**INCOME PLANNING IN RETIREMENT**

401(k) statement now tells you how much monthly income your savings will provide in retirement.

# NEW 401(K) LIFETIME INCOME PROJECTIONS COMING SOON

Thanks to the Secure Act, your company-sponsored 401(k) statement will soon tell you more than simply its lump-sum value. That's good news for people planning for retirement.

**by John L. Olsen, CLU, ChFC**

For over a generation, many people planning for retirement have faced one sticky challenge: They've never had a good estimate of how their nest-egg savings translates into an income stream when they retire.

Earlier generations rarely faced this problem. Their traditional retirement plans typically promised monthly income for life in the form of a defined-benefit pension. They would know how much they would get and could base their retirement plans on that number.

But many baby boomers born between 1946 and 1964 are not covered by traditional retirement plans. They've been caught in the generational shift from traditional pensions to defined-contribution plans, the self-directed 401(k)s and IRAs.

These types of do-it-yourself plans have proven very challenging for participants. It's up to the employees to decide which investments to choose during their working years. As they get ready to retire, they face even bigger questions. When will they make withdrawals from their retirement accounts? What will happen if their timing is off and the market turns down shortly after they retire? How will they actually manage their accounts over the years and make decisions regarding taxes and required minimum distributions (RMDs)?

One of the biggest sticking points about the self-directed retirement accounts relates to income. Many Americans simply don't have an idea of how their savings will support them in retirement and how much monthly income they can expect from their account.

## PROJECTED INCOME STREAM THE MISSING PIECE

Since its inception in the late 1970s, the value of a defined-contribution plan has been expressed to employees in terms of a lump-sum dollar amount based on the underlying investments in their account.

How that pot of invested money translates into monthly income has been a lingering source of confusion for people approaching retirement. Without any lifetime income estimate of the retirement account value, some baby boomers are retiring without fully knowing how much monthly income their nest egg will produce or how long it will last. And that has made retirement planning harder, until now.

## THE LIFETIME INCOME DISCLOSURE FOR EMPLOYEES

Thanks to the recent passage of the Secure Act, the largest overhaul of retirement rules in more than a decade, Congress has taken steps to end confusion about the lifetime income value of a worker's 401(k).

A key provision in the act will require company-sponsored retirement account statements include an annual "lifetime income disclosure." Once a year, employers must state the value of an employee's 401(k) savings in terms of a monthly check.

And employers will get specific guidelines from the government about how the lifetime income projections will be calculated and explained. According to the law, the disclosure will:

- Be written in a way that the average plan participant will understand.
- Explain that the projected monthly income is provided as an illustration.
- Explain the assumptions used to make the income estimates.
- State that actual lifetime income payments will depend on numerous factors and may vary substantially from the monthly estimate in the disclosure.

Retirement experts believe that this will encourage people to save more and to delay retirement until they can comfortably live on the amount of income their plan assets can be expected to generate in addition to Social Security and other assets.

## GROWING APPRECIATION FOR LIFETIME INCOME

The passage of the Secure Act is yet another signal of the growing appreciation for protected lifetime income. According to the Fourth Annual Guaranteed Lifetime Income Study by Greenwald and Associates, 73% of pre-retirees now consider guaranteed income as a highly valuable addition to Social Security, compared to 61% a year ago. Respondents said the greatest benefits of having a protected lifetime income are security against running out of money, peace of mind, and being better able to budget – all of which can make for a less stressful and happier overall retirement.

When people start to see a monthly income projection in their annual workplace 401(k) statement, it can only serve to spur more conversations about planning for retirement.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company. Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½. Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

Northern Lights Distributors, LLC, a FINRA/SIPC member, has been retained to facilitate FINRA review of the material in order to meet certain requirements of its business partners. Northern lights Distributors, LLC is not affiliated with The Alliance for Lifetime Income.