One of the Hardest Days of Your Life…
the Day You Retire

By Randall Dolph Janis

Congratulations, you made it! No more having to go to work or planning your days and vacations around a work schedule — it's like every day is Saturday. You are now officially retired!

Now what?

Since I started working with those nearing or in retirement in 2005, I've heard many times that the first day of retirement is one of the hardest and most stressful days they have ever experienced. Not only do you not have to think about getting ready for work, going to work, and what to do after work, but now you're thinking about what time to eat and what to do every day — go play golf, shop, take a vacation, etc.

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And who's going to pay for it all? You! No longer are you receiving a paycheck from your employer or business, and no more bonuses (if you were lucky enough to get one). It's up to you to pay yourself for the rest of your life.

When you were working, you had the risks of losing your job, losing money in your 401(k) and other retirement accounts, or the fear of not being able to cover your day-to-day expenses. Now that you are retired, those risks now shift to worries such as inflation, taxes going up, health care costs, cost of living increases, alongside the biggest risk of them all — longevity.

This is where having the benefit of an experienced advisor comes into play. Many advisors are focused on growth and accumulation of your portfolio assets. They might even suggest the Morningstar 4% rule, which is now 2.6%. If you are not familiar with the Morningstar rule, it is a theory that if you just take out 2.6% of your financial portfolio, you should never run out of money. The key word here is "should." Do you want to live your life on a should or a maybe? It's wonderful to make money from the market, but at what risk?

For example, imagine you are 62 years old and have saved $1 million for your retirement, and your advisor is guiding you to take out $26,000 a year from your portfolio to live on for your life. Is that going to be enough? Will it support your needs and costs? Mind you, the Morningstar theory is just that — a theory.

Imagine that in eight years, the market goes crazy and has a huge downturn. You are now told only to take out $20,000, in fear of running out of money. Do you want to live this way, maybe having to rely on Social Security to guide you through retirement?

There are several factors that should be taken into consideration when planning for retirement. The value of the dollar is constantly changing, so inflation is a factor to be accounted for. Others might include health care, taxes, and long-term care, just to name a few. Again, the key to planning your retirement is longevity through the rest of your life.

In our previous example, I mentioned a "Morningstar income" of $26,000 a year from a million-dollar portfolio. What if there were a way to take out $45,000-$50,000 a year from that portfolio every year for the rest of your life, guaranteed?

This might sound too good to be true, but with proper planning and portfolio structuring, this can be achievable through an income annuity.

I know annuities have had a bad name in the past. The good news is the landscape for annuities has changed over the years, which isn’t often spoken about. There are several types of annuities offered by many companies, but for the purpose of this article, I’ll be discussing income annuities specifically.

In short, an annuity is an agreement between you and an insurance company in which the insurance company will take your premium and, in return, the insurance company will issue a lifetime payout from your premium, depending on the annuity. In addition to you receiving a lifetime income, your spouse will receive the same. If there are funds left after you both have passed, the remaining balance will go to your beneficiary. Your principal is protected from market downturn while still providing some growth. Some annuities even come with benefits and riders, such as long-term care.

Ask yourself:

What is wrong with that? It’s important to take risk off the table in retirement, with longevity being your prime focus. If getting an income annuity for lifetime income can help alleviate some of that risk, then how can that be a bad thing? Don’t forget, if you have ever worked a day in your life, you already own an annuity — Social Security income. Yes, Social Security is an income annuity controlled by the government, not an insurance company, but acts essentially the same. You put money into Social Security throughout your life, then they promised to pay it back to you for as long as you live.

In my opinion, if you have your income sources in place, and you know that you are guaranteed to have a paycheck for as long as you live, retirement can be approached with less anxiety and more excitement. Now you feel financially comfortable to travel, play golf, go shopping without the worry of not having money to pay for it. The more risk you can eliminate for retirement, the easier the day you retire will be.