Special Advertising Section

Financial Planning & Annuities

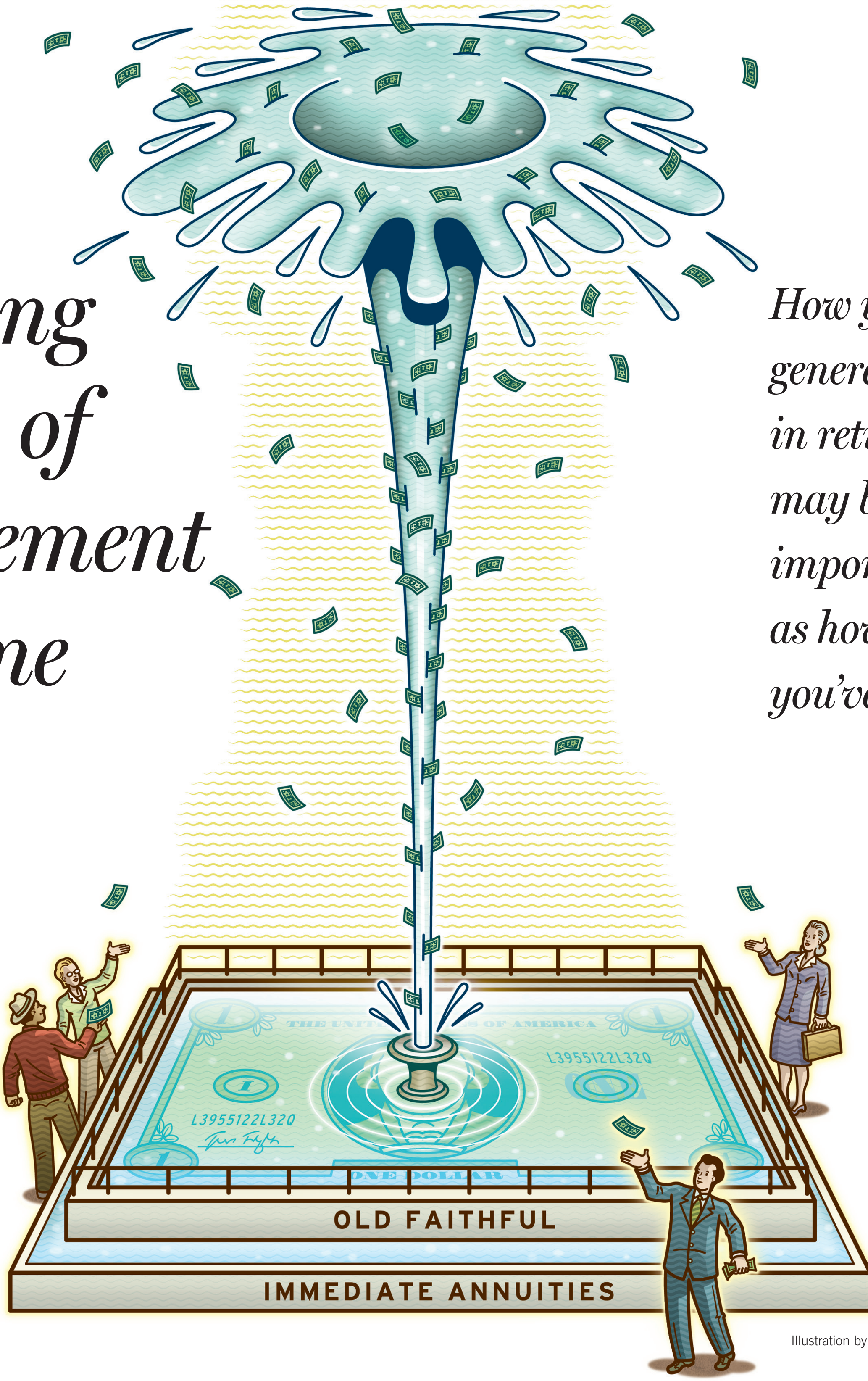

Illustration by Peter and Maria Hoey

Making Sense of Retirement Income

By Randy Myers

How you generate income in retirement may be as important as how much you've saved.

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Have Americans been learning the wrong financial lessons?

The first wave of Baby Boomers reaches retirement age this year, and many have no idea whether their savings will be sufficient to sustain them for the rest of their lives. It's not a terrible surprise, really. For decades, the financial services industry has been teaching Americans how to save money, not how to consume it. More recently, the stock market downturn that stretched from late 2007 to early 2009 decimated many investment portfolios. Now retirement looms like a final exam, and many older Americans are worried they have been studying the wrong material.

In fact, many have.

"If you think about it, we don't save for retirement just to reach age 62 or 65 and have a bunch of money in the bank," says University of Illinois finance professor Jeffrey Brown, also associate director of the Retirement Research Center at the nonprofit National Bureau of Economic Research. "We do it so that we can maintain our standard of living once we leave the workforce, consuming a certain amount each month for the rest of our lives. The best way to do that, given the uncertainty of how long we're going to live, is to have a guaranteed source of retirement income. But in the U.S. we've gotten away from that way of thinking. Individuals are now responsible for their own nest eggs and for transforming them into a predictable income stream."

Covering the Basics

Fortunately, there's still time for many Americans to salvage a passing grade. The key, says Garth Bernard, founder and CEO of Sharper Financial Group LLC, a Boston-based firm that counsels financial professionals, is to stop thinking about retirement savings solely in terms of a lump sum of money, but rather in terms of how much income that money can generate year in and year out. Doing so can yield both fiscal and emotional benefits.

"People are happier in retirement when they have a guaranteed source of income," says Elaine Sarsynski, executive vice president, MassMutual. "There's an undeniable peace of mind that comes with knowing that you have a guaranteed source of income to rely upon, especially if it will cover all of your basic living expenses."

Of course, Sarsynski notes, investors still need to save aggressively while they are working — in a 401(k) plan for example — and invest those savings in appropriately diversified investment options to create a nest egg. And they need help in understanding how the total amount they have saved can translate to a level of monthly income that replaces their employment paycheck.

There are a variety of financial products that can convert a nest egg into predictable monthly income, of course. Bonds, money market funds and certificates of deposit have long been popular with retirees. More recently, some mutual fund companies have introduced funds designed to provide investors with regular monthly payments. But none of these products can guarantee you won't outlive your savings, or that you won't get caught short in low interest rate environments like we see today.

An immediate annuity — an insurance contract that can be used to generate steady income — can.

"An immediate annuity is the only financial vehicle that can guarantee a fixed amount of income for life, regardless of how long you live or how well the markets perform," says Dana Tatro, vice president, MassMutual. "And a single premium immediate annuity is one of the most efficient ways to purchase that guarantee."

With a single premium immediate annuity, you pay a lump sum of money — the premium — to an insurance company. In exchange, the insurance company agrees to make fixed periodic payments to you for a specified period of time, or if you choose, for as long as you live.

Keeping Flexible

Annuities have been around in one form or another for thousands of years, but today's versions are far more flexible than their predecessors, even those of just a decade or so ago. If you simply want to maximize income, you can still buy a plain-vanilla contract that pays you as long as you're alive. Or, if you want to provide for a spouse as well as yourself, you can buy a joint life annuity that will pay as long as either of you are alive. If you want to keep pace with inflation, you can purchase an inflation rider that increases your payout every year. And if you want to make sure that some of your money goes to your heirs in the event you die before recovering your initial investment, you can purchase a payout option that offers death benefit protection to your heirs.

Ellen Miller — not her real name — worked with her financial professional to purchase a single premium immediate annuity from MassMutual for her widowed mother about 10 years ago. She made the decision when she realized that she had no other way of insuring that her mother's savings would last for a lifetime. "It was like a burden had been taken from my shoulders," Miller recalls. "Worrying about how you are going to pay for the needs of an elderly family member is a real weight. The annuity took that worry away from us."

Miller took advantage of several optional features in choosing her mother's annuity, including an inflation rider, and, in keeping with her mother's long-stated wishes, a payout option that offered death benefit protection to her heirs after her death.

While the availability of optional features like these has made life annuities more palatable to many people, some are still reluctant to exchange a lump sum of money for a stream of smaller monthly payments. Psychologically, they feel like they're trading a lot for a little. More concretely, they worry about not having access to that lump sum in the event of an emergency.

Continued

Exploring Options for the Future

Smart financial planning can help ease those fears. By incorporating a whole life insurance policy into your plan, for example, you can have access to immediate cash for emergencies, or supplement your income stream, by tapping into the policy's built-up cash value. Also, you can choose to convert only a portion of your savings to an annuity upon retirement, reserving some of your savings for other expenses. In fact, a recent study by MassMutual suggests that combining a life annuity with traditional investments, such as mutual funds, may offer access to larger sums of money over time than a traditional investment portfolio using a systematic withdrawal program. That could help you leave a greater legacy for your heirs or favorite charities.

The hybrid strategy explored by the study works in part because once you have covered your basic living expenses with the annuity, you can consider investing more aggressively with the balance of your nest egg. In addition, guaranteed monthly income from the annuity can reduce the amount needed to be withdrawn from other investments when the financial markets cycle through the occasional downturn. That can help you sidestep short-term losses that could compromise your portfolio's long-term health.

For many retirees, Tatro says, an ideal portfolio will include a life annuity to cover basic living expenses not met by Social Security or pensions, plus a mix of traditional investments. The traditional investments would include relatively conservative, liquid assets available for emergencies, plus riskier, growth-oriented assets that can be used for discretionary expenditures and to help the portfolio keep pace with inflation.

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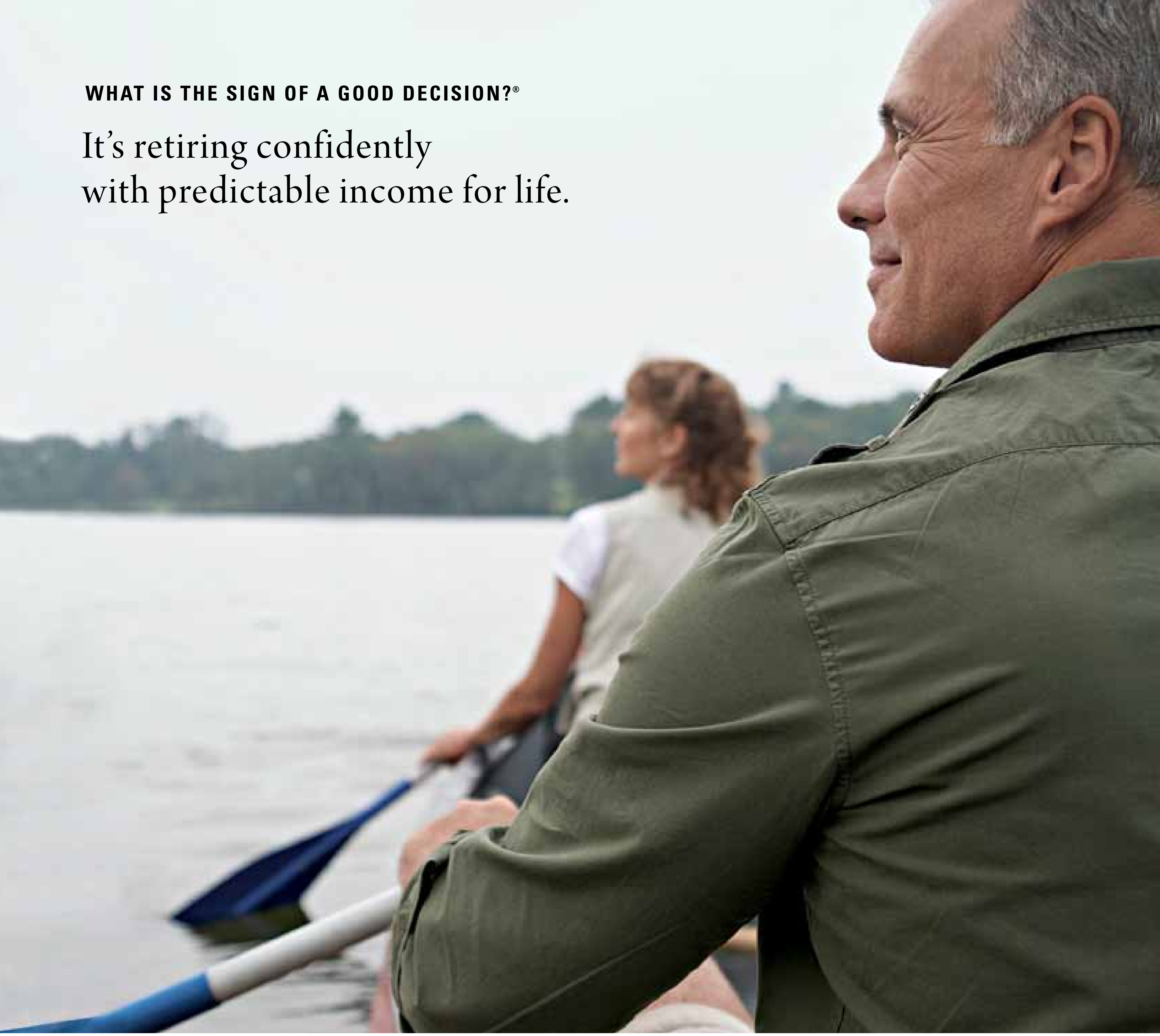
>
> — **ELAINE SARSYNSKI**

"Circumstances will vary tremendously from person to person, of course," Sarsynski says. "But one thing is certain. We must refocus the retirement conversation on the end state — an adequate monthly income at retirement. And we need to do it now."

No need to remind Ellen Miller. Since working through income planning with her financial professional for her mother — who recently passed away at the age of 90 — the retired schoolteacher has purchased her own annuity, as well as long-term care insurance in the event she ever needs to pay for help with her daily living routine.

"The whole experience of trying to figure out how to provide for my mother's financial security was a huge eye-opener for me," Miller says. "It feels good to know that I didn't have to do this alone and that I've taken care of my own finances, too."

Randy Myers is a freelance writer whose work has appeared in Barron's, CFO, Corporate Board Member *and other prominent business publications.*



MassMutual understands it's not just retirement; it's *your* retirement. So our financial professionals learn what you're looking for and help you with your strategy based on your financial reality. To protect against risks such as market volatility, inflation and rising healthcare costs, our approach uses an annuity to provide a guaranteed[1] income stream and other products that can provide access to your money and the growth potential necessary for an enjoyable retirement. A good decision is a personalized strategy supported by a company that has financial strength ratings among the highest of any company in any industry.[2] **Learn how you can benefit from our historically validated strategy[3] at MassMutual.com/Confidence**

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