How Annuities Fit Into Retirement Income Planning

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One of the biggest questions people face when approaching retirement is simple but profound: ***"Will my money last as long as I do?"***

For decades, retirement planning focused primarily on building wealth—contributing to 401(k)s, IRAs, brokerage accounts, and other investment vehicles. But as retirement approaches, the focus shifts from **accumulation to income.** The goal becomes creating reliable cash flow that can support your lifestyle for 20, 30, or even more years.

That's where annuities often enter the conversation.

The Role of Guaranteed Income

An annuity is a contract with an insurance company designed to provide income—often for a specified period or for the rest of your life. For many retirees, this structure can help address one of the most significant financial risks in retirement: **longevity risk**, or the possibility of outliving their savings.

Certain annuities offer lifetime income features that can provide ongoing payments throughout retirement, subject to contract terms and the financial strength of the issuing insurance company. For individuals concerned about market volatility or the sustainability of portfolio withdrawals, annuity income features may help support retirement income planning as part of a diversified strategy. It's helpful to think of guaranteed income sources as the **foundation of retirement cash flow**. Social Security provides one such foundation. For some retirees, adding an annuity may create an additional layer of predictable income that complements other investment assets.

How Annuities Fit Alongside Other Retirement Assets

Most retirees rely on multiple income sources. These may include:

- **Social Security benefits**
- **401(k) or employer retirement plans**
- **Traditional or Roth IRAs**
- **Brokerage investment accounts**
- **Pensions (if available)**

Annuities can function as one component within this broader framework. For example, a retiree might use guaranteed income sources—such as Social Security and an annuity—to cover essential living expenses like housing, food, and healthcare. Other assets may then remain invested for long-term growth, discretionary spending, or legacy planning.



"As retirement approaches, the focus shifts from building wealth to creating reliable income that can support your lifestyle for decades."

This approach is sometimes referred to as a **"flooring strategy,"** where guaranteed income covers baseline expenses, while market-based investments provide flexibility and growth potential.

Inflation, Interest Rates, and Longevity

Several economic and demographic factors can influence whether an annuity makes sense for a particular retirement plan.

Inflation: Rising prices can erode purchasing power over time. Some annuity products offer inflation adjustments or cost-of-living features, though these options may affect payout levels and may increase costs.

Interest Rates: The level of prevailing interest rates can impact annuity income payouts. In general, higher interest rate environments may result in higher income payments for newly issued annuities.

Longevity: People are living longer than previous generations. While longer life expectancy is positive, it also increases the challenge of funding retirement income over extended periods.

Because of these factors, annuities are often evaluated as part of a broader income strategy rather than as a stand-alone solution.

When to Consider an Annuity

There is no single "right" age or situation for purchasing an annuity. Some individuals consider annuities **near retirement**, when they are transitioning from saving to generating income. Others evaluate them earlier as part of a long-term income planning strategy.

Similarly, there is no universal rule for how much of a portfolio should be allocated to annuities. The appropriate allocation may depend on factors such as:

- Retirement age and time horizon
- Income needs and spending goals
- Risk tolerance and comfort with market fluctuations
- Other guaranteed income sources
- Legacy or estate planning priorities

For some investors, annuities represent a modest portion of a diversified retirement plan. For others seeking higher income certainty, the allocation may be larger.



Final Thoughts: A Tool — Not a One-Size-Fits-All Solution

Annuities can offer valuable benefits, particularly for retirees seeking **predictable income and protection against longevity risk.** However, they are also complex financial products that may include fees, surrender periods, and varying features depending on the contract.

Because of this complexity, annuity decisions are typically best made within the context of a comprehensive retirement income plan.

Working with a qualified Summit Global financial professional can help investors evaluate whether an annuity fits their goals, risk tolerance, and long-term financial strategy.

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