SECURITY MUTUAL LIFE
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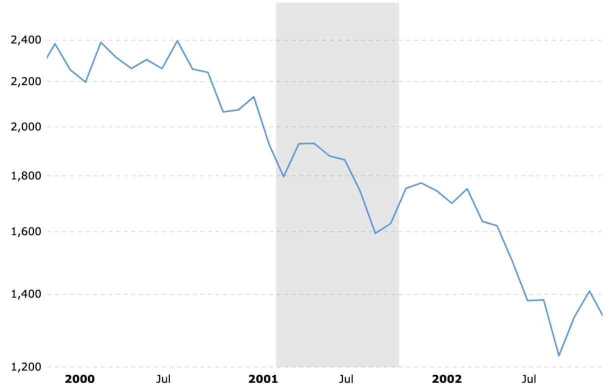
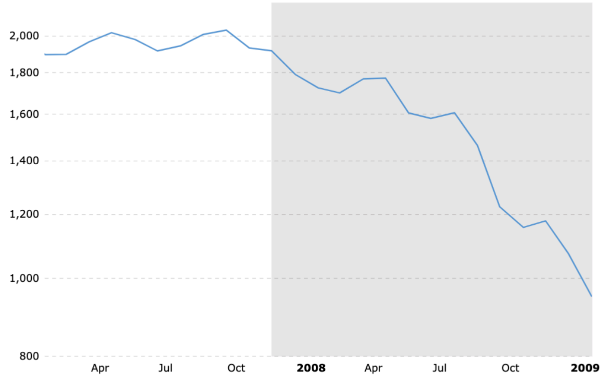
Guaranteed Lifetime Retirement Income From Your IRA

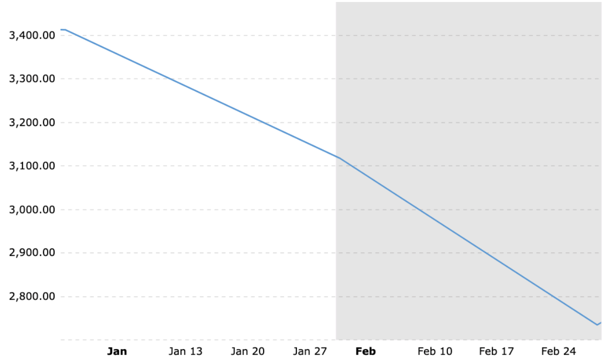
You don't have to worry about outliving your retirement savings, because the stock market and the value of your retirement savings keep going up, right? The following chart, which shows the S&P 500 stock market index for the last 30 years, would certainly seem to confirm that, at least as a general trend.



December 1999 to December 2002



February 2007 to February 2009



January 2020 to March 1, 2020

Source: all of the charts above were generated interactively from https://www.macrotrends.net/2324/sp-500-historical-chart-data.

But what would have happened if you were planning to retire, or were already retired, during a period which included some or all of the years 1999 to 2002, or 2006 to 2008, or 2020 at the start of the COVID-19 pandemic? During the dot-com crash between 2000 and 2002, the Nasdaq dropped more than 76 percent and the S&P 500 dropped more than 43 percent.[1] Between December 2007 and December 2008 during the collapse of several major investment firms and the subprime mortgage crisis, the S&P 500 dropped by more than 38 percent.[2] Shortly after the start of the pandemic in February 2020, the S&P 500 dropped more than 34 percent![3]

Would you have been able to enjoy retirement confidently and securely if any part of your retirement years included those periods? After all, your IRAs are probably invested in mutual funds and other investments tied to the stock market. Would you have had a comfortable and stress-free retirement knowing that your retirement savings were severely depressed and not knowing whether you had enough savings and income to live the rest of your life?

If you're not retired yet, what will the stock market be like, and how stable will your retirement savings be, when you are ready to retire and during your retirement years?

The risk described above is known as "sequence of return" risk and significantly impacts retirement income portfolios. Sequence of return risk "is the risk that comes from the order in which your investment returns occur. To put it another way, sequence of return risk is the risk that market declines in the early years of retirement, paired with ongoing withdrawals, could significantly reduce the longevity of a portfolio."[4] That's true "even if better-than-average market returns occur in later years."[5]

So, What Can Be Done To Minimize This Risk?

In the *2020 Retirement Confidence Survey* conducted by the Employee Benefit Research Institute ("EBRI"), 78 percent of respondents were interested in rolling some or all of their workplace retirement plan savings into a financial product that would guarantee a monthly income for life.[6] Indeed, in recognition of this growing trend and the federal government's concern about retirees not outliving their savings, and having a guaranteed income for life beyond the modest benefits of Social Security, the SECURE ("Setting Every Community Up for Retirement Enhancement") Act of 2019 was signed into law on December 20, 2019. Prior to 2020, few 401(k) plans offered annuities as investment options. One of the provisions of the SECURE Act was to provide a safe harbor to employers from liability if they included an annuity option in their 401(k) plans and chose an annuity provider that meets certain requirements.

Fortunately, annuities have been available as an investment option in IRAs for many years.

Annuities are investment products offered by life insurance companies. While there are several different types of annuities, in general, in return for a lump sum or continuing series of premiums, the life insurance company will guarantee a stream of income for a set number of years or for your lifetime, depending upon product features you choose. Immediate annuities will generally start distributing income within the first year of purchasing the annuity. Deferred annuities will continue to be invested and potentially grow. Income distribution will start based upon the contract features and the choices made by the annuity owner.

Annuities also enjoy some unique tax features, including that any growth in an annuity is tax-deferred. It is this tax feature that has caused some to debate: "Traditional IRAs already grow tax-deferred, so why would you put a tax-deferred growth vehicle like an annuity into a Traditional IRA, which also grows tax-deferred? You don't get any additional tax benefit." That's true, but it also misses the important points made earlier. The annuity allows you to convert your retirement savings, which would typically be subject to stock market volatility and sequence of return risk, to a guaranteed lifetime income source, regardless of market performance.

It's All About The Guarantees

Equally as important, it's about peace of mind, knowing that you'll never outlive your retirement savings, regardless of the ups and downs of the stock market.

For most retirees, the only source of guaranteed lifetime income that they have is Social Security benefits, unless they are fortunate enough to retire from a company or government entity that still offers pensions. Employers offering pensions, however, have become few and far between since the introduction of 401(k) plans in 1978. The 401(k) plan shifted the responsibility for funding a secure retirement from the employer directly to the employee.

So now is the time for those of us who are nearing or actually in retirement, to safeguard our own futures by ensuring that we will never outlive our retirement savings. Purchasing an annuity inside of an IRA is one of the best ways to do so.

Conclusion

If you are worried about the future, need more than the modest benefit that Social Security will provide during retirement, and would like to avoid the possibility of outliving your retirement savings, purchasing an annuity inside of your IRA may be the right strategy for you. This strategy is not appropriate for everyone, but that's why it is important to work with an experienced financial professional such as your Security Mutual life insurance advisor, as well as your CPA, to determine if this is right for you. Contact your Security Mutual life insurance advisor today to get the process started.

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Sources

[1] Clarke, Tara. "The Dot-Com Crash of 2000-2002." MoneyMorning.com, June 12, 2015. https://moneymorning.com/2015/06/12/the-dot-com-crash-of-2000-2002/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+USMoneyMorning+%28Money+Morning%29 (accessed September 2, 2021).

[2] Valetkevitch, Caroline. "Key Dates and Milestones in the S&P 500's History." Reuters.com, May 6, 2013. (accessed September 2, 2021).

[3] Jason, Julie. "The Coronavirus Stock Market: A Market Gone Wild." Forbes.com, April 8, 2020. (accessed September 2, 2021).

[4] Berger, Rob, and Benjamin Curry. "How To Understand Sequence of Returns Risk." Forbes.com, July 6, 2021. (accessed September 2, 2021).

[5] Ibid.

[6] Employee Benefit Research Institute (EBRI) and Greenwald & Associates. (2020). *2020 Retirement Confidence Survey Summary Report*. https://www.ebri.org/docs/default-source/rcs/2020-rcs/2020-rcs-summary-report.pdf?sfvrsn=84bc3d2f_7 (accessed September 2, 2021).

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