

CHOOSING ASSETS TO ANNUITIZE

Annuitization can be one of the most efficient paths to a secure retirement, yet very few people take advantage of it. It is a phenomenon that economists have termed “the annuity puzzle.”

There is much economic and behavioral finance research that focuses on why investors seem to have aversions to annuitization. Generally, it seems they are uninformed about what constitutes risk within their own finances. Though annuity streams can remove significant risks (longevity risk, market rate risk, interest rate risk, reinvestment risk, etc.) from their portfolios, many individuals still see annuitization as inherently risky—a gamble on their own longevity.

What if it was simpler than that? What if people simply don't know how to annuitize or which assets to use for annuitization? In this article, we'll explore options that may help individuals remove some of the fatigue associated with making major financial decisions and, in the process, contemplating their own mortality—or longevity, to be precise.

Qualified or Nonqualified Assets

The location of the assets in question shouldn't make a big difference; it is the availability of those assets for use that matters most. Note, however, that nonqualified assets offer the added benefit of exclusion ratio taxation. This means that a significant amount of each payment can be tax free until the basis payment is recovered at life expectancy. This could mean that, with less of the initial payments subject to tax, a smaller overall payment may be required.

Cash in Low Interest-Bearing accounts

This asset can be ideal particularly in the realm of nonqualified annuities for the exclusion ratio tax benefit. However, even tax-qualified dollars can provide what is most important: A consistent lifetime income stream. More specifically, one that requires less capital to produce the same income that a fixed income portfolio could provide. This can help in two ways: First, it provides an income floor that covers the client's basic needs. Second, it frees up capital for additional investments or meaningful spending on vacations, family, and charitable causes.

Existing Annuities or Partial 1035

These are a natural step, as they exist within vehicles that already have built-in annuitization tables. If it is an older annuity on an older life expectancy table, the guaranteed payouts may be better than what is available at current rates. Financial professionals may want to review older contracts they manage and get the guaranteed annuitization rates while simultaneously shopping current market rates when planning for clients.

In the end, an annuitized position can better help clients manage their longevity risk by providing a floor of income that remains constant over their retirement years.

Additional Resources and Links

[Retirement Planning Blogs](#)

[Retirement Income Strategies](#)

[The Annuity Puzzle: What Is It & Why Should You Care? By Elaine Silverstrini](#)

For more information about retirement planning,
please contact our Retirement Strategies Group at
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2 of 2



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