Episode #282: Accumulation vs. Guaranteed Lifetime Income

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

Today, we'll be going over two different strategies to grow and access your money in retirement. One, the accumulation-focused strategy, and, two, the guaranteed lifetime income strategy. With that being said, let's get started.

We'll start with the accumulation strategy, which most people are out there doing, and that's going to be the money manager accounts, maybe the 401(k) and IRA you started at your first career. This is your growth account. This is that money you want to build up over time so you're going to have a lump sum of capital when you reach your retirement age. At some point, it's going to be fully liquid. You're going to have access to all this cash that you've worked hard for, and you're going to start using it in retirement. And because of the time horizon you have, it's going to have a lot of higher rates of return on there.

You're going to get your really big swings and be able to hit those home runs and get those positive returns you've been looking for to build up that accumulation value. Now, with that being said, because you're able to get those big swings, this is fully tied to the stock market. So, with the upward trends, your accumulation value can be taken down just as quickly when we have a couple of bad years. And there is no guarantees on that money.

When you're accessing the income, you don't have any guarantees in place to make sure it's going to last a lifetime. So, you may want to think about possibly pivoting to another strategy, which is the lifetime income strategy. Now, there's a few different ways to categorize lifetime income.

One is Social Security. That's guaranteed lifetime payments directly from our government. Two, it's a pension plan. That's going to be the same strategy, and that's directly coming from your employer. And three, which is what we're talking about today, it's a fixed index annuity. So, using that lump sum of cash and putting it into an A-rated insurance carrier and guaranteeing those payments for the rest of your life. Now, again, this is going to be money that's protected from negative returns from the market.

That principal that you're transferring over to that insurance company, they're going to guarantee that for the rest of your life and make sure you don't lose any money if we're putting a 0% floor on there. Next, it's income for life, guaranteed. It's contractual guarantee. You're going to get paid out accordingly directly from the insurance carrier and no matter how long you live, that money will keep going all the way until life expectancy.

And this money is going to account for inflation. We see the rising cost of goods and services each year, and that income stream is going to account for that so you can keep up with your buying power in retirement. Now, these accounts typically aren't fully liquid. There's typically a 10% fee withdrawal aspect to them. But that money is going to be tied up with the insurance carrier.

But, again, we're using it for that peace of mind because we have that income stream coming in, no matter what the market does. This is also going to be your lower rates of return. It's going to be between that 3% to 5% growth with possibly enough from bonus and maybe some interest multipliers. It's not going to be those big home runs. But again, we're using it because the promise of the insurance carrier will continue those payments for the rest of your life.

Let's take a quick look at a quick example. A gentleman who's 62 years old has $800,000 in cash right now. He wants to start drawing the income at age 63, and we're going to take an initial withdrawal of $40,365. If we were to put that into an accumulation money market count, using the 20 years, the S&P 500 as our benchmark look-back, well, if we start drawing income each year, increasing to account for inflation, we'd have taken from 63 to 85 about $1.5 million dollars in income. That's a great deal.

You're in the green. You're above what you put in. So, that has a positive return on your money. If he lived till age 95, he would have had the same number. Well, that's because the account value actually went to 0 at age 82. We didn't make it to age 85 in this scenario. This client is actually going to need to start withdrawing from their other assets and start pulling to create another income stream to keep their standard of living in retirement.

Let's take a look at the numbers now if this client were to pivot that money into a fixed index annuity product. On a 10-year calendar look-back tied to an external index in the market, that money in the annuity goes from 63 to 85, creating $2.24 million of retirement income for this client. And then if they lived till 95, that money grows up to $5.3 million.

Now, if we look down here, the account value went to 0 by age 79. That means the client got their money back plus interest earned, and there's no money left in the account. But because we're using that fixed indexed annuity strategy, that money is going to continue for life for him and his spouse. Since he pivoted that mindset from growing and accumulating and leveraging the money into an annuity, he doesn't have to worry about any income or what the market does because they have the contractual guarantee.

So, if you are going back and forth on whether you are the accumulation-focused mindset, or if you're worried about possibly running out of money in retirement and you want to guarantee that principal, I recommend you meet with your financial advisor and ask how you can incorporate guaranteed lifetime income into your retirement plan right now.

My name is Michael Clementi. I want to thank you again for joining us, and we'll see you next week.