jobs at Fox Business
- Internships
- Terms of Use
- Privacy Statement
- Ad Choices
- FAQ
- Media Relations
- Closed Captioning Policy

FOLLOW

- Facebook
- Twitter
- Google+
- LinkedIn
- RSS
- Newsletters



Quotes delayed at least 15 minutes. Real-time quotes provided by BATS BZX Real-Time Price. Market Data provided by Interactive Data (Terms & Conditions). Powered and Implemented by Interactive Data Managed Solutions. Company fundamental data provided by Morningstar. Earnings estimates data provided by Zacks. Mutual fund and ETF data provided by Lipper. Economic data provided by Econoday. Dow Jones & Company Terms & Conditions.

This material may not be published, broadcast, rewritten, or redistributed. ©2015 FOX News Network, LLC. All rights reserved.