Episode #228: Reduce Risk and Earn a 35% Bonus on Your Retirement Nest Egg

Video Transcription

Hello, and welcome back to another episode of "Money Script Monday." My name is Adam Reyna, and I'd like to thank you for attending.

Before we get started, I wanted to ask you a question. Picture yourself getting buckled in on a flight, headed to San Diego from New York. You've got your favorite book, some good snacks, and you're ready to go. Then the pilot gets on the intercom and says, "Ladies and Gentlemen, thank you for flying with us. The weather in San Diego looks to be perfect, 70 degrees and sunny, and our flight should take about four hours or so.

However, due to some inclement weather through the planes, we only have about a 65% chance of arriving safely. Now, sit back, relax, and enjoy your flight."

65% chance. Question is, would you stay on that plane? Now, let's relate that to your retirement. If you only had a 65% chance of a successful retirement, would you be comfortable with that? A successful retirement is actually defined as getting to life expectancy before you run out of money.

Our goal here today is to show you how to take your retirement into your own hands and use an annuity to alleviate some uncertainty, all while earning a 35% bonus.

Today we're going to cover three things. First of all, we're going to talk about what an annuity is, how to get this limited 35% bonus, some current events that are causing uncertainty in the financial world, and number three, how the annuity functions versus leaving money in the market.

First, an annuity is simply an agreement with you and the insurance company. Annuities really are one of the best ways to safely generate income for retirement because they have a 0% floor, which means you'll never see your account value go down in a negative market.

Think of it like Social Security. You pay into it and when you're ready, you'll receive a stream of income as long as you or your spouse are alive. Now, the fun part. Right now one of our companies we work with is actually offering a 35% bonus. The good news is annuities work, whether or not your nest egg account value is up or it's down. If it's up, this is a perfect time to do what we call harvesting your gains.

You've done such a good job contributing to your retirement account and you've got some substantial gains in there. Now, let's lock in those gains and add another 35% bonus. Or, if you suffered some loss due to recent volatility in the market, then the 35% bonus is actually a great way for you to recoup those losses and get back to where you want to be.

Easy math tells us that if you have a million dollars, that's literally $350,000 as a bonus. Okay. Now that we covered the annuity bonus, let's talk about the current events that are causing some uncertainty.

First, we'll talk about inflation. The inflation rate this year is reported to be 7.5%, which is actually a 40-year high. The cost of goods and services has been increasing very rapidly due to the pent-up demand of buyers and the money supply is actually growing faster than production.

The question is, are you going to retire on a fixed-level income? Is Social Security cost of living enough? Luckily, the annuity mentioned above offers an increasing income that is meant to outpace inflation.

Next, let's talk about the rate hikes. Interest rates refer to the cost someone pays to use other people's money. Okay. The Fed is predicted to potentially have four interest rate hikes this year. The cost of money would go up, which would tighten spending across the board and affect earnings for certain companies. But the good news is this is hopefully going to cool down the red-hot inflation that we've been seeing.

Now, let's talk about debt. Debt in our country has actually reached $30 trillion for the first time ever and our debt to gross domestic product ratio is actually over 130%. That's a little alarming. $5 trillion of that debt alone has come from COVID thus far.

With as much debt that our country has right now, it has to get you thinking, what is going to happen to taxes? One thing to consider with the annuity that we mentioned above is a Roth conversion. Talk with your insurance agent and your tax advisor about the details of converting some of your tax-deferred money to Roth.

Next, let's talk about volatility. What are some factors that cause market volatility? The list, of course, does not include all of the sources of volatility, but let's talk about a few. There's an anticipated four interest rate hikes this year, which causes fear in investors. The cost of money goes up. Quarterly earnings reports from these large companies that are not always favorable can also cause volatility.

We have geopolitical uncertainty, and, of course, ongoing pandemic issues. What we want to talk about now is longevity, which is actually the risk multiplier. The average age of retirement for men is 65 and 62 for women. Studies show that a healthy 65-year-old has a 43% chance of living to age 90, and a female has a 54% chance.

It's not a question of if these scenarios mentioned above happen in retirement, it's how many times will they happen, and are you prepared, and have you reduced the risk in your portfolio to not be affected by a lot of these different changes in volatility?

With that said, we talked about what the annuity is, some of the causes of uncertainty. Now, what we want to do is look at this annuity and some alternatives where you could put those dollars in an alternative to the annuity.

What we compare is the annuity distributions versus a steady 6% return in the market, the last 20 years of the S&P, and an average 6% return except we're introducing an unfavorable sequence of returns. That means some negative returns right at the point when you retire.

This is a hypothetical scenario on a 55-year-old male who's going to move $300,000 and he's going to defer until age 65. He purchased the annuity at 55, he waited 10 years, let it accumulate and when he tells the insurance company he's ready for a stream of income at age 65, they turn on the income rider as we call it.

Now, what we want to do is compare those same distributions that the annuity is able to supply versus these other markets scenarios. The key point here is to see when these other accounts would run out of money.

If you notice, the suggested annuity has income as long as you're alive; you never run out of money. At age 85, you actually get over a million dollars of income, and then at age 95, it's at $2.3 million. If you see here, even with the steady 6% return, just 6% across the board, your account balance actually would have gone to 0 at age 80 if you took the same amount of income as you did from the annuity, so it cannot support.

The 6% return cannot support the same distributions as the annuity. You get a total of $695,000 of income when compared to the annuity, which is up over potentially $2 million. Then the last 20 years of the S&P, you actually run out of money at age 78. You only get about $555,000 worth of income compared to the annuity.

Finally, when you have those negative years to start in retirement, which takes your account balance down right at the beginning, actually has the biggest detriment to your distributions because you run out of money at age 76.

As you can see, the internal rate of return, which essentially means the amount of money you put in versus the amount that you get out, of course, is best on the annuity as well. As you run out of money sooner, your IRR goes down.

We talked about what the annuity is, how to get that 35% bonus. We talked about some sources of uncertainty and reasons you might want to take your retirement into your own hands, and we compared the annuity to different market conditions.

I hope you found this valuable and appreciate your time. Thank you.