Retirement tools to consider: Fixed indexed annuities and in-service withdrawals

Both can be used to help ensure clients have retirement income that lasts.

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The recent economic downturn and slow recovery have significantly impacted Americans' plans for retirement, and many of those looking toward the future are being forced to change their expectations.

One-quarter of working Americans have changed their expected retirement age, according to the Employee Benefit Research Institute's (EBRI) March 2012 Retirement Confidence Survey. Of those, the vast majority, 88%, reported this age has increased. Unfortunately for many, the timing of their retirement is beyond their control: half of all current retirees left the labor force earlier than expected, according to the same study.

In a time when consumers need to be prepared to retire earlier than planned, it is more important than ever for financial professionals to develop a plan that helps clients maintain their standard of living throughout retirement — no matter when that time comes. However, the question remains — how can advisors best keep their clients' retirement goals on track and provide more financial stability in this time of economic uncertainty?

Fixed indexed annuities

Fixed indexed annuities (FIAs) may provide the right balance for clients who are seeking the security of guaranteed retirement income and the ability to enjoy market upside potential without significant loss of control or downside principal risk.

The typical fixed indexed annuity's income rider, an optional feature usually available for an additional cost, is designed to optimize income at a specific future date, usually 10 years from purchase. However, some carriers, like Genworth, offer features that can also benefit those who choose to (or are forced to) retire early. Financial professionals can look to fixed indexed annuities with riders that credit benefit base growth on a daily basis instead of an annual basis, meaning clients do not have to wait for a contract anniversary to maximize the retirement money they need sooner. This offers advisors the opportunity to more effectively bridge the gap between a client's guaranteed income from other sources and the amount they need to help maintain their standard of living.

Fixed indexed annuities may be of particular interest to those within 10 years of retirement. This group has been hit particularly hard by the economic downturn but has fewer years to rebuild shrunken portfolios. With such a large number of baby boomers fitting into this category, it is no wonder fixed indexed annuity sales have skyrocketed in recent years. Fixed indexed annuity sales hit a new high of $32.3 billion in 2011, according to AnnuitySpec's 2012 Indexed Sales & Market Report.

But even with the recent popularity of fixed indexed annuities, advisors still face the challenge of helping clients allocate their retirement portfolio in a way that best prepares them for life's uncertainties and ensures an appropriate amount of guaranteed income throughout retirement.

Funding FIAs with in-service withdrawals

Many clients face significant risk during the last three to five years before retirement, when a substantial drop in the market could derail their plans. By moving funds from a 401(k) into an individual retirement arrangement that includes a vehicle such as a fixed indexed annuity, consumers can take some market risk out of their retirement portfolio. Consider that in today's volatile, low interest rate environment, both equity funds and many bond funds are susceptible to dramatic declines in value, which could force consumers to scale back their retirement goals or even delay retirement longer than they wished.

Many savvy financial professionals are increasingly looking to in-service withdrawals to help clients reduce that risk and provide for a more balanced retirement strategy. **An age-based, in-service withdrawal, if executed properly, provides a way for active workers who are nearing retirement to roll over assets from their employer-sponsored 401(k) plan or another qualified retirement plan without suffering income taxes or penalties.** Using a fixed indexed individual retirement annuity can 1) be guaranteed in terms of principal protection; 2) provide lifetime income for retirees; and 3) offer growth opportunities, no matter how Wall Street performs or what happens with interest rates.

According to a recent study by consulting firm Aon Hewitt, **90% of defined contribution plans allow in-service withdrawals from 401(k) plans, typically starting at age 59½.** The in-service withdrawal option may not be right for everyone, but when used properly, it can help many plan participants protect what may be their single largest asset. Utilizing an age-based, in-service withdrawal from a 401(k) to fund a fixed indexed annuity can provide a consumer with principal protection, options to create guaranteed income for life and the potential to outperform other conservative options.

Planning for retirement can be difficult, but **fixed indexed annuities and in-service withdrawals are valuable tools that can give your clients a sense of security in today's volatile market environment. Used correctly, both can help ensure clients have enough retirement income to last a lifetime and protect what they have worked so hard to build.**