Episode #257: How to Better Understand Annuities Using an Income Report

Video Transcription

Hello, everybody, and welcome to another episode of "Money Script Monday." My name is Michael Clemente, and first of all, I want to thank you for your time today.

Today, we're discussing how to better understand annuities using an income report. And, before I get started, I want to ask you a question.

How do you like to learn? What I mean by that is when you sit down with somebody and you're going over financial products, do you like to go through every section of the ledger, try and do the math in your head and figure out how everything works?

Or do you like more conceptual-based selling, actually, more of a storyboard concept to understand how the product is going to help you solve your problems? And that is exactly what the income report is going to do for annuities.

As a reminder, if you look below, the link will be right there for a sample so you can download and have it yourself. But we're going to discuss how it starts off with a storyboard.

It starts off with the risks. Now, there are so many retirement risks we can talk about. But really, there are four main ones you like to narrow it down. The first one is stock market volatility. Now, the date today is October 1st of 2022.

We're seeing a lot of volatility right now. Stocks are going down, and usually, when stocks are down, we have a safe haven to go to with the bond portfolios, but those are going down just as fast. So, with the

power of annuities, we get a 0% floor built into that, so the principle that you put into this annuity contract is completely protected from a volatile market.

The next risk we're protecting you from while using an annuity is inflation. We call this the stealth tax. If you have cash sitting in an account and it's doing nothing, it's getting eaten up by inflation right now.

So, when you're establishing a paycheck for your retirement accounts while using an annuity, you want to make sure you have some sort of step up each year and increase income to account for that inflation risk.

The next one is sequence-of-returns. As related to stock market volatility how reliable are you on a sequence-of-returns, a positive sequence-of-returns?

And, when you retire and you have some negatives at the beginning of the retirement plan, how does that affect your income in retirement? How does it affect you accessing that depreciating value of that asset, and how long can that income stream last for you?

The last risk we always talk about is longevity. Now, we call this the risk multiplier because the longer you live, the more subject you are to a volatile market, higher inflation rates, and more sequence-of-returns.

So, now that the risks have been established, you want to talk about the benefits of annuities. And I've talked about this before, but it is a safe accumulation.

When you put that premium into that A-rated insurance company, your principal is completely protected from any downturns in the market, so you can always walk away with what you put in the contract.

The cash value in the annuity contract does grow on a tax-deferred basis, so you're not paying any taxes right now while you're funding into the annuity contract.

And the main reason we use an annuity is guaranteed lifetime income. Think about an annuity as insurance for your income so that when you run out of the accumulation value, you see that cash bucket go down.

When you hit zero, the income rider kicks in. So, that way, no matter how long you live, you and your spouse, and your family can be taken care of with a guaranteed income source.

And lastly, I alluded to it before regarding inflation...you have access to increasing income, so that way, each year, it steps up as long as you don't get a negative return. Now, the report finishes off with some comparisons, so you're not looking at just a specific carrier product.

It's being looked at by the whole market and looking at the annuity versus three different brokerage scenarios, the first one being just a steady 6% return. Kind of look at this as your best-case scenario. An asset growing at 6% with a 1% advisor fee on that, and what does it look like when you grow that bucket?

It's 6% each year and acts as the same distribution that your fixed-indexed annuity does. How long does that brokerage scenario last? We're going to do that same comparison for the 6%, also going to compare it to the last 20 years of the S&P 500, and then the last scenario, which is the unfavorable 6%.

What if you retired right before a downturn in the market? You have a couple of bad years while accessing that depreciating asset. And using an apples-to-apples comparison, the same distributions that are taken from your fixed-indexed annuity, what does it look like versus those brokerage accounts, and what does it look like when you go to zero? Do you still have income coming out of it? Can you still live off that asset?

Most of the time, you'll see that you cannot. So, that's why you want to peel off some sort of amount of money from a qualified account or a non-qualified account and put it in that annuity because again, we want to guarantee that lifetime income. Now, I know there are so many

speculations on annuities out there, and they may not be the best for everybody, but I want you to think of this. Think of your why when you're accounting for your retirement plan.

The why should be you, the client. Not your kids. Not your grandkids or any part of your family because if you don't guarantee your income, guarantee that source all the way to life expectancy, when you run out of money, your kids and your grandkids and your family have to take care of you.

So, you want to take that future burden completely off the table to make for a better family. Now, lastly, again, I want to remind you, to look below at the link, and download that income report for yourself.

Get with your financial advisor and see if they can help you out with an annuity.

Again, my name is Michael Clemente, and I want to thank you for your time.