Comparing retirement income strategies

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Is guaranteed income both an **emotional** *and* a **rational** choice?

Deciding how to turn a lifetime of savings into a retirement income is one of the more complex decisions people make. Managing market risks, tax considerations and general uncertainty are part of why many people choose an annuity option that provides guaranteed lifetime income.

While having guaranteed income can offer reassurance, does it come at a cost? When you compare the options available for creating retirement income, which is more cost efficient?

Compare the options

In this hypothetical example, a 62-year-old couple wants to retire at age 67 and needs $25,000 a year to supplement Social Security. How much would it cost in terms of assets committed today to produce $25,000 of income beginning in 5 years? To generate the $25,000, they compare a risk-based approach to a guaranteed approach.

Current assets needed to produce $25,000 annually beginning in 5 years

Guaranteed approach

- Athene Ascent Pro 10 Bonus fixed indexed annuity
- Purchased at age 62
- Income starts at age 67, covering two lives

Risk-based approach

- 4% withdrawal from portfolio of 60% stocks/40% bonds
- Assumes growth of 8.4% annually

60/40 Portfolio consists of 60% large cap US equities as represented by the Vanguard Total Stock Market ETF (VTI), and 40% US Bonds as represented by the Vanguard Total Bond Market (BND), which returned an average of 8.4% over the 30 years ended 5/31/24.
Source: lazyportfolioetf.com/allocation/stocks-bonds-60-40/

This hypothetical example is for informational purposes only and is not indicative of past, nor intended to predict, future performance of any specific annuity product or interest crediting method.

Results

Guaranteed approach

The cost for $25,000 of annual income beginning in five years and covering two 67-year-olds for life is $282,805 today if the 62-year-old couple purchases Athene Ascent Pro 10 Bonus. This outcome is guaranteed regardless of market conditions at any time.

Risk-based approach

If the couple instead pursued a conventional risk-based approach, leaving their portfolio as is split 60%/40% between stocks and bonds, they'll need $417,574 today growing at the 60/40 long term average annual growth rate of 8.4% to get to $625,000 in five years. If that happens, their $625,000 portfolio will produce an initial $25,000 if they take an initial 4% withdrawal.

What could you do with the $134,768 difference?

Are there other retirement goals you want to plan for? Does it make sense to increase the amount of annual income you'd receive and potentially have a death benefit from your annuity? Or would you direct these funds toward a different option? Talk with your financial professional and see what both the confidence and cost efficiency of guaranteed income could mean for you.

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Withdrawals and surrender of taxable amounts are subject to ordinary income tax, and except under certain circumstances, will be subject to an IRS penalty if taken prior to age 59½.

Guarantees provided by annuities are subject to the financial strength and claims paying ability of the issuing insurance company.

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