NEW RETIREMENT FORMULA

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A new way of thinking about how much money you'll need in retirement.

How will you cover your expenses when you're no longer receiving a paycheck? And how much money will you need in retirement? Those are questions that most retirees – and those approaching retirement—struggle to answer.

With fewer Americans today having pensions or other sources of protected lifetime income, more of us will rely on savings to supplement our monthly Social Security payments. However, Social Security typically accounts for only up to 40% to 50% of the monthly income retirees need, and that can leave a gap that often requires you to tap into a substantial portion of your savings to make up the difference. And with Americans living longer than ever before, many retirees are concerned about making their money last.

One solution is to think differently about the income you'll need in retirement. Calculating your income on a monthly basis (versus annually or over a longer period) can provide you with a better gauge of what to expect in retirement.

Looking at your retirement income from a monthly perspective gives you a more realistic idea of what your income will be and whether that will be enough to cover your expected expenses. It's easier to estimate your monthly expenses and then compare that to what you can generate in income – your Social Security + pension (if you have one) + savings.

If there's a gap between what you expect you'll need and your income, then you need to decide how to cover that.

One way to supplement social security and pension income is by converting savings into protected lifetime income through an annuity. An annuity is simply a contract between you and an insurance company where you contribute money up front then receive payments over a period of time. You can receive those payments a variety of ways, including through an income stream that lasts your whole life.

Like many investment products, annuities continue to evolve to meet the needs of today's retirees, providing options that can let you leave a legacy to your family, or allow you to make withdrawals as needed. There are even options that allow you to participate in a portion of the potential growth in the stock market without risk of losing your principal, which can be valuable in today's high-volatility market environment. Talk to your financial professional about what options might work for you.

One advantage of investing in an annuity is that it may be able to generate more income per dollar in retirement than you would receive if you followed a 4% per year systematic withdrawal from your investments, an approach that is referenced in many retirement planning articles. Purchasing an annuity can provide you with additional dollars for monthly expenses, or allow you to do more in retirement.

If you're already retired, then calculating your monthly income and expenses is an important part of understanding where you are, and having the confidence that your money will last for as long as you need it.

But generally speaking, the earlier you can start planning the better. So if you're five to 10 years away from retiring, you can track your progress and know whether you need to "catch up" by saving more during your final working years. If you do, an annuity may be able to help, allowing you to protect and grow your savings or income at a time when you might typically be moving your money into less-risky investments.

Annuities may also be available within qualified plans, such as 401(k) or 403(b).* The accumulation of savings in an annuity during working years creates the potential to have protected lifetime income ready at the point of retirement. Talk to your plan administrator about your options.

Funding your retirement doesn't need to be a "wait and worry" process. Work with your financial professional to determine what your monthly income and expenses will be and if the protected lifetime income from an annuity might help you relax and get more enjoyment from retirement.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company.

Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½.

Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

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