6 Reasons Your Clients Should Consider Buying an Annuity

Planning for retirement is a unique equation that looks a little different for every client. Most individuals will utilize some combination of 401(k)s, 403(b)s, IRAs, Social Security, and brokerage accounts to fund their retirement. However, depending on your clients' financial situation, annuities could be an ideal piece of their retirement strategy. Here are six reasons when your clients should consider buying an annuity.

1: Protection of Their Retirement Assets

One of the biggest, if not the biggest, reason to purchase an annuity is to protect their other retirement assets such as 401(k)s, 403(b)s, and IRAs. The first 5-10 years surrounding your client's retirement date are crucial because the sequence of market returns can significantly impact their retirement accounts. Suppose they experience poor returns or even losses in those early years while also withdrawing money simultaneously to fund their retirement. These two factors of poor returns and active withdraws could potentially reduce the value of their entire retirement accounts to the point where they might outlive their savings.

Annuities are a great strategy to combat the sequence of returns risk by receiving guaranteed income payments throughout retirement. When your clients purchase an annuity and begin collecting the income payments, they will reduce the amount of money they have to withdraw from their retirement account each year. As a result, their account will have more time to recover during times of market volatility, thus prolonging the overall life of their money.

2: They've Maxed Out Their 401(k) and IRA

Just like other retirement accounts, annuities are a tax-advantaged product. Suppose your clients have additional funds to save for retirement, or they're a high-income earner who regularly maxes out their employer-sponsored retirement plan and IRA accounts. In that case, an annuity's tax-free growth may make sense for their financial situation.

3: They Expect to Live a Long Time

It's no secret that we're starting to live longer and longer thanks to modern medical advancements. While this is great, it creates more challenges when helping clients plan for a retirement that could last well into their 90s. If your clients have a family history of living longer or they're healthy and active individuals, their retirement savings might need to last anywhere from 10 to 20 years longer than the average person. In this case, an annuity may make a lot of sense to ensure they receive income payments and won't outlive their savings.

4: Long Term Care Protection

By the time someone reaches 65, the Department of Health and Human Services estimates there is a 70% chance they or their spouse will require Long-Term Care (LTC) as they age[1]. LTC can be a substantial out-of-pocket expense for many families as the national annual median cost of a private room in a nursing home is $102,200 as of 2020, and these costs will only grow with inflation. Today, most people still do not have LTC insurance because of its high cost. Annual premium estimates for a 55-year-old couple come out to roughly $3,050.

While annuities cannot completely cover the cost of LTC if your clients need it, they can provide a level of insurance against the expenses of LTC by adding a LTC rider to their annuity contract. Purchasing an annuity with LTC riders has become an increasingly popular alternative to LTC insurance. If your client ends up having LTC expenses, these riders will typically increase their annuity payout by some multiple for a period of time (limitations apply). For example, their rider could double their payment for up to 6 years should they require LTC. And if they don't end up needing LTC, they will continue receiving regular annuity payments for life.

5: They Want a Higher Rate of Return on Their Fixed Income Instruments

Fixed income instruments such as CDs, bonds, and treasuries are typically safer but offer lower returns than other investments. Annuities can be a another good option for clients that are interested in increasing their rate of return on the fixed income portion of their retirement savings. Under the right circumstances, they could also potentially increase their returns.

6: They Are Risk-Averse

Every client has different risk tolerance levels when it comes to their finances. There are extremely risk-averse individuals in their 20s and 30s, and there are risk-takers well beyond their 60s. However, as your clients enter retirement, it is generally safer to implement more conservative strategies. Those clients who were more risk-averse even in their younger years might have more peace of mind moving a portion of their retirement savings into an annuity. That way, it will produce a guaranteed interest rate and income payments for the duration of their retirement.

[1] https://www.hhs.gov/aging/long-term-care/index.html