

Retirement Rambler

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1958 AMC Metropolitan coupe

In a era of large, road-hog cruisers with monster V8 engines, AMC (eventual parent of Rambler) introduced the Metropolitan in 1954 with a 4-cylinder, 42 horsepower engine built by the Austin Motor Company in England. The suggested retail price for the hardtop version was \$1,445 and came with innovative standard features such as turn signals and dual electric windshield wipers. I remember test driving one of these with my dad and being awarded a toy model of the car which sat on my bookshelf for years.

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Annuity as a Distribution Vehicle

Last issue we discussed an annuity contract during the "accumulation phase" and this time the topic is "the other brother Darryl," that is, how annuities work during the "distribution phase."

Are you looking for a "guaranteed" income stream in retirement? Would it be even better if you couldn't outlive that income? Consider the "immediate annuity."

Let's say you have accumulated \$100,000 in your 401(k) plan and you want to convert that into a guaranteed lifetime income. About the only way to accomplish this is to take your \$100K to your local life insurance company and purchase an "immediate life annuity."

The transaction is simple. In

exchange for your \$100K, the insurer gives you a written promise that they will pay you \$X per month for the rest of your life, regardless of how long that might be (a "single life" annuity). When you die, the payment stream ends.

Alternatively, other payment options are available. For example, you can select payments over 2 or more lives (a "joint and survivor" annuity). Used generally by spouses, payments continue as long as either of the spouses is alive.

There are also "period certain" options available under which payments are made to you for your lifetime, but are continued to your beneficiary for the balance of an initial

guaranteed period if you should die early on. For example, if you purchased a 10 year certain and life annuity and died in the 7th year of the contract, your beneficiaries would continue to receive payments 3 more years.

So what is the downside of immediate annuities? First, there's the "loss of working capital" issue. You have given up your lump sum of cash for an income stream in return. What happens if you have a large medical expense and need that cash rather than just the income?

Second there's the "sudden death" problem. If you die early on in the contract, you may not get "all of your money back". Some people find that hard to tolerate.

There's also the issue of expenses. You are paying (sometimes substantial) fees to the insurance company and its agent that should be measured.

Finally, the "guarantee" of payments for a lifetime is only as good as the company behind it. Selecting an annuity provider requires substantial due diligence.

Market Update

Index	June, 2007	YTD, 2007
Dow Jones Industrials	-1.49%	+8.76%
S&P 500	-1.66%	+6.96%
Russell 2000 (small cap US stocks)	-1.46%	+6.45%
MSCI EAFE (developed foreign mkts)	+0.12%	+10.74%
Lehman Bros Aggregate Bonds	-0.30%	+0.98%
3-Month T-Bill	+0.41%	+2.59%

Source: Morningstar, Inc.