

BUILD YOUR PRACTICE WITH THE “LIFETIME INCOME CONVERSATION”

The Alliance for Lifetime Income notes that there is a significant demand from individuals for protected income, but financial professionals continue to underestimate the intensity of consumer interest. Are you discussing the features of annuities with your clients?

Predictable income that covers essential expenses may improve retiree spending confidence. And that may lead to desirable retirement income outcomes. The Setting Every Community Up for Retirement Enhancement (SECURE) Act requires 401(k) plans to provide [an annual Lifetime Income Disclosure to each plan participant](#).

The disclosure illustrates what the participant's current account balance will provide in both single and joint lifetime income streams. This information represents a unique opportunity for financial professionals to start the lifetime income conversation.

Future Lifetime Income Creation Is Part of Saving

The accumulation years are about building a nest egg to produce income in retirement. This nest egg may benefit from including a plan to create lifetime income as well. While most retirees receive Social Security retirement benefits, many may need additional lifetime income to help ensure that their essential expenses are covered.

Planning for lifetime income during the savings years may allow for choices in lifestyle when the retiree starts his or her income stream. Benefits include addressing the gap between what Social Security benefits will provide and essential expenses.

The Lifetime Income Conversation Is Critical

One of the challenging aspects of retirement income planning is to help clients understand the income value of their current or future nest eggs. A \$1,000,000 nest egg may cause a retiree to feel “rich.” But at a 4% withdrawal rate, \$1,000,000 produces only \$40,000 per year. If the value of the account drops, the dollar amount of the 4% distribution drops as well.

Using the Lifetime Income Disclosure to Plan

The Lifetime Income Disclosure offers a once-a-year reason to review the lifetime income value of an account; that is, the amount of sustainable lifetime income the dollar amount might produce. The statement shows how much lifetime income the account will produce for an individual or couple at 67 years old. A financial professional can review the statement with the client, helping the client appreciate the dollar amount needed to support his or her desired retirement lifestyle. This is also a good time to determine if additional savings are required, including additional lifetime income.

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Annuities Can Offer a Solution for Clients Who Need Additional Lifetime Income

Annuities provide several ways to offer lifetime income for those clients who need a source of supplemental income to help cover their essential expenses in retirement.

- **Single-premium immediate annuity (SPIA).** A SPIA provides immediate guaranteed income, usually from monthly payments. A SPIA income stream can be for life, joint life, a period of years, or a combination of the two.
- **Deferred income annuity (DIA).** A DIA provides guaranteed income after a specific period of years. The retiree pays a premium today for income he or she will withdraw at a future point, typically between two and thirty years from the purchase date. A DIA may require less capital than other options as it benefits from mortality credits.
- **Fixed indexed annuity (FIA) with an income benefit.** For a more conservative client, a FIA with an optional income benefit, available for an additional cost, can offer lifetime income with flexibility. The FIA income benefit allows systematic withdrawals up to a cap, often 5% of the initial premium. As a withdrawal benefit, the annual payment could be reduced or stopped depending on the circumstances, allowing clients to control the timing of income recognition on the account thus when they pay taxes on that money. The remaining lump sum would be available if income is no longer needed.

- **Variable annuity (VA) with an income benefit.**

For a client who wants both flexibility and access to the markets, a tax-deferred VA with an optional income benefit, available for an additional cost, may be a solution for certain clients.

What might be a good option for a particular client will depend on that client's circumstances. For more information on planning with annuities, visit [Pacific Life's Insights website](#).

The SECURE Act created the Lifetime Income Disclosure to help 401(k) plan participants better understand the income value of their plan account. Financial professionals have a deeper understanding of how and when additional lifetime income can be beneficial. Reach out to clients (and prospects) today and have the income conversation!

Additional Resources and Links

[Choosing Assets to Annuitize](#)

[Factoring Household Expenses into Clients' Retirement Plans](#)

[Understanding the Role of Protected Income in a Flooring Strategy](#)

For more information about retirement planning,
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