

Retirement Income Strategy – Personal Pension Plan

Let's talk about the perfect retirement, shall we? Receiving a guaranteed fixed check every month without having to work sounds like the perfect retirement, doesn't it? This is what people with pensions believe. We know what you're thinking: yeah, that sounds great, but pensions don't really exist anymore! Unfortunately, you are correct; they don't, and a city, state or company that could have financial problems often backs those that do, and may not meet its future obligations (*think Enron, WorldCom, Arthur Anderson and almost any state*). Pre-retirees, such as yourself, are expected to 'do it themselves,' as many say. So what is a person to do? You need to build your own 'personal pension plan.' One that is flexible and tailored to personally fit your plan. We think this is better than the traditional pension, and we are going to tell you why.

Few things in life are guaranteed. When it comes to money, even fewer. We pride ourselves in helping to find areas to store and grow money in a safe manner. Just as important as growing your money is making sure that this same money never goes down in value. Protecting assets from loss is often more beneficial than trying to grow them, and creating reasonable growth (without loss) and generating a lifetime income stream, is what you need if you are aiming for the perfect retirement.

When one receives guarantees that money can't be lost, they are normally required to give up a couple of things; often it is rate of return and liquidity. Liquidity is not an issue when the money is destined to be used later in life, like retirement funds. Rate of return is another issue altogether. No one wants to give up a decent rate of return on his or her long-term money. If you could get a decent rate of return, say a guaranteed 6.25% or 6.5%* compounded annually (decent is subjective when it comes to return, but we believe that 6.25% or 6.5%* for up to 20 years meets this criteria given the recent volatile market), you should be willing to give up some short-term liquidity.

You can even use your IRA funds, and probably should since they already have liquidity constraints. If you knew you could get a guaranteed 6.25% to 6.5%* compounded annual return for the next 20 years, and knew that you could generate a guaranteed lifetime income stream from that money, how much of your retirement money would you want in this vehicle?

As you have witnessed in recent years, a lot more bad has been occurring in the market than good, and the market's growth has been pretty much flat for the last 10-13 years. Well, the people that had way too much faith in the market and believed it was going to continue rising (the late 90s may never come back) have been stuck, and they have been withdrawing from their 401ks and IRAs. Their principal is shrinking; *every time the market goes down and they withdraw money out of those assets, it's diminishing even faster*. While no one knows what is going to happen in the future with the market, can you afford to have all of your retirement money at risk?

What's happening is going to continue happening because there are 10,000 baby boomers retiring every day¹, and there's such a huge amount of money coming out of the market

¹ 10,000 Boomers to Retire Each Day for 19 years

because of it. People want and need income. More importantly, people want to have the same purchasing power in 20 years, that they have now, to ensure that they can continue to afford things such as medical and travel costs, gasoline, food, to name a few. So, the subject of inflation is a big thing in their minds at this moment in time. This should create a question in your mind; “what should I do?” Buy yourself a **fixed index annuity and use it like a ‘personal pension plan’**. By doing this, you are **ensuring yourself income for life**. This is how you guarantee yourself a confident and comfortable lifestyle in retirement that you seek, a retirement of not outliving your money. There is always a need for income and there is always a need for protection of principal. The shorthand version: **Protection + Income = Fixed Index Annuity**.

Annuities are another insurance product that has been completely misunderstood. There are many misconceptions floating around about them. I agree that the quantity of annuities and the amount of misinformation can be somewhat mind boggling, but when you spend the time we have understanding them they start to make complete sense. They also solve two critical financial planning problems - how to eliminate market volatility (risk of losses) and how to insure that you won't run out of money.

It seems we use insurance to protect us from all kinds of other risk. We insure our cars, our homes, our health, and hopefully our ability to create income (life insurance), so why shouldn't we insure our retirement income? We should, but we often don't know how to do it. These new fixed index annuities with the guaranteed income riders (new since 2007) now offer all of the guarantees of traditional pension plans

Beginning in 2007, insurance companies began selling these fixed indexed annuities with the guaranteed income riders. How do these work? These annuities are linked to the stock market indexes (like the S&P 500, for instance), which allows for you to receive a percentage of the gains of the market, and lock those gains in each year, but at the same time provides protection of the principal so you never lose any of the assets. The worst-case scenario if you purchase an indexed annuity is, you might not gain in a given year, but you will never lose; if the markets crash, the asset will never lose value. But, if the market goes up, then you can have increased value.

You can't be guaranteed that the asset is going to grow, but you can be guaranteed that you won't lose your principal. With the income rider you can be guaranteed growth to be used for income (the 6.25% to 6.5% for up to 20 years). Also, when you're ready to turn on that income stream (*you get to decide when*), you receive income for life, so the possibility of outliving your money becomes impossible with this type of annuity. Even if you deplete your account down to zero, the insurance company** has to continue to pay you income for life. And you have an **exit strategy**; if you want to pull your money out, **you can pull your money out*****. If something happens to you, your heirs get the money. **You never lose control** of your money.

We must ask ourselves why we are saving money. Normally it is because we want to have enough assets at some point to generate income to live off of for the rest of our lives. I know when I was accumulating my assets I didn't think about how I was going to create income from them. Who knew that the market would erode my assets, instead of doubling them, right

<http://www.newsmax.com/newsfront/retirementcrisis/2010/12/27/id/381191>

before I needed them to start creating income? Who knew that the interest rate environment would be the lowest in history when I was ready to retire, and that you could safely generate less than \$10,000 a year from an asset of \$1 million (CD with no risk for the \$1 million)? I was expecting at least \$40K to \$50K. With these new annuities it is best to set them up 10,15 or 20 years before you have a need for the income, then you can protect yourself from this type of situation, and give yourself options should things change.

In conclusion, if you put \$250,000 today (age 50 – maybe in your IRA) into an FIA with the guaranteed income rider, you could get an income stream of \$43,425 for life starting at age 68 (19 years). That is a potential of \$868,500 in income if you live until age 88. Amounts will vary based on your age and amounts deposited. If you added this \$43,425 to your Social Security, which could be about \$50,000, you have a guaranteed \$93,000 a year in income. This should certainly provide enough to cover the basic living expenses. You can gamble, think market, with the remainder of your assets, which can be used to generate any additional discretionary income.

We can run you an spreadsheet based on your wants and desires for your own 'personal pension plan'. Give us a call so you can understand how this concept can be implemented and benefit your retirement financial plan.

Dan M. Maga & Dan M. Maga, II
American College Funding
Maga Financial Associates
444 Skokie Blvd – Ste 302
Wilmette, IL 60091
847-920-9680
www.americancollegefunding.net
www.magafinancial.com



**Rates are based on your age and may change, so check with us for current rates*

***Annuity guarantees rely on the financial strength and claims-paying ability of the issuing insurer. We always offer annuities from the strongest A rated companies.*

****Most annuities have a surrender period for the first 10 years of ownership; early withdrawal of more than 10% will deplete your principal by the amount of surrender charge still in force.*