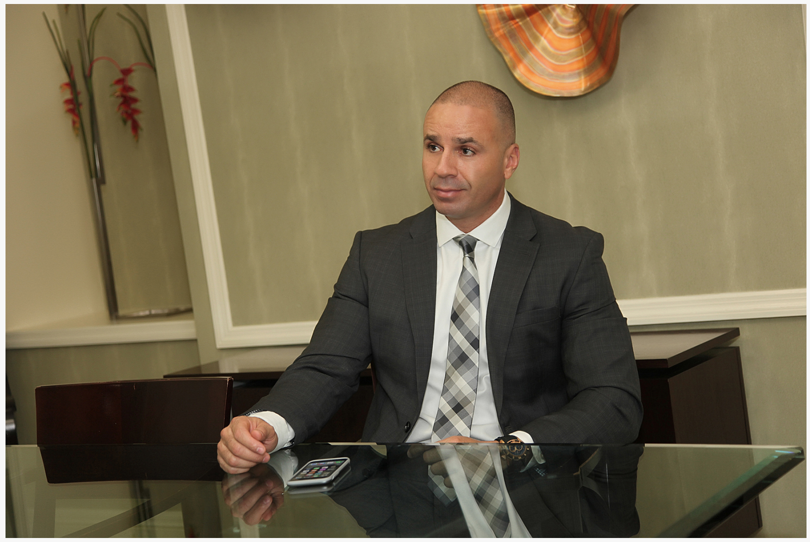
Removing Risk from your Retirement

Why should you assume all of the risk associated with your retirement when there is a better way!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BOCA RATON , FL, US, June 11, 2018 /EINPresswire.com/ -- With the market at record highs there comes many concerns regarding risk to your portfolio. You've worked hard for many years building up your retirement so the last thing you want is a setback similar to what happened in 2008.

One way to avoid risk is to shift the risk away from you to someone else and let them assume the risk. While you were accumulating and building your retirement you assumed all of the risk associated with it. So one way to shift the risk away from you now is to use an insurance company willing to assume the risk on your behalf. This is done every day in the form of an insurance contract called an annuity.

There are many variations of annuities offered through insurance companies available to choose from but there is only one type that links you to an index with without risk to your principal called a fixed indexed annuity. (FIA's). This type of annuity is considered an insurance contract whereas a variable annuity (VA) is considered a security and like all securities you assume all the risk.

Fixed indexed annuities are popular because they provide you with safety of principal and at the same time link you to an index like the S&P 500 which outperforms inflation over time. Being linked to an index is more attractive than being in a long term fixed instrument like a bond in a rising interest rate environment.

Now you're not actually invested in the index but in an insurance contract that has many indexing strategies to choose from. Some of these strategies have cap rates meaning the insurance company puts a limit on the upside while providing you protection on the downside.

A more attractive indexing strategy if available is a participation rate of 100% or higher with no cap minus a spread. This means you get 100% of what the index does when it is locked in minus the spread.

An example of this would be a 100% participation rate in the S&P 500 Dividend Aristocrats index minus a 1.25% spread locked in annually. Another example would be a 160% participation rate in the J.P. Morgan Mozaic II index minus a 1% spread locked in every three years automatically but you can lock in an index value one time anytime you wish manually during any three year period.

There are also many strategies built into these contracts that can provide a lifetime of income much like a pension also offering joint life covering two lives. Not all fixed indexed annuities are the same and some are better than others depending on your objective.

One example is if you have a long time horizon in retirement because you took an early retirement then it would be wise to consider an increasing payout option where your income can move up based on index credits once started and every time it does it’s locked in. This will help with protect you against inflation. In many cases an income rider may be necessary though some FIA’s have all of these features built in.

One interesting income rider available with an A+ rated insurance company has a daily lock in feature where all index gains are locked in daily and added to the income account value. This is unusual since most FIA’s have an annual lock in at best. With a FIA you never participate in a bad year only a good year. In a bad year your principal stays the same or your income stays the same.

If you’re considering using an FIA to reduce risk and create a guaranteed lifetime of income or just for accumulation it’s good to consider working with an independent adviser or agent contracted with many insurance companies well versed in this subject.

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