GUARANTEED INCOME VEHICLE OVERLOOKED

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"I don't want to run out of income before I run out of life." That's the number one fear of retired Americans, observes Duke University Sociology Professor Linda George, Ph.D.,

Future financial well-being is their single biggest concern.

Their fears may be founded. A 1998 Warashawsky and Ameriks study assessed the American public's preparedness for retirement. The study concluded that 52 percent of households will fail to fully finance their retirement. That means they will run out of financial assets at some point after they leave the workforce.

Most retirees relied upon company pension plans, government entitlement programs and some personal savings to fund their retirements. Many may not have saved enough or protected what they saved for long-term retirement's demands.

An existing investment vehicle that can convert their savings into a sustained stream of income for life likely sounds dubious, confusing or amusing, but the concept and promise of an annuity are none of the above.

An annuity is, for lack of a better term, longevity insurance. It does exactly what it says – it delivers a guaranteed stream of income for life. Yet it may be the most overlooked and under-appreciated means available to convert lifelong savings into retirement income.

Maybe that's because annuities don't create wealth, and most retirement saving rhetoric focuses on generating wealth. While that is a prudent goal early in the retirement savings cycle, retirees or people nearing retirement age need to switch their focus to wealth preservation and lifelong income. Annuities are the kinds of vehicles that can help them do that.

America's "greatest generation" – the often-analyzed Baby Boomers – are about to enter retirement knowing that they are likely to live longer than their parents and grandparents without the pension plans and Social Security benefits that sustained previous generations. They're the first to have been faced with building and protecting a mostly private retirement savings. Annuities can be their income insurance policy.

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The Wharton School of Business' Pension Research Council has put a great deal of research into annuitization and found good reason to support it. A new Council study cautions middle-income investors approaching retirement age not to overlook annuities.

People don't buy annuities to get wealthy, the Council study reminds us. They buy them to protect their existing wealth. "Mutual funds do not protect against longevity risk," Council member and Wharton Professor Olivia S. Mitchell advises. "An annuity makes sure you don't run out of money in your 80s or beyond."

Despite their obvious benefits, the Life Insurance Marketing Research Association found that only 1.5 million individual annuity policies, covering 2.3 million lives, were paying out benefits as of 1999. That's a frightening figure when you consider the fact that there are nearly 70 million Americans at or nearing retirement age.

Part of the problem is that most are unaware of annuitization as an option. A consumer study by The Diversified Services Group (DSG) found what it called "a severe lack of knowledge" about annuities, particularly among those age 60 and older and notably among women. It suggested "a need for more education among consumers about annuitization and retirement income issues."

Annuities are available for a variety of needs with an array of advantages.

- They can provide a fixed or variable return on investment. An investor's acceptable level of risk will resolve whether one or the other – or a combination of the two – is the best choice.

- Annuities have flexible funding options. Annuitants can purchase their annuities with a lump-sum payment or over time. The benefits are variable, too. Some annuities offer are designed to begin paying out income as soon as the premium is paid, while others allow income to be deferred to an agreed-upon time—usually at or near retirement.

- They present some significant tax advantages, the biggest of which is tax-deferred build-up of your investment. The longer you are able to defer taxes on your investment, the greater its growth potential. That means the investment's value could be markedly greater before it becomes a taxable source of retirement income.

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- Annuities can protect against the effects of inflation as well. Purchasing an inflation-indexed annuity ensures payments from your retirement savings will keep pace with the rate of inflation.

The one thing all annuities have in common, though, is their ability to provide a lifetime stream of income.

It seems the Bush Administration's tax program will put more tax dollars, more control and more accountability in the hands of individual Americans at the same time we're taking on more risk and responsibility in our personal retirement planning. Recent rumblings in the stock market suggest prudent plans to protect assets and ensure income will prove wise in the years to come. Annuities should play a growing role in that planning.

Americans approaching retirement age should spend some time reviewing their personal retirement plans and consider the advantages annuities can deliver. Purchasing an annuity or converting existing investments into annuities may be a way to ensure a lifetime of income beginning today or at retirement. For those who already have retired and are concerned about guaranteeing themselves a regular income for the rest of their lives, annuities may be an appropriate choice.

Wise decisions often depend on good advice. The same is true of annuities. A qualified financial advisor is the best source for answers to questions about annuities and expert counsel on long-term retirement planning.

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