

Cracking the retirement code on income

BY MARY LOU DOBBS

The major concern most retired people have is: Will I last longer than my money?

Five overlooked risks that play into this equation are:

- Inflation. It can erode your nest egg over time.
- Longevity. This is an unexpected benefit of advances in health care, but is directly related to the negative effects of inflation.
- Income taxes. They can reduce your investment profits.
- Diversification. Without diversifying your investments, you put your nest egg at risk.
- Social Security. Your Social Security benefits will be taxed if you work past retirement age.

The number of seniors who should and must consider these overlooked risks will climb to 78 million by 2030, and this group will make up 20 percent of our population. A startling trend is that you can expect to live one-third to one-fourth of your life in retirement, but unless you

plan carefully, you may not have the funds necessary to maintain your current - standard of living.

In addition to these risks, you need to take into account the fact that companies are beginning to abandon their pension plans, and that you can't expect to make substantive gains on your investments in a low-interest marketplace.

Is it a contradiction to want higher returns while lowering investment risk? Not any more. There is a bright spot in the "safe money" arena: annuities. Purchased from insurance companies, they offer safety and guaranteed rates of return in bad times, provide opportunities for growth in good times, and promote independence and peace of mind. Parents use annuities in estate planning to



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GUEST COMMENTARY

make sure that an adult child who has no ability to control his or her spending will have an income for life.

Annuities also shelter assets from financial predators and avoid probate.

An annuity is similar to a certificate of deposit (CD) guaranteed by the FDIC in that the insurance company that issues the annuities also guarantees them. Annuities have many positive features, including tax-deferred interest

income accumulation, and, best of all, they are the only investment vehicles that can provide a guaranteed lifetime income that an individual or couple can never outlive.

The recent introduction of Equity-Indexed Annuities (EIAs) has been taking the savings and investment marketplace by storm. EIAs allow you to participate in stock marketlike returns without incurring any risk to your principal or earned interest. A simplistic way to think about Equity-Indexed Annuities would be to imagine going to Las Vegas, Nev., and playing your favorite game of chance, knowing that the absolutely worst thing that could happen is that you'll go home with the same amount of money that you came with. And, if you are a winner, the casino will share the winnings with you.

EIAs allow individual investors to trade all of the risk for some of the gain. You won't receive 100 percent of your winnings, but you are guaranteed not to lose any of the principal or earned

interest. EIAs allow individual investors to chase potentially higher stock-marketlike returns without putting the principal at risk.

We insure our cars. We insure our homes. We insure our lives. Why not make sure that we won't outlive our incomes? The basic saving and investment rule for seniors, or anyone saving for retirement, should be: Never lose principal or interest. It might take you 50, 60 or 70 years to accumulate whatever nest egg you have. You do not have the time or the ability to replace lost funds. The mantra should be: Safe Money.

Redirecting a portion of your assets to an indexed annuity will help overcome the five risk factors, give you the potential for growth and keep your money safe.

The **Journal** welcomes essays on issues from New Mexico business owners and managers. Length should be kept to about 600 words. Please contact business editor Mik Murphy at (505) 823-3830, e-mail mmurphy@abjjournal.com, or fax (505) 823-3994.