Money TIME MONEY 101

# Simple Steps to Avoid Outliving Your Money in Retirement

***Nearly all workers say guaranteed lifetime income is important in retirement. Yet few are doing anything about it. -Dan Kadlec Feb. 4, 2015***


The slow switch from defined-benefit to defined-contribution retirement plans has been under way for three decades. But only now are workers starting to fully appreciate the impact.

The vast majority of Americans say that having a guaranteed monthly check for the rest of their lives is important, according to a TIAA-CREF lifetime income survey. Nearly half say securing enough guaranteed income to cover monthly expenses should be the top goal of their retirement plan.

Just a year ago, only one third believed guaranteed income should be their top priority. Meanwhile, more Americans now say they would accept bigger risks and smaller returns in exchange for guaranteed income, the survey found.

Few saw this coming in the 1980s, when companies began to abandon their traditional pensions in favor of 401(k) savings plans. The thought was that the 401(k) would complement the guaranteed income from a traditional pension—not supplant it. Today the only guaranteed income most Americans will enjoy in retirement comes from Social Security. Meanwhile, the majority of workers keep the bulk of their liquid savings in a 401(k) plan. And they must manage those distributions throughout retirement, while trying not to run out of money before they pass away.

One big problem is that workers typically do not understand how to convert savings into a lifetime stream of income, and they generally do not trust the annuity products available to them. While 84% say lifetime income is important only 14% have bought an annuity, TIAA-CREF found. Fixed annuities through a high-quality insurance company are among the simplest ways to purchase guaranteed lifetime income.

With this gap in mind, policymakers and employers have been taking steps to make it easier and more palatable for 401(k) plan participants to convert some or all of their plan assets to anincome stream. Yet 44% of Americans have no idea if their plan offers a lifetime income option. Some 62% have never tried to calculate lifetime income from their current level of savings.

Fortunately, it's getting easier to figure out the amount of income your 401(k) is likely to provide. For starters, check with your benefits department and ask if your employer has, or is considering, an option that will convert savings into a lifetime annuity. If so, and you're close to retirement, you can get an estimate of the amount of income it may provide.

There are also online tools for do-it-yourself annuity shoppers.You can get quotes for immediate and deferred annuities at immediateannuites.com. And for pre-retirees, you can get an idea of how far your savings will go by plugging in your age and savings on BlackRock's CoRi calculator. Currently, BlackRock estimates that a 58-year-old with $1 million in savings and who retires at 65 will be able to purchase $51,600 of annual guaranteed lifetime income.

Annuities come in many varieties—and some have a checkered past, while others may be linked to high fees and hard sales pitches. But immediate and deferred fixed annuities are fairly straightforward and offer the most direct way to secure lifetime income. Typically advisers recommend that you put only a portion of your income into one.

If an annuity sounds right for you, consider moving slowly. If interest rates move up the second half of the year, as many expect, you'll get more income for your dollars by waiting.