Motley Fool's *Rule Your Retirement* Newsletter

Peace, Income, and Happiness

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When designing your portfolio for retirement, you have to account for various scenarios, including stock market crashes and living a very long time. The former is bad, the latter is good, but both can increase the chances that your money won't last as long as you do (also bad). To mitigate those risks, Fools play it safer by having some of our money in low-returning cash and bonds, and we might also spend less in retirement than we would otherwise if we had more certainty about our income security.

However, let's say you're a 65-year-old retiree and one of your friends proposes the following arrangement to you and eight other 65-year-old chums: "Let's pool our money and each take out 6.6% a year." You, being an educated Fool, might say, "The money will eventually run out. Cash and bonds are paying less than half that amount, and the stock market is overvalued. Plus, that's much higher than the 4% to 4.5% safe withdrawal rate I've read about."

Your friend replies, "Yes, that's true. So here's how we'll make it work: When one of us passes away, his share won't go to his heirs; it stays in our pooled assets to pay the annual checks of those of us still around."

Would you say yes? Would it influence your decision if I told you that you're likely to be happier if you do?

If so, have I got a deal for you! It's called an immediate annuity.

Hey, wait! Come back! I know, annuities are much maligned, including by yours truly, depending on the type. But that hypothetical scenario of you and your nine friends is conceptually similar to what you'd get from the original and purest form of an annuity: regular, predictable income for as long as you live. It's a product that's been around for centuries, most often in the form of an annual payment (thus the name "annuity"). These days, you can get quotes online at sites such as ImmediateAnnuities.com, which indicates that a 65-year-old male could get $6,600 annually after purchasing a $100,000 annuity (thus the 6.6% in the illustration above). That level of income can be paid for decades because of the "mortality credits" earned by those who outlive their fellow annuitants.

Not only is the income immune to the ups and downs of the bond, stock, and housing markets, but it can also lead to a happier retirement. That's the finding of several studies, including one from benefits consultant firm Towers Watson that's based on the University of Michigan's Health and Retirement Survey, an ongoing study of about 26,000 Americans age 50 and older. From

1998 to 2010, the percentage of retirees who report that their golden years are "very satisfying" dropped from 61% to 52%. Towers Watson broke down the data according to the percentage of annual income that a retiree receives from annuities, including a defined-benefit pension. Here's how the numbers broke down:

Percentage of "Satisfied" Retirees

Annuitized Income	1998	2010
0%	51%	44%
<30%	64%	55%
>30%	71%	65%

The two stock market crashes between 1998 and 2010 undoubtedly gave retirees the jitters. But those who have more market-immune income experienced a smaller drop in satisfaction — peace of mind has its benefits. (Extra-credit question: What's one of the other key characteristics of a happy retirement? If you answered "good health," give yourself 10 points and do 10 push-ups. Also, make sure you join us for the ongoing *RYR* Wellness Challenge!)

In a related article, I discuss more about the benefits of guaranteed income, as well as why they may be better than bonds (and who doesn't want an excuse to avoid bonds?). In the future, we'll talk more about some of the shadier types of annuities. But when I retire, an immediate annuity is something I'll most definitely consider.