The 4% rule or **a fixed index annuity (FIA) with a guaranteed income rider?**

Seeking guarantees and opportunity amid market volatility

When it comes to retirement planning, most of us have a simple goal: We want our money to last while living comfortably.

If you're wondering whether you'll have enough assets to make this goal a reality, you're not alone. According to The Allianz ***Reclaiming the Future*** Study, 50% of baby boomers surveyed were "extremely concerned" about possibly outliving their income.

Some people try to address this common concern by using the **"4% rule."** A generally accepted rule of thumb in planning for retirement income is to initially withdraw no more than 4% of an asset in retirement, and then increase the withdrawn amount by 3% each year to help offset the effects of inflation.[1]

Even though many believe that the 4% rule provides a strong likelihood for retirement assets to last 30 or more years, this approach doesn't provide any guarantee. In fact, recent analysis has shown that this approach has an 18% probability of failure within the first 30 years of retirement due to historic market volatility and longer life expectancies.[2] In other words, 18 out of 100 people could run out of money in retirement utilizing the 4% rule.

Fortunately, there are ways of addressing the effects of market volatility and adding a level of certainty for your retirement assets, income, and retirement.

Bonus annuities may include higher surrender charges, longer surrender charge periods, lower interest rates, lower caps, higher spreads, or other restrictions that are not included in similar annuities that don't offer a bonus feature.

[1]Somnath Basu, "Mistiming Retirement," *Financial Advisor*, February 2011, p. 32.

[2]Manoj Athavale, Ph.D. and Joseph M. Groebel, Ph.D., "A Safer Safe Withdrawal Rate Using Various Return Distributions," *Journal of Financial Planning*, July 2011.

Rethinking the traditional retirement income strategy

Many pre-retirees are experiencing a major shift from accumulation of assets to retirement income planning. For these individuals, the difference between a more secure future and more uncertain one is the success of their retirement income strategies.

Let's consider John, a hypothetical 60-year-old, who has worked hard to save money for his retirement that begins five years from now (age 65). He and his financial professional have been meeting regularly to plan for his transition to the income phase of retirement. After reviewing his estimated expenses and guaranteed sources of income (i.e., annual Social Security and/or pension income) in retirement, it was determined that John would need an additional $10,000 annually to support his spending.

John's financial professional suggests two potential approaches that he could use to help meet his financial objective of creating a reliable source of income that produces an additional $10,000 annually throughout his life, starting at age 65.

APPROACH 1: 4% rule

This traditional approach would require $250,000 of his retirement assets to generate the desired income of $10,000 ($250,000 x 4% =$10,000).

Why the 4% rule?

Utilizing the 4% rule, depending on the types of assets John has, may offer more liquidity or access and potentially more opportunity for gains than a fixed index annuity (FIA). It's important to note that different financial products may be taxed at different rates. However, John's assets are not protected from longevity risk – the risk of outliving his income – and are often also not protected from market loss. As we have highlighted, this approach has an 18% probability that the money will run out within the first 30 years of retirement.

APPROACH 2: The fixed index income rider

John's financial professional suggested an FIA because it offers principal protection, the potential for tax-deferred growth, and a benefit for John's beneficiaries. Also, because John is interested in building a strong foundation for retirement income that he would like guaranteed for the rest of his life. Assuming that John purchases a fixed index annuity with an income rider at age 60 and waits five years before starting income withdrawals, this new approach would require $123,340 in purchase payment (premium) of his retirement assets to generate the desired income at age 65.[1]

[1]For this example, the rider credits 10% simple interest for 5 years.

Guarantees are backed by the financial strength and claims-paying ability of the life insurance company.

APPROACH 2: The fixed index income rider (continued)

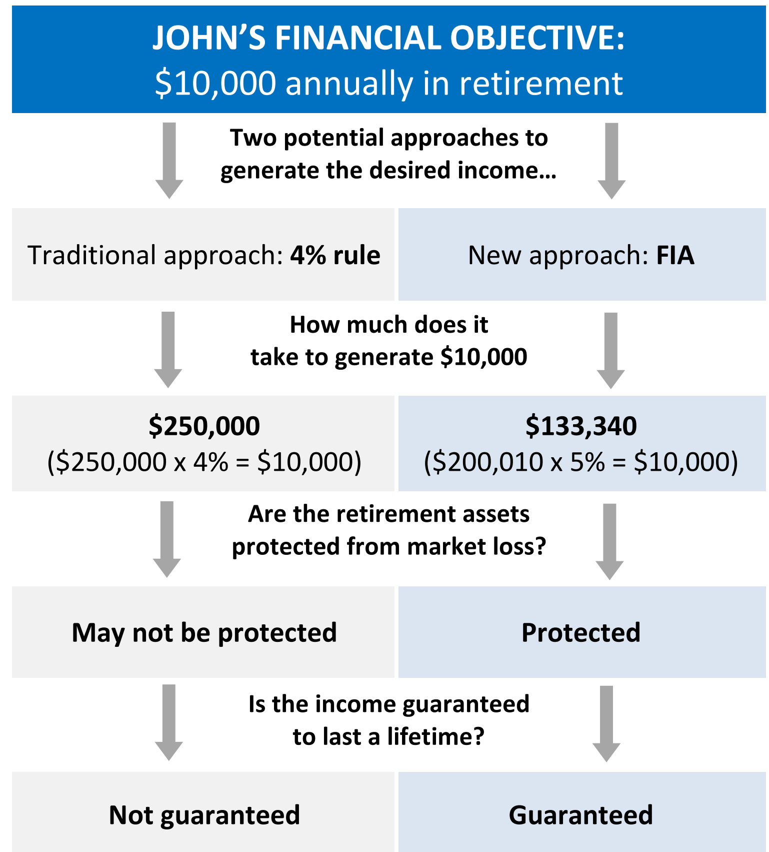
Why the FIA and the income rider?

Less money is needed. As you can see, this approach requires less in assets than the 4% rule to guarantee the same desired income of $10,000. The reason for this is due to the income rider's increasing value, which would have increased from $133,340 at age 60 to $200,010 at age 65 ($200,010 x 5% = $10,000).

Protection from market loss. Throughout the life of his contract, John has the reassurance of knowing that his $133,340 premium and potential credited interest is protected from market loss.

Guaranteed lifetime income. Regardless of market conditions, the FIA and income rider offer John guaranteed lifetime income that will never be less than $10,000. This amount is the minimum income for this example.

John's financial professional reminds him that with this approach there is a surrender charge if the contract is surrendered in the first 10 years. Surrender charges may result in the loss of all or part of any interest earned, and a partial loss of principal. In addition, because it's an FIA, and John's principal and credited interest are protected, there are caps or spreads that may reduce the credited interest he earns.



Any distributions from annuities are subject to ordinary income tax and, if taken prior to age 59½, a 10% federal additional tax.

These hypothetical examples are for illustrative purposes only, and are not intended to predict or project future results. Keep in mind that in some years a fixed index annuity may not credit any interest. In addition, hypothetical past interest credits may not be used to predict or project future results. Your actual results will vary by a number of factors, including the crediting method, cap, spread, and/or interest rates in effect.

In addition, always keep in mind that your needs may change. It's important to understand the balance between all the features available with any annuity. Always consider each of these and how they work when considering if a product is appropriate for your needs.