

**Always Buy the Right Annuity for You.**

Ross F. Hoffman President  
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“An annuity is a very serious business.”

**Jane Austen**  
*Sense and Sensibility*

Most people consider Jane Austen’s book *Sense and Sensibility* a must read. She is considered one of the best female writer’s in the 19th century, and for income and estate planning ideas today in the 21st century.

Why? The reason “an annuity is a very serious business” in her book, and perhaps in your life today, is the father character, Mr. Henry Dashwood. He dies; and his estate plan leaves his wealth to his son, and not to his second wife and the three Dashwood daughters who were all left penniless and homeless.

As a business, estate and investment advisor, I wrote this annuity article for you, because I don’t see how anyone would want to retire without a guaranteed source of income. Like the Dashwood’s story, serious business requires serious advice.

Most people including their advisors don’t know anything about annuities, much less how to effectively use them. It’s sad, but true. One of the reasons is there are so many different types from which to choose, plus people are told they are expensive. The question I ask is, how do you put a price tag on a secure lifetime stream of income?

Annuity types include fixed, immediate, deferred, variable and indexed. Some of these types are further complicated by “caps” which are a ceiling on upside participation, and “spreads” which are the hurdle rate before any upside participation.

# Always Buy the Right Annuity for You.



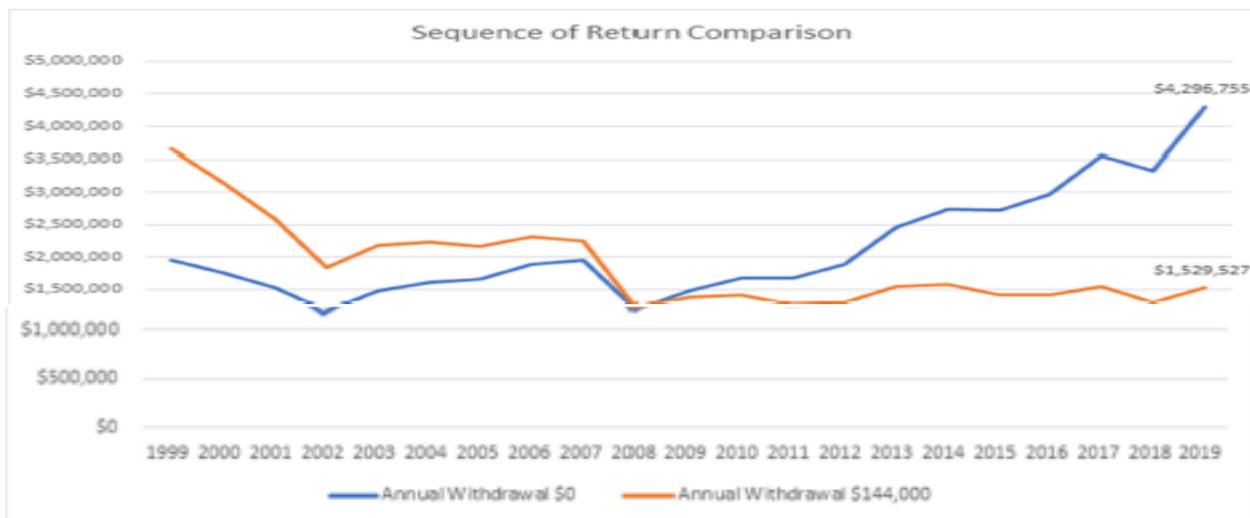
**Confused?** If you are still with me, most of my clients prefer the value of the portfolio when the income is provided by an annuity represented by **The Blue Line** rather than when the income is taken out of the portfolio represented by **The Orange Line**.

In addition, most of my clients come to understand the three major risks to their retirement income planning:

**1. Withdrawal Rate.** Taking more money out than the portfolio could withstand, potentially exhausting the portfolio while they are still alive.

**2. Sequence of Returns.** The risk of a down market occurring when you need steady distributions from your portfolio. Distributions during down markets can drain a portfolio rapidly and hamstring the portfolio's growth during recovery.

**3. Longevity.** This is the risk of outliving your money. The longer you live, the more you compound the other risks. These risks make sense when you consider them in your planning along with the compounding impact of down markets. The Sequence of Return Comparison Chart\* illustrates the results of **The Blue Line** and **The Orange Line** planning ideas.



\*See Appendix for how we calculated this Sequence of Returns Risk comparison.

## Observations

The reality is that using annuities can provide retirement income security like few other strategies. DeMonte and Petrone in their 2010 analysis found there was no other investment vehicle that could match the income annuity for providing retirement income security. This is especially important today because of longer life expectancies due to better health care and standards of living.

What I have found, however, is that many retirees are using a diversified portfolio of stocks and bonds to provide their retirement income.

Why do they do it this way? There are several reasons, but here are two:

1. The brokerage firm may not want them to know, because they don't want to lose the assets under management producing an ongoing fee; or
2. The person just may not know there may be a better way. In short, they don't know what they don't know.

Think about this as a possibility. Giving up control over some of your retirement funds in exchange for a guaranteed income can often be an advantageous and intelligent decision. This should be considered in order to cover your minimum living needs, so you never have to worry about running out of money.

## Client Case: How We Got to **The Blue Line** v. **The Orange Line** Numbers

A couple of years ago I was referred to a lady age 84. She told me she needed \$14,500 per month including her Social Security to meet her income requirements. She had been with a stock brokerage firm since her husband died approximately 15 years prior, just after selling his business.

As a result, she started with \$7.5 Million and the account was now down to approximately \$3.2 Million. She felt like the brokerage firm had lost a lot of money plus her children and grandchildren were always asking her to give them some money to help them out. Her broker told her she was just taking too much out of the account and now she was very concerned about running out of money.

From the above details, I could see three risks present in her circumstances: withdrawal rate risk, sequence of returns risk and longevity risk as defined previously.

Compounding these risks was the difficult position her children and grandchildren put her in when they kept asking her for money because they thought she was rich. Maybe it's a good idea not to have all your money readily available.

To address the above-mentioned risks, we helped the client acquire a lifetime income annuity which guaranteed a portion of her desired monthly income. Her Social Security did the rest.

The balance of her assets remained in her stock and bond portfolio to offset the inflationary impact on her income, to make gifts to her children and grandchildren, to pay for travel, unexpected medical costs, and provide for charity or to be left as inheritance.

In addition, both the client's Estate Planning Attorney and CPA approved the use of the annuity plan. It is highly unlikely our 84-year-old client will live to 104, but it is not impossible given the quality of health care today. I have another lady client who is 101.

This was the perfect time for her to consider exchanging some of her assets for a lifetime income annuity to guarantee the income she needs for the rest of her life. This decision gave her the peace of mind that she would never run out of money.

The question I am always asked, is this the best time for me to make a decision? My answer is always the same. If someone gets lucky and catches several years they may get better results, but luck is not a strategy. The future is always an unknown.

My question is, when planning for long term retirements of 20, 30 or more years, why take the unnecessary risk?

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Even if you may not want an annuity, you should still understand them and how one might work for you. Just remember, you will ultimately have either a **Blue Line** or an **Orange Line** in your future.

So, what happened this year, 2020? Nobody knew until now. As of the writing of this article we are in the last part of the month of April 2020. Yes, you know we are acing the Coronavirus (COVID-19), shelter in place in most of the United States, and an S&P 500 down market from a high 3386 on February 10th to a low of 2237 on March 23rd, down almost 35% in less than one month.

What I do know so far in 2020 is that people are asking for more information about income allocation and retirement. If you would like to know more, I would be happy to send you two of my articles.

One is called Income Allocation over Asset Allocation - How to Secure Your Peace of Mind, and the other is, Do You have a Minimum Wage Retirement Plan?

Please call me at my office telephone number below, with no obligation of course. In the meantime, be well and stay well.

## Concluding Thoughts

“People always live for ever  
when there is an annuity to be paid them.”

**Jane Austen,**

*Sense and Sensibility*

Many people have asked me what happened to the lady in our story above. A little more than a year ago, the client started to suffer from dementia. Her family moved her a couple hours away into a care facility where she could receive the attention she needed.

During this period of time the market was growing stronger and the family members began to question why we didn't invest more of the money in the market. They began to question the wisdom of the annuity.

Flash forward to today. The U.S. economy is shut down, and we are living in the greatest economic crisis since the Great Depression of 1929. Her family now sees the wisdom of not having all her assets at risk and she can rely on the income stream which will meet her needs for the rest of her life.

She won't be penniless and homeless.

Most of my clients and their professional advisors appreciate understanding completely the assumptions and planning required to reveal the difference between **The Blue Line** and **The Orange Line**.

Always buy the right annuity for you. This is why I don't see how anyone would want to retire without a guaranteed source of lifetime income.

Thanks to Jane Austen, we started this article knowing that “an annuity is a very serious business;” and ending with a bit of whimsy and irony.

**“People do seem to live forever when there is an annuity to be paid them.”**



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## **Ross F. Hoffman, President/CEO**

Hoffman & Associates, Financial & Estate Advisors, Inc.

Ross F. Hoffman is President and Chief Executive Officer of Hoffman & Associates, Estate & Financial Advisors, Inc. Ross helps estate and business owners maximize the value of their assets during their lifetime and upon transfer to future generations. Ross has over 40 years of professional experience in financial, estate, and investment advising.

Ross has earned over the years the most respected professional designations, including Accredited Wealth Management Advisor (AWMA), Accredited Investment Fiduciary (AIF®), Certified Financial Planner (CFP), Chartered Financial Consultant (ChFC), and Chartered Life Underwriter (CLU) designations. He earned his undergraduate degree from UCLA, has attended the U.S. Army School of Finance, and works closely with the Center of Fiduciary Studies based at the University of Pittsburgh.

Ross is an accomplished speaker and has lectured on Family Wealth Counseling, Evidence Based Investing, Exit Planning, creative uses of life insurance, and charitable estate planning to professional groups including the Ventura County Bar Association and the Santa Barbara CPA/Law Society; and has taught estate and gift tax planning. He is a former co-host of the weekly internet radio show entitled "Conscious Investing".

Ross coaches his clients through a proprietary process designed to help investors financially, intellectually, and emotionally manage and understand their wealth. Ross was in "Navigating the Fog of Investing", a documentary film on the investment industry.

Ross was a prior member of Vistage (formerly TEC), an organization for CEOs, for over 25 years. He was presented the Widest Range of Knowledge award as a Vistage member prior to retiring from the organization.

His community involvement has included Vice Chairman and Cabinet member of the Ventura County United Way, Technical Advisory Committee member for the Ventura County Community Foundation, Deferred Giving Board member for the Ventura County Medical Center, board member of the American Lung Association, board member of the Ventura County Planned Giving Council, Deferred Giving Committee member for the Boy Scouts of America and a past member of the Estate Planning Council. Ross has also been a board member of Segue, a nonprofit, dedicated to keeping kids from dropping out of school and helping them develop career paths.

Ross's outside interests include golf, daily workouts and spending time with his family. Ross recently authored the book Back and Better, 37 Rapid Recovery Exercises I Use When Injured or Bedridden.

## Appendix

Assumptions used to calculate the Sequence of Returns Chart on Page 2

I ran two Sequence of Returns Risk scenarios over a 20-year period of time from 1999 thru 2019.

I used the S&P 500 and assumed zero cost of living increases for simplicity.

1. **The Orange Line** starts with \$3,184,000 and assumes withdrawals of \$144,000 per year, which represents the \$12,000 per month. You can see the account value at the end of 10 years is \$1,238,396 and at the end of 20 years is \$1,529,527. The portfolio is down almost (-52%).

2. **The Blue Line** starts with \$1,635,139 and assumes no withdrawals, because I took \$1,548,861 from the \$3,184,000 portfolio to create the \$144,000/\$12,000 per month income with a 10 yr. certain and life annuity. As you can see **The Blue Line** account value at the end of 10 years is \$1,201,278, which is only \$37,118 less than the S&P 500 portfolio in **The Orange Line** example shown above at the end of 10 years.

What is really amazing is **The Blue Line** value at the end of 20 years is \$4,296,755 versus **The Orange Line**. The difference is \$2,747,894 because you don't need to touch **The Blue Line** portfolio to meet your income needs. The portfolio is up almost (+163%).

It's like night and day to me.

The above example takes us through 2019. Remember that in the last 20 years we experienced the Dot Com bubble, 911, and the financial crisis of 2008; all of which were devastating to markets. We also had some significant up markets after these events.

So, stay invested and get the advice you think is in your best interest.