I’m Done!

Andy and his high school sweetheart went off to different colleges. One of those four years was hard on their relationship, but they returned home that summer and have been together ever since. They married after his first year in law school and her first year towards getting her master’s degree. He interned, passed the bar exam, and got a job an hour away. They picked up, moved to their new town, and dug in for the next 45 years.

Carol was in high school administration. As two working adults, they still found the time to have three children. With their kids’ school, sports, and church, they were well entrenched in their community. It was hard to find a bleacher or sideline for 20 years where one of them wasn’t in attendance.

Andy was soon to turn 55 and had enough money from his income properties, his future pension, and his savings to make it to, and through, retirement. Practicing law was high stress, and he wanted to get out and do something else, maybe teach. Carol loved her job and loved working with the youth coming through. She and Andy were the same age, but she saw no reason to leave what she loved.

Then the unthinkable happened to Andy: in the fall of 2008, the investment firm his company used had gone all in. In Andy’s words, “when the market collapsed, our investments went nose over and straight down into the tarmac and never bailed on the way down.” He was devastated. The investment firm was well known and well thought of. His company thought they had the best of breed for their attorneys.

Andy had circled 12/31/2008 on his calendar for years in advance. That was always going to be his last day, and he did everything he could to set himself up to make that happen.

By the end of October of 2008, Andy’s portfolio was down over 70%. In indsight, everyone involved had an overexposure in equities, and it was primarily with many of the big-name companies that had failed, were now gone, or were bailed out by the government. With his head in his hands, Andy went and spoke to his partners and told them he was forced to stay on. This came as no surprise, as his partners were in the midst of the same portfolio crisis.

It was mentally harder to stay than physically demanding. He was an expert in his field of practice, and he was still young, but emotionally it took time to get going again. Carol was growing increasingly concerned about Andy’s health. The stress on him was again mounting, and he wasn’t dealing with it well.

A few years later, as he was sitting in his office, he began to sweat in a building where every room is 72 degrees. He felt nauseous and decided to walk to the bathroom in case he got sick. As he got closer, he felt tightening in his left shoulder and chest. He was now in a cold sweat and vomited immediately when he got inside. He washed his face in cold water until he felt well enough to walk out of the bathroom.

He passed his assistant on the way back to his office. She remembers how he looked very odd and asked, “Are you alright?” Andy said that he was fine, grabbed his car keys in his office, turned, and left. He foolishly decided to drive to the hospital. When he got to his car, he called his cardiologist, told him what had just happened, and asked if he should drive back to his office or to the hospital. “You’re DRIVING?!” His doctor said to go straight to the ER. Andy called his wife and said, “Hey, I’m heading over to the hospital for some precautionary tests, I love you!” Carol heard the message and knew there was a lot more to the story, so she raced over and almost beat him there.

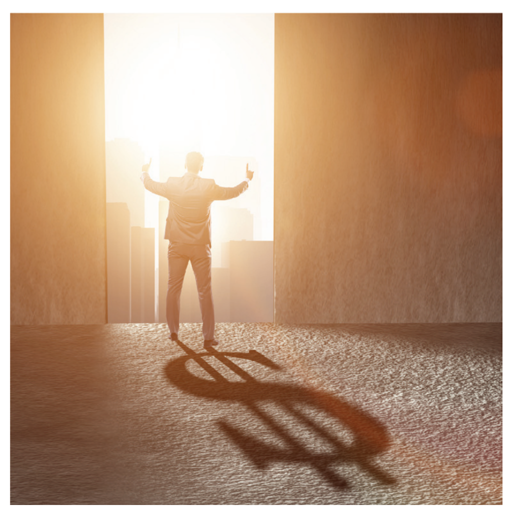
Andy had obviously suffered a heart attack. He survived, as did everyone else on the roads he took that morning. But Carol was furious with him. They needed a new plan. Andy was to slow down, work part-time and delegate, train his staff around him. This would be the teaching job he had talked about years earlier.

Andy did everything they discussed, and ten years after his first circled date, he retired: 12/31/2018. His stress seemed to end in mid-December. He knew with the holidays in front of him and his workload being handled by his staff, he was free from all that pressure. He was home alone almost every day - no phone calls, no emails, no interruptions, just quiet.

Carol had her own date to retire; hers would be at the end of the school year, with an official date of 6/30/2019. As they entered retirement and looked at the future, a few things were clear: they had two homes and wanted to keep both, and their children and grandchildren enjoyed those places too. Now came the mutual planning; both had pensions, but what if one of them died early? They solved that with some small individual life insurance policies.

A few years earlier, they would have fun answering who will live the longest. Andy’s trip to the hospital answered that question. They sat and penciled out. If alone, how much would Carol need in stable, annual income? The answer came to $180,000. He asked his advisor on avenues to attain that guaranteed income they wanted to pay Carol for the rest of her life. Andy’s pension was $5 million, and he wondered what they could achieve by repositioning a portion of those funds into some annuity contracts with A+ rated carriers.

Andy owned an old Whole Life policy with $131,326 of cash surrender value. The death benefit wasn’t a lot more, and the original carrier had been bought and sold a couple times and was underperforming. In the end, he’d rather put the cash inside that policy to immediate use for his goal of building income for Carol. He rolled the money into an annuity through a 1035 exchange. That brought Carol a joint income after 5 years of $9,245 a year.

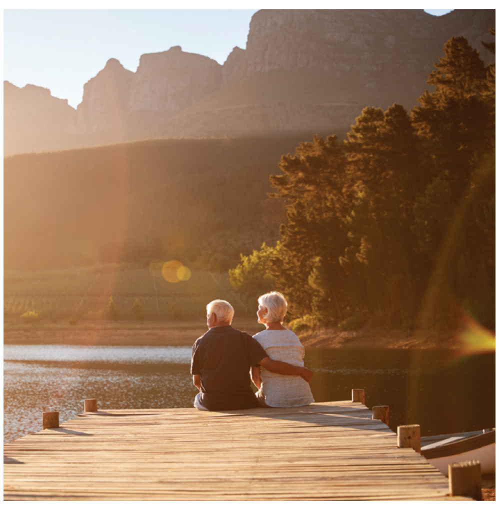


Andy spent a great deal of time working through his thoughts on what best to do. By pulling out $2 million of his $5 million in the pension, he’d have a guarantee should the world’s economy meltdown again as it did in 2008. Having a safety net, he could then modify the investment strategy in his pension portfolio and get more aggressive. And do the same for his person-managed assets. He decided to move his allocation to a 60% equity/40% bond allocation once he had the balance of annuities in place.

By the fall of 2019, both were retired, they had taken a long car trip around half of the country, and now they needed to begin their planning. Andy moved $2 million from his pension into three separate Index Annuity contracts. All three were set to annuitizing at year 5. By November of 2019, everything was moved, and policies were issued and in force. Finally, luck favored Andy.

After the disastrous fall of 2008, the markets began to move in his favor. The ten-year treasuries he had just liquidated had a yield between 1.6-1.7%. Of the $3 million left in the pension, he reallocated, and 40% was now in treasuries, which was $1.2 million. Over the course of the next year, those same treasuries dropped to .5% yields. If he had procrastinated and purchased the annuities in the fall of 2020, the cost difference would have been enormous and possibly would have kept him from making a move until his values returned. Just like having to go back to work for ten more years.

He made this move in his pension and his personal managed account and in good time. His equities averaged over 21% in the year after he purchased his annuities. His financial safety net was in place, and he looked like a genius.



Annuity sales are down due to the low-interest rate market. But the question about the product isn't when is the best time to buy, but what are you trying to achieve?

Andy and his advisor stayed on schedule until the plan was complete. That gave Andy and Carol the time to purchase annuities with a five-year vesting period before the withdrawals would start. This coincides with the time when they need to take their Required Minimum Withdrawals. By not being forced to use a SPIA, their returns were not interest-sensitive to the market. Instead, they used Indexed Annuities.

The Index Annuities that Andy chose have a 7% kicker that increases the amount his income is based on annually while inside his deferral phase.

For Carol, it looks and feels more like a product that indexed for inflation. And the 7% is well above CPI.
Andy had spent a great deal of time researching everything that was discussed; it was in his blood from his years as an attorney. He came completely prepared for each meeting. In one such meeting, he brought up, "I see a great deal of ads that say annuities are a bad investment."

Andy finally came to his own conclusion: "I had no idea something like this existed."