

## DELAY SOCIAL SECURITY ... AND BUY AN ANNUITY?

*A look at a provocative GAO report*  
Presented by Avanti Wealth Management

### A strong statement.

In June 2011, the Government Accountability Office (an arm of Congress) published a thought-provoking report on the topic of retirement income. The GAO surveyed financial “experts” and came to two recommendations in its analysis, titled *Ensuring Income throughout Retirement Requires Difficult Choices*:

- Most Americans should put off taking Social Security benefits until they hit full retirement age.
- To address lifetime income needs, middle-income retirees should invest some of their savings in an immediate annuity\* (or alternately, choose a gradual payout option offered in a pension plan instead of a lump sum).<sup>1</sup>

Few would reject the first recommendation - after all, the longer you wait to take Social Security, the greater the benefits received. However, some might disagree with the second suggestion.

### A lively discussion.

Some retirees certainly will face an income crisis. Historic inflation averages communicate that if you need \$50,000 per year at age 40, you may require more than \$100,000 per year to live on when you turn 65. So is an immediate annuity a kind of magic bullet for the middle-income retiree?<sup>2</sup>

The money could certainly help. The GAO report offered a hypothetical example: if a 66-year-old couple purchases an immediate annuity contract for \$95,500, the resulting cash flow may amount to as much as \$4,262 per year until the death of the surviving spouse, with potential adjustments for inflation.<sup>3</sup>

### Retirees & their advisors have reasons to dislike annuities.

They come with a commitment: when you buy either an immediate fixed annuity or an immediate variable annuity\*\*, you are tying up your retirement capital in that annuity contract, quite possibly for decades. You can get your money out of stocks and funds with relative ease.

Stocks and funds may also offer you better potential. As MSNBC columnist Liz Weston told Bloomberg: “The problem right now is interest rates are so low, you’re not getting a great return for that chunk of cash you’re handing the insurance company.”<sup>3</sup>

While mutual funds have their detractors, they don’t carry the contract-related charges common to annuities. Investment returns from any kind of variable annuity will fluctuate, and the assets involved are still subject to market risk and loss of principal. A variable annuity does offer a death benefit, but the “guarantee” of that payout is based solely on the claim-paying ability of the insurer offering the annuity.

In case you wondered, income payments from a non-qualified annuity are partly taxable. Lump-sum withdrawals from a non-qualified annuity are fully taxable.<sup>4</sup>

### The GAO didn't recommend annuities to everyone.

Its report went so far as to make recommendations for five actual (yet anonymously selected) retiree households, reflecting the opinions of the mysterious aforementioned "experts".

- Household #1, single individual, \$2,000 net worth: keep accumulating assets, delay taking Social Security as long as possible.
- Household #2, married couple, \$349,000 net worth, 401(k) plan: buy an income annuity, delay taking Social Security, continue accumulating assets, avoid taking a lump sum from the 401(k).
- Household #3, married couple, \$373,000 net worth, traditional pension plan: choose annuity option for the pension payout, also buy an immediate annuity, delay taking Social Security, and continue accumulating assets.
- Household #4, married couple, \$1,597,000 net worth, traditional pension plan, "significant" retirement savings: choose annuity option for the pension payout, delay taking Social Security, gradually spend down accumulated retirement assets.
- Household #5, married couple, \$1,518,000 net worth with "substantial" home equity in addition to pension plan and 401(k) assets: liquidate real estate holdings, choose annuity option for the pension payout, delay taking Social Security (unless a spouse is in poor health), gradually spend down accumulated retirement assets.

The GAO's calculations of net worth included home equity.<sup>5</sup>

### So who exactly were these "experts" the GAO consulted?

We don't know. The report doesn't really identify or enumerate them. They represented a "sample of a range of financial planners and other financial experts from different academic and industry organizations and a retiree interest group." (A footnote says that "our selection of experts did not provide a statistically representative sample of all financial experts.") The "experts" made their collective and individual recommendations based on "financial profiles of five actual near-retirement households" compiled in 2008 via a University of Michigan survey.<sup>1</sup>

### How do you think you'll do when it comes to retirement income?

You've planned and saved thoughtfully for the future; before tomorrow arrives, it may be wise to run the potential numbers again and see if you have enough or if adjustments need to be made. You may have more possible income sources than you realize.



110 Crown Oak Centre Drive • Longwood, Florida 32750 • p 407.331.7330 • f 407.331.0875

Avanti Wealth Management, LLC • Registered Investment Advisor

Securities and Investment Advisory through G.A. Repple & Company, Registered Broker Dealer, Registered Investment Advisor, Member FINRA & SIPC

*\*A potential annuity investor should consider investment objectives, risks and charges, and expenses of variable annuities and their underlying subaccounts. They are offered only by a prospectus. The prospectuses for these products contain this and other information about the investment company, and can be obtained from your financial advisor. Please read the prospectuses carefully before deciding whether to invest.*

*\*\*Variable annuities are not deposits or other obligations and are not guaranteed by any bank or credit union and are not insured by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Association (NCUA) or any other federal entity. Variable annuities may lose value and are subject to investment risk, including the possible loss of the principal amount invested. The investment return and principal value of the variable investment options will fluctuate so that the value of the investor's unit when redeemed may be worth more or less than its original cost. Investment return is not guaranteed and subject to market risk. Withdrawals are subject to ordinary income tax and may incur a withdrawal charge. In addition, withdrawals made prior to age 59½ may be subject to a 10% IRS tax penalty.*

This material was prepared by MarketingLibrary.Net Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty.

#### Citations.

- 1 - [gao.gov/new.items/d11400.pdf](http://gao.gov/new.items/d11400.pdf) [6/11]
- 1 - [gao.gov/new.items/d11400.pdf](http://gao.gov/new.items/d11400.pdf) [6/11]
- 2 - [montoyaregistry.com/Financial-Market.aspx?financial-market=will-you-have-an-adequate-retirement-cash-flow&category=3](http://montoyaregistry.com/Financial-Market.aspx?financial-market=will-you-have-an-adequate-retirement-cash-flow&category=3) [9/7/11]
- 3 - [businessweek.com/news/2011-07-01/retirees-should-delay-social-security-add-annuity-gao-says.html](http://businessweek.com/news/2011-07-01/retirees-should-delay-social-security-add-annuity-gao-says.html) [7/1/11]
- 4 - [edwardjones.com/en\\_US/products/investments/annuities/annuities\\_tax/index.html](http://edwardjones.com/en_US/products/investments/annuities/annuities_tax/index.html) [9/13/11]
- 5 - [moneywatch.bnet.com/retirement-planning/blog/money-life/retirement-income-what-do-the-experts-recommend/4485/](http://moneywatch.bnet.com/retirement-planning/blog/money-life/retirement-income-what-do-the-experts-recommend/4485/) [7/7/11]