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## **Income for Life? Sounds Good, but Do Your Homework**

Retirement Section

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What if I outlive my money? The fear of such a thing happening haunts many older Americans. So when a reputable company, New York Life Insurance, teams up with AARP to offer an investment with the absolute promise of lifetime income, it can sound like an answered prayer.

Indeed, the investment, an immediate annuity, may be ideal for some retirees, but financial advisers say it is not for everyone. Prospective buyers need to do some homework -- studying both their own finances and the annuities available in comparison with other investments.

After all, an immediate annuity is an investment for the rest of a person's life or a couple's lives, and it is not easily liquidated if either personal circumstances or financial markets change.

"If you live beyond your life expectancy, you win," said Avery E. Neumark, a partner in the New York accounting firm Rosen Seymour Shapss Martin & Company, who specializes in retirement planning. "If you die early, you lose and your heirs lose." The reason is that annuities, like life insurance, are based on pooling of risks and average life expectancies. Three trends have converged to make immediate annuities especially attractive to retirees: Americans' increased longevity, the decline of traditional defined benefit pension plans that make secure monthly payments and early -- thus longer -- retirements.

Larry C. Renfro, the president of AARP Financial, a subsidiary of AARP Services, said, "Mindful that they run the risk of outliving their assets without ongoing income, many AARP members have expressed interest in the potential of annuities to help fill their income gap."

According to the National Center for Health Statistics, an American's life expectancy at birth is 77.8 years, up from 69.7 years in 1960. Those who live until age 65 will on average live until age 83.7, up from 79.3 in 1960. As people age, their life expectancies increase, so a 75-year-old today can expect to live until age 86.9. Depending on their health, family history and genetics, some people can expect to live far longer than average.

In its basic form, an immediate annuity is bought with a single upfront payment; for the AARP Lifetime Income Program, that can be as little as \$5,000. Then the annuity holder receives monthly payments for life. The size of the payment depends on how much

money is invested, the investors' age and sex and whether the annuity is for an individual or a couple.

Buyers may also choose optional features, including inflation protection and a withdrawal benefit in an emergency. There are also various payment choices; under one, if the annuitant dies before receiving an amount equal to the initial premium, a beneficiary receives the difference. When optional features are added, the monthly payout is reduced. A 65-year-old man who buys a \$100,000 AARP- New York Life annuity can expect payments of 6.5 to 8 percent a year, or \$542 to \$667 a month, depending on the features chosen. At age 75, the payout rate would be 7 to 10 percent.

"Returns are very conservative, but you can sleep at night knowing this much is coming in," Mr. Neumark said. "It's reliable income and provides an opportunity for flexibility with your other investments. You can be in stocks with less worry when you have that secure monthly income stream."

Martha Priddy Patterson, a retirement expert and director of Deloitte Consulting in Washington, said, "In retirement we would feel more secure and happy if we knew that every month, X number of dollars will be rolling through the door." But, she said, "you wouldn't want to make that your only investment," for several reasons.

It is always good to diversify investments, she said, adding, "Inflation is my No. 1 fear, so I would want some TIPS," or Treasury inflation-protected securities. And, she said, annuities are relatively illiquid; surrender or unwind charges may be steep.

Among the other highly rated life insurance companies that offer immediate annuities are AIG, Genworth, Hartford, Integrity, John Hancock, Metropolitan, Mutual of Omaha, Principal and Prudential.

Comparison shopping can be difficult "because so many bells and whistles are available," Ms. Patterson said, and they are costly. "Decide what you want and what your goals are, and when you talk to sellers be firm about what you want and resist the others," she added.

Kim Holland, the Oklahoma insurance commissioner, said, "There are certain benefits that you just can't get from other products," notably the assurance of lifetime income and a greater payout rate than would be available from certificates of deposit or bonds at present. And income is not taxed until it is paid out.

Still, Ms. Holland, who has waged an aggressive campaign to root out and prosecute insurance fraud, said that "seniors are vulnerable -- they are often targeted by scam artists." She stressed the need to check the rating of the insurance company issuing an annuity, the reputation of the individual agent selling it and whether the annuity is appropriate for the prospective buyer.

Two years ago, she enlisted AARP in a consumer education campaign on annuities, warning of "predatory sales practices and the solicitation of unsuitable annuity products." In one case, an agent sold a lifetime annuity to a 104-year-old man, Ms. Holland said, and

in another, an agent brought cookies to a woman and planted flowers in her garden to win her confidence.

When approached by an agent, do not provide any information, Ms. Holland said. Instead, if you are interested, get the person's card and "do your homework." She added: "Check with peers, friends, relatives, bankers, your accountant. Don't respond to telephone solicitations or ads for free seminars or dinners."

"New York Life is a very fine company, and AARP and New York Life have very fine products," Ms. Holland said, "but that doesn't mean they are appropriate for every individual."

An immediate annuity can be right for people who need a monthly income, just as they had when they were working, and as their parents' generation had with payments from defined benefit pensions, which only a fifth of Americans have today. They also appeal to people who fear they lack the financial expertise to make their savings last a lifetime.

On the other hand, the very rich do not need immediate annuities, said Paul Pasteris, New York Life's senior vice president in charge of retirement income. They could put their capital into Treasury bonds and live on the income. Studies have shown that it is safe to take about 4 percent a year from a retirement portfolio, he said. But relatively few people are in that position.

"For the last 20 or 30 years, the financial services sector has been telling people to save for retirement," Mr. Pasteris said, but once people retire they "face a new discipline called retirement income planning."

Immediate annuities can provide income and help people cope financially with several risks.

"The first risk is longevity," he said, "the risk that you could be in a pickle if you live too long.

"The next is market risk. With a portfolio of stocks, bonds and cash, what are the returns going to be? More than just returns -- the timing is critical." Suppose the market tumbles just when a person retires. "Losses early can have a devastating effect," he said, because a shrunken portfolio will not produce enough income. "If a poor return period is later, everything can be fine."

Inflation is the third risk, and on annuities, inflation protection is available as an option. "Even if it is only 2 or 3 percent, if you retire at 65 and live till 85, 90 or 95, inflation could have a huge impact," Mr. Pasteris said.

Health problems are another risk. A comfortable monthly income stream can ease those costs not covered by Medicare and secondary insurance.

Overspending is a risk for some retirees who have been looking forward to travel and the good life. "Can you resist the urge to dip into your nest egg and withdraw too much too

early?" he asked. If not, putting the principal into an immediate annuity and living on the cash flow will require some financial discipline.

The median policy size is around \$60,000, Mr. Pasteris said, and about half the policies are bought through I.R.A.'s or retirement plan rollovers, continuing the tax-deferment on those plans until income is paid out. If an annuity is bought with after-tax money, part of the payout is considered a return of principal and is not taxed.

Mr. Pasteris said, "We work with customers to figure their basic income expenses -- food, clothing, rent, medical." The next step is to calculate how much will be met by pensions and Social Security. If the amount is not enough, a lifetime annuity can be purchased to make up the difference. "With the remainder of their savings, people can get more aggressive if they want," he said.

His colleague, Michael Gallo, who is also a senior vice president, said: "We don't encourage people to be more aggressive. In general it's better to be more conservative." Mr. Gallo added, "We don't want people putting all their money into this." The general recommendation is 25 to 50 percent of assets available for investment, although more could sometimes be appropriate. People should hold some cash in more liquid investments for emergencies, he said, and they may want to try a laddering approach, buying more annuities as they age and costs rise.

Tim Kochis, the president of Kochis Fitz, a San Francisco wealth management firm, would put far less into it. "I would devote no more than 10 percent at the outside," he said. "It is a function of risk tolerance, risk management -- it can be for someone who is very risk averse and would otherwise be paralyzed."

"It's much better than a money market fund," Mr. Kochis added, but he advises putting the bulk of a portfolio into stocks. "There's so much opportunity for long-term growth if you can withstand the short-term volatility. That's the price you pay for long-term performance, the price of entry. Most people need to make a portfolio grow." Of course, they also need to sleep at night.

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