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Letter from the President

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Rethinking Retirement

TIAA (formerly TIAA-CREF*) recently did a study on retirement and lifetime income. The study found that 84% of respondents claimed that receiving a guaranteed monthly paycheck is important to them, but only 14% actually purchased something called an annuity.

Insurance companies, through insurance advisors, have long been providers of fixed and guaranteed income in retirement. In the past, this was done via defined benefit pension plans. Now it's virtually not done at all.

People are confused and they misunderstand annuities. There is one group of folks who understand annuities, or at least are willing to purchase them because of what they actually do. The top 1% of the wealthiest Americans, those earning more than \$380,000 annually, are most likely to own annuities.

What do those individuals know that others are missing? I remember a simple story my father told me when he bought an annuity. He was a doctor, so why did he want an annuity?

"Well," he said, "I always had some money coming in. First I had a small allowance. Later I worked odd jobs and made spending money. I finally became a physician and I was making a good salary and raising a family. I could count on my ability to work. Now I'm retired and I want a small allowance that I can count on so your mother and I don't have to worry about everything else and I don't have to sell my investments at the wrong time."

I've always remembered this, a very easy and real depiction as to why someone who had done well bought an annuity.

Years later, my mother still lives independently and is 88 years old. She gets her monthly allowance set up by my father's foresight. When planning for the future, one thing to factor into the equation is your longevity and the risk of outliving your retirement income. Many things have changed for them since they purchased their annuity 28 years ago, but one thing did not change – the need and desire for a predictable and stable monthly income that they could count on regardless of markets or economic conditions.

Pensions are all but gone for most Americans, but annuities are still around. They provide the safety and security Americans are looking for – they just told us so in the TIAA study.

*Teachers Insurance and Annuity Association-College Retirement Equities Fund.