

# Is your retirement plan off balance?



Many of today's retirees and pre-retirees are concerned they'll run out of money before they run out of time. Who can blame them? In the past, the average person could rely on income from three separate sources in somewhat equal parts for a fairly comfortable retirement: Social Security, an employer-sponsored pension plan and personal savings. This retirement model is often referred to as the "three-legged stool."

Today, the three-legged stool has altered substantially. There's far greater emphasis on the need for personal savings as a source of income in retirement. Restoring balance to your retirement savings plan has become increasingly important and supplementing your personal savings is key to maintaining that balance. Here's why...

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A low-angle photograph of a person walking across a high, dark steel beam. The person is wearing a dark t-shirt and shorts, and their right arm is raised. The background is a clear blue sky. To the left, a wooden structure is visible, and to the right, a chain-link fence is partially seen.

## The shrinking leg of Social Security

Social Security was never intended to replace all of a person's working wages, yet too many rely on Social Security as their primary source of income during retirement. In reality, income from Social Security currently replaces only about 40 percent of an average wage-earner's income after retiring.<sup>1</sup>

Additionally, the age at which you're eligible for full retirement benefits is gradually increasing. Historically full benefits were paid out at age 65, but for those born in 1960 or later, that age is now 67. Although many plan to retire later due to these changes, not all will be able to.

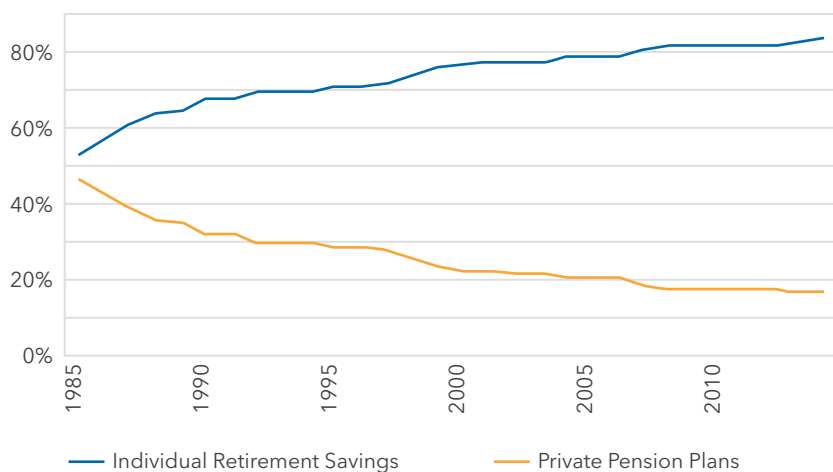
# The vanishing traditional pension plan

An employer-sponsored pension plan has traditionally been a defined benefit plan that pays a set benefit amount for the remainder of your lifetime. Contributions are typically made based on your years of employment and often include vesting schedules. Because most, if not all, contributions are made by the employer, the plan liability rests solely with the employer, not the employee.

Over the last few decades there has been a significant shift in employer-sponsored retirement plans from defined benefit plans to defined contribution arrangements like 401(k)s, 403(b)s and 457 plans. As the name suggests, the responsibility for funding a defined contribution plan lies with you, not your employer. Your contribution can be set up as either a percentage of salary or a given dollar amount. The good news, however, is that employers may offer to match contributions up to a set amount.

The chart below shows the decline in private defined benefit pension plans over the past 30 years, versus the rise in defined contribution arrangements – which includes not only employer-sponsored defined contribution plans like 401(k)s, 403(b)s, and 457 plans, but also individual annuities and Individual Retirement Accounts (IRAs). In 1985, the split between defined benefit and defined contribution plans was roughly 50/50; today, defined benefit plans make up only about 20 percent of employer-sponsored plans.<sup>2</sup>

## Percentage of Retirement Savings



Source: Investment Company Institute

# The Shift in Liability



The risk of attaining a livable retirement income is now shifting to the individual. Defined contribution plans do not provide a guaranteed retirement benefit. Contributions are directed into investment options you select. The amounts available at retirement are based on the performance of those investment choices and are subject to market losses. Success depends on your individual persistence and discipline.

Even though the liability rests with you rather than your employer, there are some benefits. With a defined contribution plan, you have control. You decide how much to contribute and where to direct your investment. Defined contribution plans are portable, allowing you to take your vested assets with you if you change jobs.

With defined benefit pension plans becoming increasingly rare and Social Security income meeting less of your total income need, the personal savings leg of the three-legged stool has become much longer than the other two. Today, not only are you required to save more for retirement, but those retirement savings may be needed for a longer time.

The question now becomes: what steps can you take to rebalance the three-legged stool?



# Restore balance with a fixed indexed annuity

It's important that your retirement income strategy be well-rounded and focused on accomplishing your personal retirement goals.

In addition to Social Security and an employer sponsored defined contribution plan, a great way to supplement your individual retirement savings leg is with a fixed indexed annuity (FIA). FIAs are insurance products designed for long-term savings and income. Consider these benefits:



## **Opportunity for Growth –**

An annuity grows tax deferred and will not be taxed until money is withdrawn. Fixed indexed annuities offer both fixed (a guaranteed rate of return set by the insurance company) and indexed interest crediting strategies. If an indexed option is chosen, interest may be credited to the annuity based, in part, on the upward movement of an external market index, such as the S&P 500®. This may provide an opportunity for additional growth inside the contract.



## **Flexibility –**

There are optional income riders, available for a charge, that can be added to an annuity that can also provide guaranteed lifetime income without annuitizing the contract. Adding this rider allows you to customize the timing and amounts of your retirement income. They may also offer additional features such as inflation protection, confinement benefits<sup>3</sup> and death benefits.



## **No Downside Market Risk –**

FIA interest credits are subject to limitations such as caps, spreads and participation rates, but the advantage is that your money is protected from loss due to stock market downturns. Adding an annuity to the mix can be advantageous, especially in an unpredictable market.



## **Qualified Funding –**

Assets from employer-sponsored defined contribution plans may be rolled over into a qualified IRA. An annuity can be used to fund an IRA. This option allows you to retain control of your assets and continue to enjoy tax deferral on any growth.



## **Guaranteed Lifetime Income –**

When an annuity is annuitized, benefits can mirror the lifetime income of a defined benefit pension plan and Social Security when a lifetime income option is chosen. This means you can receive income for the remainder of your life – regardless of how long that may be.

Creating a comfortable and satisfying retirement is now largely on the individual and it is essential that a plan is in place to make retirement goals a reality. A retirement income strategy that includes a fixed indexed annuity can offer several benefits lost by an employer sponsored defined benefit pension plan as well as supplement Social Security. With an FIA as part of your plan, you can make your retirement three-legged stool solid again and create a plan that will support you for years to come.



Individual annuities purchased outside a government-sponsored plan like the defined benefit, defined contribution or tax qualified plans are not subject to premium limits. It is important to keep in mind that some annuities do not have flexible premiums and additional payments may not be allowed. Because of this, many individuals have been known to own multiple annuities and use other sources for funding, such as inheritances.

Retirement risks such as uncertain market performance, earlier retirement dates, rising costs of living, and increased longevity can decrease or even deplete retirement savings quickly. If you are approaching retirement, taking on too much market risk could mean too little time to recoup any losses. Supplementing your retirement portfolio with a fixed indexed annuity can help alleviate the worry of outliving your retirement savings as well as assist in avoiding many of the risks that can affect assets already saved.

For more information about the benefits of an annuity and how they can help restore balance to your retirement plan, contact your financial professional today!

<sup>1</sup> Social Security. Understanding The Benefits, pg. 1. <http://www.ssa.gov/pubs/EN-05-10024.pdf>

<sup>2</sup> IRI Fact Book 2015. Pg. 19

<sup>3</sup> A fixed indexed annuity is not the same as long-term care insurance and is not a substitute for such coverage, nor should it be sold as such.

Annuities contain features, exclusions and limitations that vary by state. For a full explanation of an annuity, please refer to the Certificate of Disclosure and contact your Financial Professional or the company for costs and complete details.

Guarantees provided by annuities are subject to the financial strength of the issuing insurance company. Guaranteed lifetime income is available through annuitization or the purchase of an optional income rider for a charge.

Fixed indexed annuities are not stock market investments and do not directly participate in any stock or equity investments. Market Indices may not include dividends paid on the underlying stocks, and therefore may not reflect the total return of the underlying stocks; neither an Index nor any market-indexed annuity is comparable to a direct investment in the equity markets. Clients who purchase indexed annuities are not directly investing in a stock market index.

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