

# EXPERTS ON ANNUITIES



**Chadwick Mangum**  
**Investment Advisor Representative**  
**Blue Wolfe Financial**

121 Greenwich Rd, Suite 107, Charlotte, NC 28211  
chadmangum@bluewolfefinancial.com | 980.859.0022  
bluewolfefinancial.com

## Taking a different approach to retirement income planning

If your retirement years are on the horizon and you're starting to take planning for this time seriously, you'll naturally focus on the total amount you'll need. But there's another way: Break down your retirement into monthly income from Social Security, retirement savings, and other sources.

Considering retirement in monthly terms makes the planning process easier to understand and better matches not only how you're used to living today but also how you'll actually live in retirement as you continue to pay your bills.

When you think in terms of a monthly retirement income, you'll have a more realistic view of how much your current savings will generate in retirement. This can help you make better decisions in planning.

Meanwhile, a single lump-sum figure can be deceptive with respect to retirement income planning. You might believe you're wealthier than you really are, which can lead to poor saving choices.

"For example, \$100,000 is a significant amount of money by most standards," explains Andrew Melnyk, vice president, research and chief economist of American Council of Life Insurers. "That sum can buy at least one new luxury car, a boat or several nice vacations. But it won't seem as significant if it has to last 30 years."

In other words, you'll always need to think about how your retirement savings will help you pay ongoing bills throughout those years. By considering your income and needs on a monthly basis, you'll have a better understanding of what you need now for spending in the future.

Creating a monthly income plan also allows you to break down a complex task — funding decades of retirement — into a framework that's easier to understand. The first step is to add up your basic monthly living expenses in retirement: mortgage/rent, utility costs, loan payments, health-care premiums, taxes, food, and so on. The next step is to determine how much you'll receive from Social Security and other income streams.

Social Security income will only meet up to 40 percent or 50 percent of your monthly needs, experts say, while fewer and fewer employers are offering traditional work-based pension plans promising regular, specified payments. But purchasing an annuity, which for an up-front payment provides a steady payment for the rest of your life, offers an easier way to add protected monthly income.

A primary strength of annuities is the lifetime guarantee, which insurance companies, the provider of annuity products, can offer. By including an annuity to provide monthly income, you'll be more confident that even in a market downturn you'll have enough to pay your monthly bills.

Also, creating that steady monthly income stream with an annuity allows you to transition to retirement in a more familiar way. Over the past 20 or 30 years or so, you've become accustomed to receiving regular payments from work. Annuities and other guaranteed sources of retirement income provide those same benefits, says Seth D. Harris, an attorney who previously served as acting secretary of the U.S. Department of Labor.

These monthly payments:

- *will be predictable,*
- *will arrive with regularity, and*
- *will provide visibility into any gap between your income and your spending so that you can plan accordingly.*

Another benefit of annuities is that you'll know how much you'll receive each month, so you won't need to guess how much you'll need to withdraw from savings annually using a lump-sum approach. With a lump-sum approach, there's a chance you'll either draw down too much (and outlive your assets) or too little (and not sufficiently enjoy the fruits of your work years).

Since everyone's situation is different, there's no one-size-fits-all approach to monthly income planning. It's important that you

consult with a financial professional who understands your specific needs and resources. Your financial professional can also explain the different types of annuities that might meet your needs.

Annuities should be considered within your broader investment portfolio of stocks, bonds, and other investments. Your financial professional can help you understand the complete picture of your retirement and the best ways to meet both short- and long-term goals with various types of investments.

The main idea with all retirement planning is to provide a secure feeling, and annuities offer a way to make the process easier and more certain. This monthly protected income, as Harris says, adds up to one thing: "Confidence."

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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