

Episode #323 – Why Should I Buy an Annuity?

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 attending today's episode. This episode is titled "Why Should I Buy an Annuity?" and if you're watching videos about annuities, you probably fall into three categories. First, you're probably approaching retirement, maybe three to five years away from it, on the horizon coming up. Two, you probably just retired, you're less than a year into retirement, and enjoying that new retirement lifestyle. Three, you've been retired for five or more years. No matter what category you fall in, I want to tell you congratulations because you've worked so hard to get to this beautiful lifestyle of enjoying retirement with your spouse and your family.

Before we get into why you should buy an annuity, it's important to see really how you got here. Think back to 30 years ago when you got your first career. You and your spouse are now working at your full-time jobs, probably making the most money you've made in your life compared to when you were working your hourly wage jobs. Each time you get paid you wanna save, you wanna build this nest egg each paycheck to save a little more for the future. When you started that job they may have had some benefits. Maybe your retirement benefit is like a 401K with a match involved there, so they're gonna help you get more money to build this nest egg. At some point you may open an IRA, an individual retirement account, so now you have a couple of pieces in this nest egg where you and your spouse are funding.

Fast forward three to five years later and these nest eggs are building. You're making a little more money so now, let's work with an investment advisor. Let's start putting money in the market, into some stocks and some equities. Fast forward three to five years later from there, this nest egg is growing and growing. Our lifestyles are looking a lot better, we're having the most money we've ever had in our lives. Let's buy a house, let's buy a

piece of property, which is also going to grow more and more in value which you can sell and make more money.

Fast forward even more now you're in your 40s and 50s. You have your house, you have these retirement plans, you have these nest eggs that have grown way more than you thought they would, and now retirement is about 5 to 10 years away.

Now we're here today. At this point, you, have lost the luxury of when you were young, which is what we call time. You don't have the time and place to really take those big risky swings that you did when you were young. When you were doing those retirement plans with 401K's, IRAs, and investments, you had the time to ride out the ups and the downs, you were able to swing back to your original position. If you're approaching retirement, about 5 to 10 years away, that luxury is unfortunately gone. Now we're in the phase of not riding the wave, but protecting what we have and that gets us to the annuity conversation.

There are so many articles and videos out there that talk about the good, the bad, and the ugly about annuities, but today we're going to talk about why you should buy it, and really the costs that are associated with most annuities, but also the benefits you get from it and how it could help your retirement.

There are really three main costs that are associated with purchasing an annuity. When you transfer a portion of that nest egg, the first thing that the insurance carrier is going to do is limit liquidity. Most of the time, you can get about 10% free withdrawals out of it, only 10% from the money you put into the annuity. The next thing is surrender charges. Meaning if you walk away a little bit too early, you may lose out on what you put in, so you want to make sure that this is a long-term play and you can't walk away too early. Next, there could be a fee associated with it, maybe about a 1% annual fee being taken from your accumulation value.

You may be looking at me saying "Michael, those are kind of bad. I don't like those types of costs," but there are benefits that come with this cost. These benefits are general really amongst every single annuity out there. Remember what I said before, we don't have the luxury of riding this wave and taking those big risky swings we did when we were 30 and 40, we want to protect what we have and guarantee it

The first benefit you get is you get a hedge against volatility. No matter what happens, if you see any negative dips in the market, or any index changes go below 0, your principal is protected. That money that you gave to the insurance carrier, we'll put a hedge against any volatility that's number one. Number two, there's guaranteed growth. There are fixed guaranteed accounts inside these annuities and they're safe index options to guarantee growth inside this product and put a hedge against inflation to account for a step up each year.

Number three, if you're worried about income you wanna create a personal pension or Social Security-like payment that you and your spouse could never outlive their annuities. There are annuities out there with income riders that'll pay out exactly what you put in, plus interest. Then, when that money does get paid out to you and your account value is at 0, the insurance carrier is going to pay you and your spouse for the rest of your life, no matter what. You can live until 100, 105, or 110, this money gets paid to you no matter what.

When you're looking at your retirement plan, and you're looking at the risk you're taking on, if you don't feel comfortable with that much risk, you may want to talk to your advisor about moving a portion of this retirement nest egg that you and your spouse worked so hard to build and put it inside annuity to get all those great benefits we talked about today. Again, my name is Michael Clementi I want to thank you for attending today's episode and we'll see you next week.