

Understanding Income Flooring & IRR

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Super Bond

- Annuity is like a super bond because firstly it protects against longevity risk.
- People who unfortunately die too soon end up subsidizing payments to those who live longer.
- It makes it less catastrophic if somebody runs out of financial asset because they have a bigger cushion of income or perpetual income to cover living expenses for life.

Income flooring in Retirement

- An income floor built by a lifetime income like Social Security, annuities or a pension helps protect the retiree from complete retirement failure. Even if the individual runs out of investable assets, the income sources will keep paying, providing some income
- The idea is to cover your income floor with sources that are guaranteed for life, like Social Security or defined benefit pension benefits. If your basic expenses are covered, you can then use your savings to fund only your discretionary expenses, like shopping, travel, and more. In short, guaranteed income covers your mandatory costs and your savings covers your fun spending.

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How to evaluate profitability of an annuity plan

- The yield means that annual return computed over a long period of time. Annuity plan doesn't really gives you the whole duration, how many percent of return you're getting every year because the duration may differs. It means that it depends on a lot of factors like how long you live, how much cash flow, how much initial capital we're putting in to buy the annuity plan.
- You can compare and evaluate by using IRR (Internal Rate of Return) formula.

Self-Annuitize

Planning financial assets to last as long as possible

- *Conservative about your longevity assumptions (plan beyond 100 years old)*
- *Plan safe withdrawal rates = self-annuitizing*
- *You are playing the insurance company*
- *It's an actuarial reality and also it's one of the fundamental challenges*

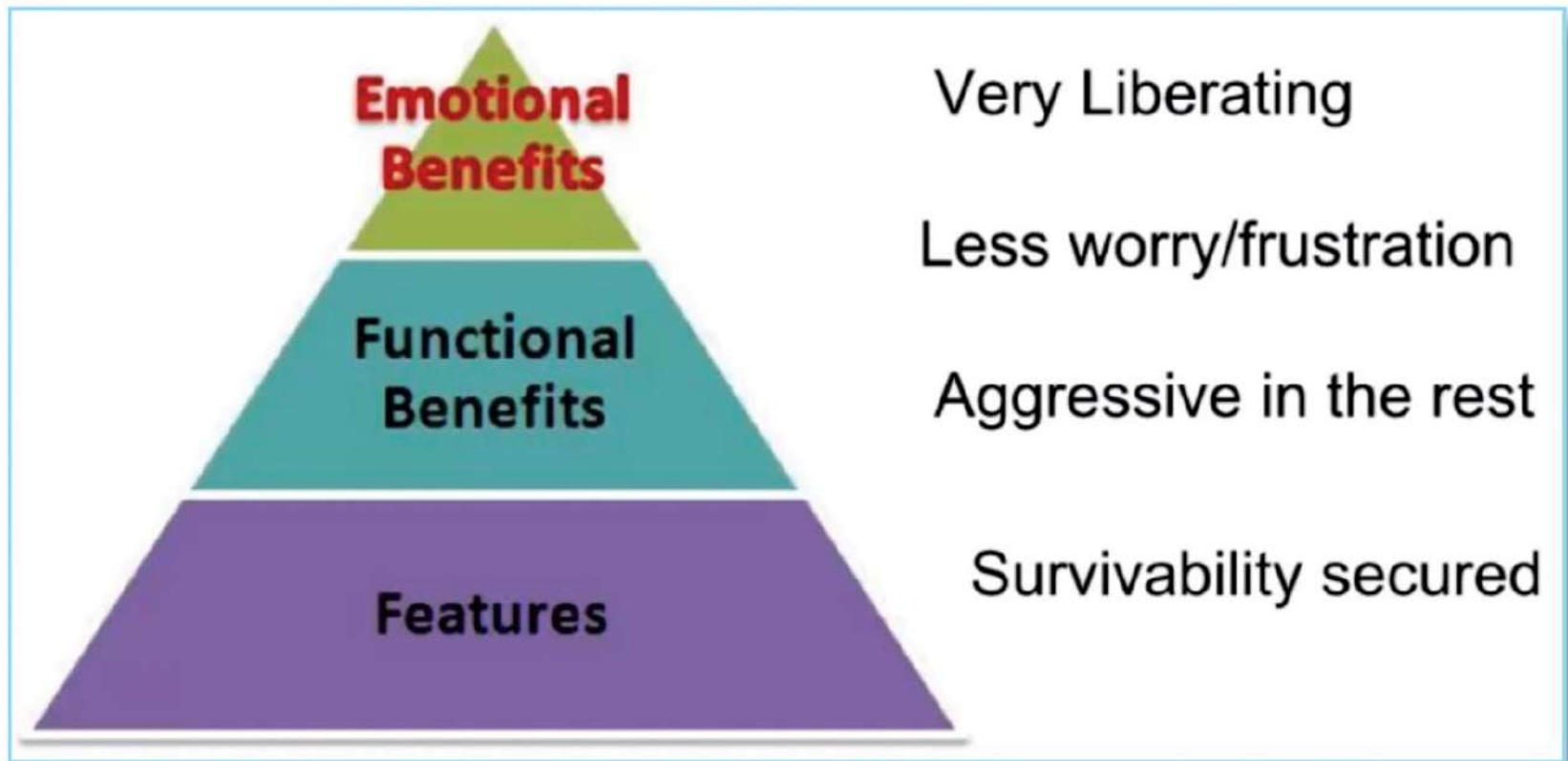
Annuity Plans

- Transferring Longevity Risks to insurer who can pay you more than you could pay yourself.

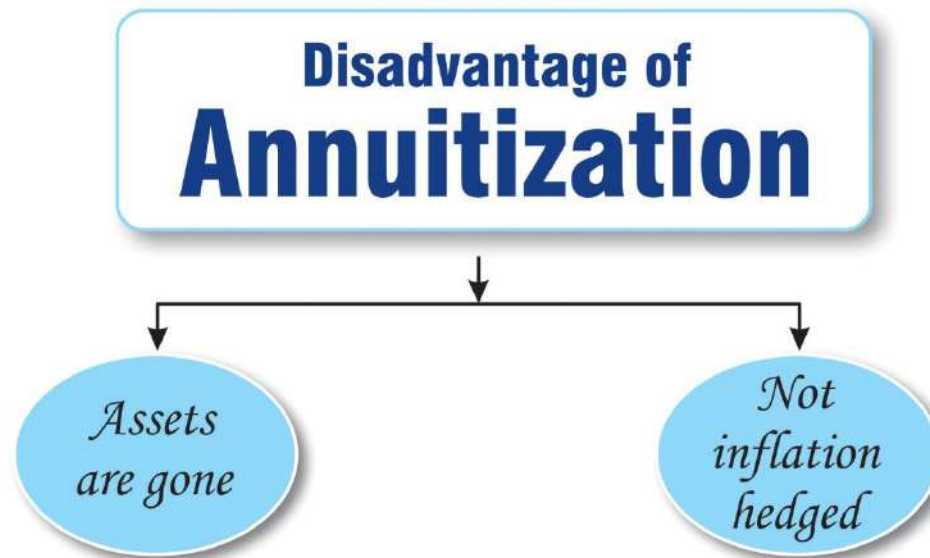


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(Almost) Guaranteed Base Income Stream – the Benefits



Annuitization



- The disadvantage of annuitization is that once you put that money in, all assets are gone, there is no “U” turn like you are going to take back half a million that put in initially.
- The income per year is not inflation hedged.