Episode #264: How to Address the Rising Cost of Living During Retirement

Video Transcription

Hello and welcome to another edition of "Money Script Monday." My name is Sean Brady and today's topic is how to address the rising cost of living during retirement.

Now, many retirees and pre-retirees are wondering whether they'll have enough assets during their retirement to support their lifestyle and address the rising cost of living during retirement, and they're not alone.

According to a 2021 market perception study, 72% of Americans are concerned that the rising cost of living is really going to impact their retirement plans. And I suspect if they were to add in 2022 data into that same study, that percentage would be even higher because of where inflation rates are at today.

Now let's take a look at inflation. Inflation erodes your buying power in retirement as necessities become more expensive. Now, this chart shows inflation of $20 since 1980.

So let's assume you're buying one bag of groceries for $20 in 1980. By 1990, just 10 years later, that same bag of groceries is going to cost you $31.72. And as inflation increases year after year after year, we fast forward to 2022, that one bag of groceries that we bought in 1980 for $20 now costs you $68.86.

Now, many Americans address this issue of inflation by just withdrawing 4% to 5% of their retirement assets, and then they're just going to increase that withdrawal amount by 3% each year to kind of offset the effects of inflation.

Unfortunately, by doing that, that ever-increasing withdrawal amount is going to represent an ever-increasing percentage of your retirement assets.

And unfortunately, in doing so, you're going to be faced with a real hard decision, especially if you live a long retirement. You're going to have to choose whether you're going to live off less income or run the risk, real risk, of running out of money entirely.

And that's where fixed index annuities come in. Fixed index annuities offer you that reliable, predictable income payment that's guaranteed.

Fixed index annuities offer you all those traditional benefits that are associated with fixed annuities, such as the ability to earn interest, principal protection, and any credited interest protection from market downturns, death benefits, income tax deferral, and a guaranteed lifetime income payment.

Now, not all income annuity benefits are the same. You know, some will offer you guaranteed lifetime income, but the amount of value that you receive could vary substantially depending on the annuity that you choose. And it's really important to just understand that going into this and when you're deciding which income solution is best for you.

Now, today I want to get into how I can show you fixed index annuities offer you that guaranteed lifetime income, but also increasing income. That increasing income that can protect you from inflation, and that's going to be increasing income on a declining asset.

So today I want to get into that hypothetical example of increasing income and how it works. We're going to take a look at this thick purple line first, and that's going to represent your annual guaranteed lifetime income withdrawal payment, and that's represented here.

We're also going to take a look at this thin purple line. This is going to represent your income withdrawal value representing that declining asset here, which also can represent your death benefit to your beneficiaries.

So, in this chart here, we're going to assume that your income withdrawal value is going to be $500,000, so that's how much you're going to be putting in. And we're also going to assume that the withdrawal percentage on that $500,000 is 5%. So 5% of $500,000 is $25,000 guaranteed for life.

Now let's fast forward to the end of contract year number one. Let's say the index of your choosing has a negative change, 3% change of where it was the year before. The only thing that's going to happen is that your income withdrawal value, that death benefit, is just going to be reduced by that $25,000 that we took out.

Your upcoming payment for the following year is going to be $25,000. That's guaranteed. Now, let's fast forward one more year to Year 2. Now we're going to see a 3% positive change in that index option that you chose. You're going to see a 3% increase in that income withdrawal value, but you're also going to see a 3% increase in your upcoming year's annual payment.

So that $25,000 is now guaranteed $25,750. Fast forward another year, another negative in upcoming income payment remains the same, 25,750.

Fast forward another year, a positive 3% change, your income's now increased to $26,000. Fast forward another year, another positive increase by 2%. Income's now $27,000. As your income increases each year, interest is credited to your policy and that's going to continue for your entire life.

Now, having guaranteed income is really important, can't stress that enough. But having guaranteed income with the potential to increase would be even better.

That's why I want you to contact your financial professional today so they can secure your income and make sure that your income is as strong tomorrow as it is today.

Thank you and we'll see you again next time on "Money Script Monday."