

# WISER Nurse

A NEWSLETTER FROM THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT  
and the CENTER FOR AMERICAN NURSES

## NURSES' INVESTOR EDUCATION PROJECT

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## Annuities: \_\_\_\_\_ Why You Need To Know How They Work

**W**You need to know how they work because many financial planners recommend them to their clients for retirement planning purposes—in fact, one study shows that almost 90 % of planners recommend them. Does that mean you need them? Well, you can decide if you do, and if you do—how old you should be when you buy one.

Because the stock market has become a part of our daily conversation—the deal is everyone is supposed to be building retirement assets. Okay, so you build your assets but how do you make sure that you don't outlive them?

In the old days, before the growth of 401(k) plans, many employers paid you a pension that lasted a lifetime. The employer paid you your benefit no matter what happened to the stock market. Today, while some people are fortunate to still have those types of pensions, many people must make their own key decisions and decide how to manage their own funds and how to cope with the three big *what ifs* of retirement. What if I live too long, what if my investments lose money and what if inflation hurts my investments? Obviously, there's no magic formula and no right answer. We all do the best we can do with the information we have and we don't know what the future will hold.

### *What choices will you have?*

Let's say you have built up a retirement fund of \$250,000 by the time you are age 65. Few of us realize that we have to make that money last for perhaps 20 or 30 years after we stop working. There are two ways to make your fund last for the rest of your life:

- ☑ Make withdrawals that you estimate will last for the rest of your life—and keep whatever money you haven't spent in an investment.

### *Annuity Glossary*

**Immediate:** This is what Ron's mother bought (*see box on p. 3*) and began receiving payouts immediately. An immediate straight-life annuity pays a fixed amount for as long as you live. Another option is to get guaranteed payments for at least a certain number of years, for example, "life and 10 years certain," and if you die sooner, your beneficiary receives the payments.

**Deferred:** This is an investment product that accumulates money until a future payment. Most annuity articles and advertisements seem to be talking about deferred annuities. There are several types, including:

**Fixed** – earns an interest rate that is initially fixed and then may vary.

**Equity-indexed** – based on the stock market, sometimes with a guaranteed minimum rate.

**Variable** – based on accounts invested in stocks and bonds.

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Or

- Take some of your money and buy an immediate annuity—which will provide you with guaranteed income payments for the rest of your life.

You may decide that the best way is to use a combination of both of these by managing your own retirement fund until the time seems right to convert some of your fund into an annuity.

### Once You Have Reached Age 65, How Much Longer Should You Expect to Live?

Obviously, there’s no way to know for sure, but here are the odds for women and men who reach age 65. For example, more than half (60%) of women who reach age 65 can expect to celebrate their 85th birthdays, and more than a third will live to age 90.

Survivors To Age	Women	Men
65	100%	100%
70	95	92
75	87	81
80	76	66
85	60	47
90	39	26
95	18	10
100	5	2

American Academy of Actuaries

Here are some general guidelines to help you understand how people decide if they need them.

### Immediate annuities—they may be right for you if:

- You have retirement expenses not covered by monthly pension and Social Security benefits. An annuity can guarantee a

regular monthly payment for the rest of your life. *If you have a large income to pay all your expenses, you may not need an annuity.*

- You have every expectation of living a long life.** Most of us don’t know and can only make our plans based on reasonable expectations. *If you know (not think) that you won’t live for many years, you may want to take the lump sum instead.*

- You want the certainty of knowing you won’t outlive your savings.** An annuity is the best way to be certain you will get payments for the rest of your life, no matter how long you live. Some people worry they will die early. An alternative is to get an annuity that is guaranteed to pay benefits for at least 5 or 10 years, even if you die before then. *You may be able to make more money in the stock market, but you may not—if you can live with the uncertainty, then you can just time the withdrawals from your investments.*

- The money you would use to buy an annuity is for retirement, not for your heirs.** The more money you use to buy an annuity, the less you have to pass on to your children. Annuities generally don’t pay death benefits. However, if you kept your money in a lump sum and made withdrawals, and then live for a very long time, your heirs wouldn’t get anything anyhow.

- You have money set aside or figured in your annual expenses for other items.** Long-term care insurance, Medigap insurance, prescription drugs or other unexpected costs. *Some people worry about having a lot of money tied up in an annuity.*

- As you get older, you want to take fewer risks with your**

**money.** Some financial advisors and insurance agents may say they can do better for you than an immediate annuity. Make sure you understand the risks involved and how they are paid. *A financial advisor should provide you with a plan, and you should be comfortable with the risks and the costs.*

### When should I buy an annuity?

Some people suggest that you wait until you are between ages 70 and 80 to buy your annuity, because you get a better deal from the insurance company. Just make sure you don’t spend too much money before then. Financial advisors suggest if you are in your 60’s, you can withdraw around 4% of your assets, and in your 70’s, about 5%.

### What should I consider when choosing an annuity?

The two main criteria for comparing the companies are price and safety. You will want the best price among the safest companies. First, find out which companies are safe, ask them for their credit rating. You will probably only want to use companies with the top rating. Check the Annuity Shopper, available for \$14 an issue (800) 872-6684. If an insurance company goes under, State insurance guarantee funds may continue to pay your annuity up to the state’s maximum amount. Second, ask how much the annuity you need will cost and choose the cheapest annuity price.

### How much annuity do I need?

- Estimate your annual expenses in retirement. *Remember that some of your expenses will go down. You won’t have to pay Social Security taxes, you won’t need to pay work-related expenses, and you*

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probably won't need to save. However, be prepared for some expenses to go up.

2. Subtract your annual Social Security benefit from your estimated annual expenses.
3. Subtract your pension benefits.
4. If you decide to buy an annuity it should cover your expenses NOT covered by Social Security and pension benefits.

### Where to get more information on buying an immediate annuity

You may be able to find these sources in your public library or on the Internet. In addition, you can purchase the Annuity Shopper for \$14 an issue by calling 800-872-6684.

**Rating agencies:** The following private firms rate the financial strength of life insurers.

- 🔍 A.M. Best Company (ambest.com)
- 🔍 Moody's Investors Service (moody.com)
- 🔍 Standard & Poors Insurance Ratings Services (standardpoor.com)
- 🔍 Weiss Ratings Inc. (weissratings.com)

### Annuity rates and planning information:

These Web sites are operated by organizations who sell annuities, and have information on rates that insurers have charged for immediate annuities, dollar limits of state guaranty funds, and IRS rules:

- 🔍 Annuity.com
- 🔍 ImmediateAnnuity.com

## “Mom, take care of yourself, don't leave me any money.”

My mom is 85 and she had all of her money in an Individual Retirement Account at the Savings & Loan. Once she turned 70<sup>1/2</sup>, she had to start taking a minimum monthly amount required by law. (Basically, she has to take out enough so that, she would empty the account over her lifetime. This amount changes each year as her life expectancy changes, and the amount of money is less.)



I told her she could get an annuity from an insurance company, which will always pay more. She asked, “How can an insurance company beat the Savings & Loan? Insurers generally have high expenses.” I agreed with her, but said that the insurance company can still win—it focuses all of mom's money on her, not on me as her heir, because, fortunately, I don't need it. Under her current payment system, taking out the minimum required amount each year, she was taking out close to \$3,000 a year, and this annual amount would soon begin to decrease. If she lived to 95, she would get only about \$1,500 a year, and about \$500 a year at 100.

However, if the insurance company had the money, about \$33,000, they would pay her about \$4,000 each year. They would pay her that amount each year, even if she lived to 100 or beyond. It took awhile, but my mom finally bought the annuity, and she's glad she did. Her income is higher now, and she doesn't have to worry about it running out, even if she lives a long time.

—Ron Gebhardtsbauer, *Senior Pension Fellow of the American Academy of Actuaries.*

Margaret Gebhardtsbauer is pictured above.

# About the Nurses' Investor Education Project

## *Opportunities, Challenges, and Moving Forward*

The Center for American Nurses and the Women's Institute for a Secure Retirement (WISER) have formed a retirement project partnership called the Nurses' Investor Education Project. It is a three-year project funded by a grant from the FINRA Investor Education Foundation.

## *The Nurses' Investor Education Project Goals:*

- 1) Understanding nurses' financial knowledge with a special focus on their understanding of and preferences for investment education;
- 2) Changing nurses' investment behavior and planning; and
- 3) Creating investor education materials, activities, and a training program that will provide benefits beyond the conclusion of the project.

The Center for American Nurses, established in 2003, is a District of Columbia non-profit corporation.

## NURSES' INVESTOR EDUCATION PROJECT

It offers tools, services, and strategies designed to make nurses their own best advocates in their practice environments. Through research, continuing education, and knowledge sharing among today's nursing community, the Center serves more than 44,000 nurses seeking to overcome workforce

challenges and realize opportunities.

The Women's Institute for a Secure Retirement (WISER), launched in 1996, is the only non-profit organization dedicated exclusively to providing education to improve the long-term financial quality of life for women. WISER is funded by both public and private grants, including eight years of grant funding from the U.S. Administration on Aging to develop financial education for minority and low-income women.

## WISERNurse

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WOMEN'S INSTITUTE FOR A SECURE RETIREMENT  
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