Episode 68: Annuities as a viable source of protected income

00:00
Bob French
The purpose of Retire With Style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to Risaprofile.com/Style and sign up to take the industry's first financial personality tool for retirement planning. Annuities. Annuities. There, we said it. We feel fine.

00:46
Alex Murguia
Hey, everyone. Welcome to retire with style. I'm Alex, and I'm here with my trusted companion, Wade Pfau. And today we are embarking on a new journey. Today we are starting off our annuities arc. Right, Wade?

01:05
Wade Pfau
Right, Alex. It's going to be all about annuities for the next several. Not sure how many exactly, but at least four episodes we'll be talking about annuities and how they work.

01:16
Alex Murguia
So hunkered down, everyone. We're in for a roller coaster of series right now, and we're trying to get some of these in because Wade is heading for Japan. So, Wade, any parting words before you start taking off for that summer break?

01:35
Wade Pfau
No, I'm looking forward to it, but it's not like I'll be completely out of the loop. It's just time zone differences. It's hard to have a lot of meetings when you're in a 14 hours time zone difference.

01:50
Alex Murguia
How's that for the small talk, Wade? Does that suffice for the prerequisite? All right, Wade, the only thing I'd

like to say about annuities is I got to imagine you're doing most of the talking on this one, so there you go. Everyone's going to be in love with this episode at some point. I made the realization about annuities a long time ago, but I made the realization I was used to just look away from annuities, but the reality is that I was misunderstanding them. So I want to make sure I level set here correctly. People think investments, people think annuities. And it's easy to think that annuities are just poorly run, expensive investments. And the reality is that can be further from the truth because they're different things. Investments. We did a whole arc on investments, and I hope we made it exceedingly clear that investments are a risk on strategy, where you're taking on investment risk, and there's returns that you're compensated for that you take on systematic risk, and there's capital market rates of returns that you're compensated with.

03:05

Alex Murguia

Annuities are different. Annuities is a risk off product akin to insurance. So to compare them, they serve different purposes, and so to compare them is wrong. So I just wanted to make sure we level set on that because it's very important if you're able to effectively switch that hat and view investments or investments. Annuities are an insurance product geared to protect you from specific variables, which Wade will address. It begins to make a lot of sense.

03:37

Wade Pfau

Wade yeah, I think that's a great way to start with just talking about the idea that annuities are meant to be insurance, and oftentimes they get framed as an investment. There are circumstances where you might use them as an investment. But usually if somebody is saying, and this just recently, so I don't spend much time on Twitter anymore, but I got a notification because someone said annuities are a terrible investment, and then someone else replied, oh, you should read Wade Fowler's book. But usually that's the framing around it is someone saying annuities are a terrible investment. And in that context, that's where the individual is probably not looking at the big picture. That, no, generally speaking, we're thinking about annuities for insurance protections, not in an investment frame, but in the frame of retirement income. When you're facing longevity risk and you want to have a sustainable, predictable income in retirement, that's where you think about the annuity.

04:33

Wade Pfau

And then that's ultimately where you get into the longevity side where the longer you live, the more it's going to cost to fund your retirement goals and the more the annuity is going to provide in that scenario. So the higher quote unquote rate of return it would provide, the longer it provides you payments, but those payments are linked to what you need. So if you end up not living very long, then in hindsight, the annuity may not have been a good quote unquote investment, but it still provided you what you needed. If you're thinking about a partial annuity strategy, so you're not putting all the money into the annuity, you're still going to leave your beneficiaries quite a bit when you don't live as long as expected just because you had a lot of surplus assets that you were going to spend that in that scenario, you did not have the chance to spend.

05:17
Wade Pfau
So it's insurance that helps to manage longevity risk. That's the primary function at the margins. There are some uses as investments and we'll get into that throughout the episodes. But no, as a starting point, it is very important to just emphasize annuities are not an investment, they're an insurance product and they're meant to help manage risk.

05:41
Alex Murguia
The other piece, Wade, before we get the ball rolling here, is in a similar manner to mutual funds. It's difficult to make the assessment on something by saying mutual funds are terrible, they're very good mutual funds, they're very poorly run mutual funds. The same can be said for annuity. And a lot of what we are going to be talking about today involves assumptions that these annuities are competitively priced. Do you want to maybe give a little preamble?

06:16
Wade Pfau
Yeah. It's also an important starting point. So as we'll get into these episodes, annuities can be complicated and that complications can sometimes create a lack of transparency so that it's hard to know if you're getting a good deal or not. And so there are many annuities out there as we talk about this. We're talking about the quote unquote good annuities, which just means that of course the insurance company needs to take a cut somewhere to operate their business and to have their profit motives. But there's enough benefits in terms of the longevity, protections and so forth that the consumer is still benefiting and getting a fairly priced option that's giving a fair amount to the insurance company but leaving plenty of value for themselves. Now, if you're learning about the annuity because you received a postcard in the mail to attend a chicken dinner or a steak dinner at the local steakhouse where you're going to be pitched on annuity, that's probably not a competitively priced annuity, you can be assured that the cost of that free dinner is baked into the annuity that you're receiving, as well as paying for the 15 other dinners for the other people at that event who did not buy the annuity.

07:29
Wade Pfau
So the pricing may not be competitive there, but rather than learning about the annuities through postcards in the mail, you have to be a bit more active in seeking out trusted resources. Financial professionals who are not purely pitching annuities as the main source of their business, but are looking at thinking, well, we're getting into the retirement income styles, are able to offer a variety of approaches and just are able to focus on what each person is looking for or needs to build the most effective plan for themselves.

08:03
Alex Murguia
Okay, so obviously this podcast is sponsored by McLean Asset Management. No chicken dinner, but plenty of information for you. So if you want to learn more, knock yourself out. But as we move forward, Wade, we're talking about the annuities that go to heaven. We're talking about the good annuities and.

08:23
Wade Pfau
That just means they're fairly priced. They're not completely. The lack of transparency is not leading the insurance company to get a huge amount of the potential surplus, leaving very little to the consumer. We're talking about the fairly priced case.

08:40
Alex Murguia
And we'll talk about what we mean by fairly priced and the like. You want to kick it off now that we've done our Philip Caveat?

08:48
Wade Pfau
Yeah. So this episode, it's really a vocabulary episode because there's a few terms that you really need to have a pretty good handle on to understand the landscape and the variety of annuities out there. So we want to start with some of that vocabulary and then that's really going to lay the foundation where in the next couple of episodes after that, we'll start devoting episodes to particular types of annuity classes. Well, the simple income annuities, the fixed index annuities, the variable annuities, and so forth. But to get into that, we really need that vocabulary of what does it even mean to talk about an income annuity or variable annuity and so forth. And so in that regard, vocabulary lesson number one, we want to talk about fixed annuities versus variable annuities because that's one broad way to classify annuity in terms of just its underlying structure and how it works.

09:46
Wade Pfau
So in that regard, the fixed annuity, it's where the premium is going to go into the insurance company's general account where that's providing access to generally speaking, insurance companies have it's primarily a fixed income portfolio. They may have a little bit of growth investments mixed in, but they're generally looking at building a portfolio of high quality bonds. And they have some advantages in building their portfolio that the household doesn't have. They can do the asset liability matching. They know exactly what sort of liabilities they face. So they can have longer term bonds that generally speaking, in a normal yield curve environment have a higher yield. They can diversify across more holdings. They can take more credit risk. They can take advantage of institutional pricing where they get a better pricing because they're such a big player in the market and so forth. So they're putting together a high quality account and the

premium goes into that account and then they're going to credit some sort of interest to the owner of the annuity contract.

10:53
Wade Pfau
Now, exactly how that works, there's a few different scenarios, but that's the general idea. The other important aspect of the fixed annuity is there's a sense of principal protection. You can't at least if you have a sub account or not in a sub account, but if you have a contract value where you can see what the annuity contract is worth, it cannot decline in value gross of any fees. Sometimes there's optional benefits. You generally won't see fees on fixed annuities unless it's an optional living benefit or death benefit. So aside from any sort of optional additional rider providing additional protections, you generally wouldn't see fees and then that value would be protected.

11:38
Briana Corbin
To find out more about how you can use the Risa to help you identify the annuities that may resonate with your clients, visit Risapprofile.com/Advisors and sign up for the waitlist to join our next retirement income masterclass on August 28 and 29th.

11:54
Bob French
Once more. That's Risaprofile.com/advisors.

12:01
Alex Murguia
This is an important point, at least when it comes to discriminating between fixed annuities and variable annuities. Fixed annuities specifically cannot be negative.

12:13
Wade Pfau
Yeah, they cannot have negative returns, unlike a variable annuity. And then my common FDs, we should also take a little further because one way these are marketed is, oh, there's no fees. Well, it's just their spread products. So it's just like a checking account. The idea is the insurance company is able to earn more by investing those premiums than what they pay out to the end consumer. So it's a spread. And that's how the insurance company makes money without necessarily needing to charge an explicit fee to the owner of the contract.

12:46
Alex Murguia

And just a term, you said, just to make sure it's clear, liability driven investments, they can do it more effectively than a person can.

12:56
Wade Pfau
Well, right, because they know, like, if I'm building my own bond portfolio, I may not know exactly when I want to take the distribution. It's harder for me as an individual to do the household liability matching. Now, I certainly could if I built a bond ladder, but if I'm just thinking about a more general bond mutual fund, that's where I'm exposed to the interest rate risk. And if I don't know if I can't properly balance when I want to take those distributions, I can be less vulnerable to the interest rate risk. And so I may want to use shorter term bonds that would generally offer lower yields. Now that's as we record, we're in kind of an inverted yield curve environment, but generally shorter term bonds offer lower yields than longer term bonds. And so as a household it's harder for me to take advantage of the longer term bonds because then I would be more exposed to losses.

13:45
Wade Pfau
If interest rates rise. The insurance company can go ahead and use the longer term bonds because they have the ability through the actuarial science. They have so many customers, they have a pretty good sense of their obligations. They know on average when these distributions will be taken and therefore they can better match. They can build a bond ladder effectively, but because it's at a much larger scale, they know what they need to fund. They can use more long term bonds because they'll be earmarked precisely for longer term liabilities in a banner that's much more difficult for the household to accomplish. Perfect. The other comment too is a fixed annuity can have a variable return, quote unquote like you may not know in advance what and it's not technically called a return, it's called crediting interest to the account but it just can't be negative. So that's where a fixed index annuity is linked to a market index such as the SP 500.

14:47
Wade Pfau
So if the SP 500 performs well, you may be credited with a higher amount of interest for that term. It's just if the S and P 500 had a downfall or down year, you would be credited with 0% interest for the term variable growth. It's just not negative growth.

15:06
Alex Murguia
That's kind of my shorthand myself. And you'll see here, especially when we get into deferred and immediate, sometimes some of these names don't fit the common definition of the word, especially in common definition. I mean, like when you're out talking Memorial Day weekend when you're out talking in a pool or something like that with buddies. This is sort of a little bit of jargon, unfortunately, but it just is what it is. My shorthand for fixed annuities is that really because of the credit and interest component and unfixed, the fixed returns to me, they usually don't go below zero. And that to me, I anchor like that and that

has also licensing implications and the like. But that's my shorthand, so good point. And keep in mind that sometimes they don't adhere to the English language.

15:58
Wade Pfau
That's right, yeah. Fixed annuity can have a variable return, it just can't be negative. And a variable annuity could have a fixed return because you could have a sub account that's just a fixed interest type, money market type account or something along those lines. But that's not really what we're getting at as the key distinction. Fixed annuities have principal protection. Variable annuities are subject to loss. You can experience losses on the sub accounts or now, with the new, more structured type of registered index linked annuity, that when you look at its underlying structure, it works a lot like a fixed indexed annuity. The difference is simply there can be losses. And so it's classified as a variable annuity.

16:45
Alex Murguia
Wade, just to call to a slight audible I'm thinking about the Arc, but it may be good to define that right now, just simply because the registered index linked annuities is something comparable to the variable annuities and it's actually gaining in popularity, I would say.

17:02
Wade Pfau
Yeah, and it is a variable annuity, but it's a different type. And, yes, it's become the really popular let's start a variable annuity. How we traditionally would think of a variable annuity is you have sub accounts and you can invest in they're not technically called mutual funds, but the large mutual fund companies will often provide the legally specific investment trust type accounts that are needed for the variable annuity.

17:29
Alex Murguia
I hate to say this way, just because there's some consumers and I'd rather do a most common denominator thing. So by sub accounts, you mean somebody buys a variable annuity contract. Under the contract, you have sub accounts, which are investment options that can be selected under that larger variable annuity.

17:48
Wade Pfau
Right. And as a shorthand, that's correct. You could think of it as a shorthand, just like a brokerage account, where you're picking underlying mutual funds, and it looks a lot like mutual funds. It's just technically, that's not what they're called, but it's exactly the same concept. It's the quote unquote mutual fund for the variable annuity. And with the variable annuity, you have the ability to select these type of these sub account investment funds within the annuity that exposes you to the ups and downs of the market, just like any sort of brokerage account would as well, where you're selecting mutual funds. Now, the RYLA is the

new cousin to all this. It has to be classified as a variable annuity because there can be losses to the owner. But when we talk about how they work, it's much more aligned with the idea of how and we haven't described this yet, but in upcoming episodes, how the fixed index annuity works, it's very similar to that.

18:49
Wade Pfau
It's just it needs to be classified as a variable annuity because you can have losses. And so the most common type of RYLA would be the 10% buffer option, where you're linking to an index like the SP 500. If the market is down, a 10% buffer would eat the first 10% of losses. So if the market was down, 8%. And by that we mean that the price return, not including dividends, if the market was down 8% and you had a 10% buffer, you'd be credited with 0% for the term. But if the market was down 16% and you had a 10% buffer, you would be credited with a 6% loss for the term. Just the annuity eats the first 10% of those losses at ten percentage points, and you're exposed to anything beyond that. But in exchange for taking that downside risk, you get more upside exposure.

19:38
Wade Pfau
There's more ability to serve a higher portion of the upside provided. So a fixed index annuity that has principal protection may cap the upside gains at ten to 12%. Right now, the RYLA could cap the gain. A RYLA with a 10% buffer might be able to offer you a cap of 25% to 30% at the present because it's less costly for them to build the downside protection since you're still exposed to some downside risk. Therefore, they have more ability to offer upside as well. And RILAs became popular during the Pandemic when interest rates got so extremely low. And we'll get more into the explanation about how all this works, but fixed indexed annuities may only have had 3% caps just because there was very little ability to offer upside when interest rates were like the ten year treasury is at 0.6%. We're not in that environment anymore.

20:33
Wade Pfau
But that's when RILAs really became popular as an alternative to a fixed index annuity, and they've maintained that popularity, and they can play an interesting role in retirement plans. And they are a type of variable annuity. It's just they don't have the sub accounts in the way that we would usually think of variable annuities having investment sub accounts. They're more a cousin of the fixed index. Thank you.

20:59
Alex Murguia
Wade for allowing me that little detour.

21:01
Wade Pfau

Sure. We're kind of building up with vocabulary right now. Then we're going to go into further episodes to get into more of the specifics. But yeah, that's the idea of the variable.

21:12
Alex Murguia
Now, are we going to use these words in a sentence? Are we going to use all these.

21:15
Wade Pfau
Words in a sentence? Yes. Create a sentence using the words fixed and variable. Yes. And it's again, a fixed index annuity could have a variable return, but the idea is it provides principal protection, whereas a variable annuity could choose a sub account with a fixed return, but it potentially is exposed to losses.

21:39
Bob French
If you're still wondering whether or not annuity is right for you or if the one that you have is still appropriate, reach out to the team at McClain Asset Management by visiting Mcclainam.com. That's Mcleanam.com.

21:54
Wade Pfau
Now, that was the easier set of vocabulary. The harder one is immediate versus deferred.

22:09
Alex Murguia
And again, don't think of English conventions.

22:13
Wade Pfau
Well, the bigger problem here is they refer to two different things in the annuity landscape, and that's the problematic part.

22:22
Alex Murguia
That's free too.

22:24
Wade Pfau

So immediate versus deferred can technically what it refers to is when is the contract annuitized and annuitizing the contract is the act of entering into an irrevocable relationship where you're exchanging the value of that contract for a specified set of payments, often for a lifetime. It doesn't have to be for a lifetime, but a set of specified contractually defined payments. Many annuities are never annuitized. Usually it's only the and we'll get into this more. But the income annuities are generally the annuitized. Annuities a single premium immediate annuity, the deferred income annuity. Those are generally annuitized. But most all other annuities are not annuitized. They are left in the deferral state.

23:17
Alex Murguia
This is an important point. This took me a while. I remember when I was reading about this the first time and just understanding it, this particular statements, the particular statements that Wade have made for folks listening to the first time, at least it took me just, I don't know, third hearing or whatever to really understand that concept. Like it's annuitized and when it's not, and many aren't for various reasons. But just because you buy annuity, so to speak, doesn't mean it's annuitized yet.

23:49
Wade Pfau
Right? And so in the broader consumer media, they'll talk about annuities are irreversible. Well, that would be annuitized contracts, which are actually quite rare in practice. Well under 10% and I think even under 5% of annuities get actually annuitized. But that would be the irreversible scenario. And that can be done. Any annuity offers the ability to be annuitized. That's really the heart and soul of the definition of the annuity. It's just with the way they're used in the United States, it's very rare to actually annuitize the contract. The other area where these words are used is when do lifetime payments begin? Do they begin immediately? An immediate annuity will begin payments within one year of the contract being annuitized. A deferred immediate annuity would begin payments 13 months or later after when the annuity is annuitized.

24:52
Alex Murguia
But you're not deferring the annuitization when you buy a deferred immediate annuity. That's the other kind of like gotcha right.

25:02
Wade Pfau
And we have to introduce another term into the conversation to make it more clear. We now have living benefits, the ability to add a guaranteed lifetime withdrawal benefit that will support a guaranteed lifetime income payment. That is an optional writer added to the contract. That's not annuitizing the contract. It's allowing you to keep the contract in a deferral state. But by paying for the writer. What it's saying is if the contract ever depletes in value as you're taking the payments you're allowed to make, taking the distributions you're allowed to take, then the contract enters a settlement phase where you could say,

technically the contract would be annuitized at some point in the distant future because that's when the insurance company is on the hook has to settle has taken they've been charging you fees over the years now. They have to make do on the promise and provide you a guaranteed payment for the rest of your lifetime.

26:01
Wade Pfau
But that's what a guaranteed lifetime withdrawal benefit does. Now, that gets us into the scenario where you can have an immediate annuity that defers payments into the future. You could have a deferred annuity with a guaranteed lifetime withdrawal benefit that starts lifetime payments immediately. So there's a lot of vocabulary here, and if you're just learning about this for the first time, it can get confusing. It's probably worth reviewing. Again, the idea of immediate versus deferred can refer to two different things. It does refer to two different things. Is the contract annuitized immediately, or are you deferring the idea of annuitizing the contract and potentially never annuitizing the contract? And then when do lifetime payments begin? If you're annuitizing the contract immediately and starting payments immediately, that's the true meaning of an immediate annuity. But if you annuitize the contract immediately, deferred payments into the future, that's a deferred immediate annuity the technical name.

27:07
Wade Pfau
So we have this bia usually we call it a deferred income annuity, and the term income annuity really means immediate annuity. You've annuitized the contract. So a deferred income annuity technically is a deferred immediate annuity, and that's really complicated. But it's immediate annuity because you're annuitizing the contract. Now, it's deferred because the lifetime payments will not begin until at least 13 months after the contract was annuitized. And then usually like a variable annuity or a fixed indexed annuity or a RYLA registered index linked annuity. They're all deferred annuities. You're not annuitizing the contract. You could if you wanted to, but you generally don't. And they may or may not have an optional lifetime living withdrawal benefit. If they do, you can start lifetime payments without.

28:04
Alex Murguia
But to be clear, just because you said these things are deferred annuities, they're deferred annuities. They are not deferred immediate annuities or deferred income annuities. Those other ones, they're just deferred annuities.

28:18
Wade Pfau
Deferred.

28:19

Alex Murguia
The other thing you may be thinking is, yeah, deferred in the English definition of the sense.

28:24
Wade Pfau
Well, you're deferring the other sense. Perfect.

28:29
Alex Murguia
There you go. Yeah, you said it better, but people could be listening, and you said it earlier, but I want to make sure they understand. Well, how are you getting income if you're not annuitizing? And that comes from the writers that Wade was referring to the writer, which is kind of like an add on to the contract that provides the income even though you haven't annuitized it. That's for the deferred annuity.

28:55
Wade Pfau
Yeah, and that's for a later conversation, too, because you could take out non lifetime distributions. Most contracts would generally have something like maybe you're allowed to take up to 10% of either the initial premium or the value each year without facing any of the surrenders, which is we have to get into all that when we start talking about deferred annuities. Or you could have the guaranteed lifetime withdrawal benefit, which is defining how much you're allowed to take out each year. And if you don't exceed that amount, that's where you're paying for this insurance that will continue the promised payments, even if that act of taking those allowed distributions causes you to deplete the underlying value of those assets of the contract value of the annuity. So I hope you're not confused about that. This is going to be a constant source of confusion as we go through the episodes because it's tough because these terms immediate and deferred you said, I.

29:54
Alex Murguia
Hope you're not confused about that.

29:56
Wade Pfau
You got it.

29:57
Alex Murguia
Did you just say I hope you're not confused about that? And then your very next sentence is this is a constant source of confusion.

30:04
Wade Pfau
It is. I've talked about these issues enough to know that there are certain things that no matter how many times you say it and it's going to come up over and over. So here's where we're explicitly talking about it. Immediate versus deferred means two different things. Technically the true meaning is the contract annuitized or is that decision to annuitize being deferred? But also you might annuitize the contract and then it means are the payments starting immediately or are they deferred? Or you could have a deferred annuity with a living benefit where you do start taking lifetime payments immediately, but you've not annuitized the contract in that scenario. So that's the world we're dealing with as we get into our future episodes and start going one by one through the different types of annuities that are out there in that regard. The next episode we'll have is on the whole world of immediate annuities on the rare case where you're actually going to annuitize the contract.

31:08
Wade Pfau
But before we get to that, maybe finishing this episode, we could take a tour of the Risa matrix and just think about where these annuities may fit in because it gives us a chance to use some of the vocabulary we just covered with our discussion here.

31:27
Alex Murguia
I'll kick it off with it just basic that since people may not have been the Risa, may not be fresh in their minds. Theresa is effectively a quadrant. The retirement income style awareness that defines that helps identify how you want to source retirement income based on two preferences. Those preferences being optionality orientation and an optionality or commitment orientation. So think of those on two spectrums. Optionality is at face value that you want to keep your options open with regards to how you want to source retirement income. Commitment orientation is you don't mind locking down on a solution if it solves for your income needs for the rest of your life. So that's sort of one factor. The other factor is safety first and probability base. Probability base being that you're comfortable betting on the probability that an underlying asset will increase in value over time.

32:24
Alex Murguia
Hence you can take a sustainable withdrawal rate from it. That's a probability based approach and a safety first approach is one in which you understand that probability concept, but you feel safer with contractual income. You want to take the liabilities of your future income needs and pass it over to an institution or some sort of contractual obligation and so on. Those two factors optionality commitment, orientation, safety first and probability base. We can identify retirement income strategies such as total return. And then the next three that I'm going to list are those that have a role for annuities, risk wrap, income protection and time segmentation. Wade, take it away.

33:07
Wade Pfau
Yeah. So then thinking about just how annuities fit into that. So when you're in that top half of the Matrix and you have that optionality orientation, you're probably not interested in annuities for the lifetime income protections. So the insurance value of annuities may not be as appealing. In general, annuities may be less appealing, but there can be some cases in the optionality half of The Matrix where we began the episode with this idea that annuities should not be treated as an investment. And that's where so much of the simple kind of naive idea people have is oh, annuities are a terrible investment. Well in the top half of the matrix. There may be some opportunities where you treat the annuity more like an investment because you're not thinking to ever annuitize it or to have a living benefit to provide a lifetime income from it, but you're treating it more.

33:59
Wade Pfau
As an alternative way to get a fixed income like return that also can provide tax deferral compared to if you just had a taxable bond up fund. So in the total return quadrant, that's where you're least likely to be interested in annuities at the margins. You might consider a registered index linked annuity because it can just provide an interesting structure around the returns from the stock market. And then there's also we call them Iovas or investment only variable annuities. Where the idea is it has to be a low cost variable annuity but you're using it for tax inefficient asset classes to just get additional tax deferral for those inefficient asset classes. Everything comes out of the annuity as ordinary income. So you don't want your stock market index funds in an investment only variable annuity. But if you do have actively traded funds or bond funds and so forth, housing those inside a low cost variable annuity can be a cool way to get additional tax deferral and not have to pay the ongoing taxation on interest and dividends and all the gains from trades internally within those funded sub accounts on the time segmentation.

35:14
Wade Pfau
Quadrant. Now we're entering more the world of fixed annuities but being used for their credited interest, not for any sort of lifetime protections. That could be the MYGA, the multi year guaranteed annuity, which is sort of like the CD equivalent in the annuity world, just providing the additional tax deferral as well, or different types of deferred fixed annuities, whether that's a fixed indexed annuity that provides a variable return although principal protection not less than zero or some other type of fixed return product which you could pick the sub option not sub account, but sub option and a fixed indexed annuity providing a fixed return. Or you could just have a more general deferred fixed annuity that provides a fixed interest return. Then in the lower half of the matrix, that's where we start talking about annuities for lifetime income. And if your income protection more, that safety first orientation with commitment.

36:14
Wade Pfau

That's where you'll be thinking more along the lines of the immediate annuities. Now that we have that vocabulary, you're going to annuitize the contract, and that's a single premium immediate annuity, a deferred income annuity. Also, you might look at different types of deferred fixed annuities, such as a fixed index annuity with an optional guaranteed lifetime withdrawal benefit that could provide a payout that's competitive to the single premium immediate annuity or deferred income annuity. Then if your risk wrap in the lower right, so you're more probability based and commitment oriented, then you're probably going to look more at the variable annuities with living benefits and that's registered index linked annuities or just the traditional variable annuity with the investment sub accounts. Now, generally the reason why they may appeal more to risk wrap is if the market does really poorly, the protected lifetime income is probably going to be lower than with a more of a fixed annuity approach.

37:20
Wade Pfau
But they give you that opportunity to grow the underlying sub accounts. And if markets do decent over time, you might be able to generate a lot more spending with step ups to the protected income amount and so forth to give a better overall experience. And because you're probability based, you would be more comfortable relying on the idea that markets might perform at a reasonable level so that you, in the long term could benefit more from that sort of variable annuity structure, but with a living benefit. And you're committing to the contract, and you have a protected lifetime income that serves as a guardrail around what the market is doing. So that's the universe. And really what we want to do in future episodes is devote more attention to these different types of annuities and making sure everyone understands how they work. And to do that, we'll go into the next episode on immediate annuities, the true immediate, the annuitized contracts.

38:21
Alex Murguia
I think it's great, man yeah. And look, we realize this is new information for some or maybe some folks. They didn't think it was new, but it became new upon listening to this. And we're going to be reinforcing this throughout the arc. So this won't be the only episode where we'll try to take a step back and just do a little definitional layout as well. But thank you for listening. Wade anything else.

38:48
Wade Pfau
Yeah. Thanks, everyone. We'll catch you next time on Retire with Style.

38:54
Bob French
Wade and Alex are both principals of McLean Asset Management and Retirement Researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be

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