NaviPlan®
by Advicent

Annuitize-to-need strategies in retirement scenarios

Functions addressed in this document:

- What is the annuitize-to-need strategy?
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- How is the income gap defined?
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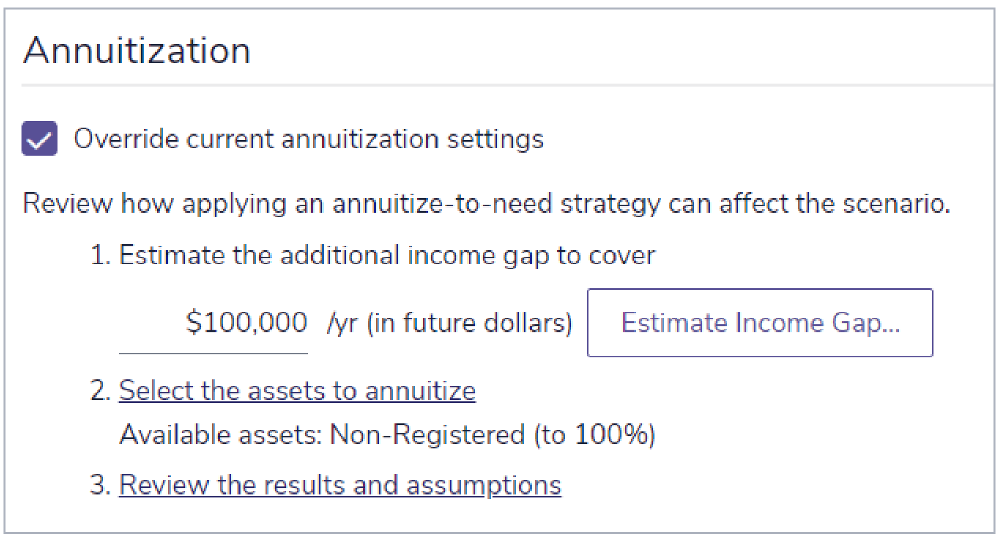

Results - Analyze Goals - Edit <plan> - Retirement Goal - Annuitization

What is the annuitize-to-need strategy?

The annuitize-to-need strategy can be used to automatically convert non-annuity assets into a fixed income stream at retirement in order to cover a defined fixed income gap. You can illustrate the effect that adding more fixed income has on clients' ability to meet their stated retirement goal. You can also compare a retirement scenario that does not include an annutize-to-need strategy to one that does include an annuitize-to-need strategy, where less exposure to rate-of-return volatility may result in an enhanced ability to meet the goal.

Who should consider an annuitize-to-need strategy?

In NaviPlan, an annuitize-to-need strategy is designed for clients:

- Who are close to retirement or have already retired.
- Who can reasonably expect to meet or exceed their life expectancy.
- Who want to minimize market risk and volatility.

How is the income gap defined?

There are two types of income gaps. The first gap is the deficit that exists between your clients' fixed retirement expenses and fixed retirement income. The second type of income gap is the gap that exists between your clients' total retirement expenses and fixed retirement income. You can choose which gap you want to cover.

You can estimate the income gap by using the options under **Estimate Income Gap** in retirement (click **Estimate Income Gap** on the **Annuitization** tab). The graph and tables in the box show the clients' fixed expenses, total expenses, and fixed incomes throughout retirement. With this information, choose the gap you want to cover with additional annuity income.

Example: Prior to entering an amount for **Estimate the additional income cap to cover**, the Average Fixed Expenses Gap throughout retirement is $155,234. This amount represents the average of the fixed income gaps for each year throughout retirement.

Each year NaviPlan automatically calculates the **Payment per $1,000** value. This amount can be overridden to more closely match your clients' annuity contract. The **ROR %** (rate of return) value defaults to the scenario inflation rate but it can also be overridden. Both variables can significantly affect scenario results.

> **DID YOU KNOW?** In the **Estimate income gap in retirement** dialogue box, values can be shown in either today's dollars or in future dollars. If you change the dollar type option, you must click "calculate" to update the tables.

Fixed needs (incl. taxes) includes all retirement needs except expenses marked as discretionary by clearing the fixed needs checkbox. It includes items such as:

- Expenses for which **Fixed exp.** is selected
- Regular liability
- Loan payments and debt modification strategies
- Life, disability, and long-term care insurance premiums
- Income taxes and property taxes

Total needs (incl. taxes) includes all retirement needs. It is the fixed needs (incl. taxes) plus expense records marked as discretionary by having the 'fixed' checkbox deselected.

Fixed incomes are retirement incomes produced from the following income types :

- Defined benefit pension income
- CPP/QPP & OAS income
- Annuity income (excludes annuities with income option **Withdrawals as Needed**)
- Salary
- Pension (incomes entered as pension; does not include registered account redemptions or required minimum distributions)

How does NaviPlan indicate that the gap has been narrowed or eliminated?

Once you have entered a dollar value in the **Estimate the additional income cap to cover** field in the **Estimate Income Gap** in retirement" dialogue box, click **Calculate** to update the gap table and **the Annual Retirement Income/Expense Summary** graph. The graph displays the fixed income gap in each year of retirement, including income from new system-generated annuities after being updated.

Example: Continuing with our example, covering roughly 33% of the previously projected **Average Fixed Expenses Gap** of $155,234 - or $50,000 - results in a significant reduction of the **Fixed Expenses Gap** in 2035 from $104,689 (refer to previous example) to $53,448 and in 2044 from $136,595 to $85,491.

Once you have identified the gap you wish to cover, you should review the **Goal Coverage** amount on the **Annuitization** tab. If goal coverage has declined, your attempts to cover the gap may be unrealistic due to a lack of available resources to cover remaining discretionary retirement needs.

DID YOU KNOW? Implementing an annuitize-to-need strategy may result in a large portion (or all) of the client's existing non-annuity accounts being used to fund the system-generated annuities. This leaves less funding for retirement needs over and above the estimated income gap, which—in turn—may result in a reduced goal coverage percentage.

This illustrates the trade-off between lowering risks by converting non-annuity accounts to fixed income streams versus accepting the risk associated with potential fluctuations of returns on the existing non-annuity accounts. The goal may need to be moderated to support the fixed income strategy.

If the estimated income gap is too high and there are either not enough assets available for annuitization or there are not enough assets in the plan to purchase the required fixed annuities, a message appears under the graph below "annual retirement income/expense summary". Either more account types can be made available for the annuitization strategy or the estimated gap can be reduced.

How is the risk/return trade-off of an annuitize-to-need strategy represented?

Implementing an annuitization strategy can reduce the dependance on assets with fluctuating returns. By covering a fixed income gap in retirement with a level of guaranteed income, there is less uncertainty about the clients' ability to sustain that portion of the retirement needs. This can be illustrated with a side-by-side comparison of "scenario probability" graphs which compare the scenario that does not contain the annuitize-to-need strategy and the scenario that does contain the strategy.