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Annuities can limit longevity risk, expert says

By **Darla Mercado**
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By integrating annuities into financial plans, advisers can take precautions against their clients' outliving their assets, according to a retirement income planning expert.

Farrell Dolan, principal of Farrell Dolan Associates, yesterday led a presentation entitled "Income Strategy for Advisers," at the Insured Retirement Institute's annual marketing conference in New York. There, he presented what he dubbed "The Four Box Strategy of Income Planning," a model that divides retirees' expenses into essential and discretionary categories and then splits up the assets to tackle both needs.

The concern in income planning is that clients underestimate how long they're going to live, Mr. Dolan said. "Life expectancy is the wrong number for a number of reasons," he said, pointing out that a 65-year-old couple has a 50% chance of turning 85. Rather, it makes sense to plan as if a client will be around to see their mid to late 90s.

The strategy splits income sources into two categories and divides costs into two other groups: discretionary and essential.

Defined-benefit pensions, Social Security payments and annuity income would fall under lifetime income sources. They would be used to pay essential expenses, including food and housing. Meanwhile, income from assets — a 401(k), an IRA or taxable income — would cover discretionary expenses.

"Using lifetime income sources allows clients to be less nervous about the income coming from their assets," Mr. Dolan added.

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