

What Do Low Interest Rates Mean for Retirement?

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Low interest rates

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Pre-retirees and
retirees

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When interest rates are low, you may have questions about how this affects your financial strategy. Low interest rates often make investors worry about lagging returns. Investors might consider adding income annuities to their retirement portfolio.

How to compare income-generating solutions when interest rates are low.

When looking at ways to achieve financial security in retirement, individuals need to compare a range of available income-generating options. At any interest rate level, creating retirement income from bonds or CDs may produce less income relative to income annuities since one's lifespan is never known.

With income annuities, that longevity risk is off-loaded to an insurance company, so higher levels of safe retirement income can be generated. Even when rates are lower, solutions like income annuities are more attractive on a relative basis.

Investors need not time the market when buying income annuities. Not only are income annuities less sensitive to interest rates, their payouts are not tied to the market. Some mutual companies like New York Life Insurance Company also offer income annuities with the opportunity for more income via non-guaranteed dividends.

It should be noted that income annuities have limited withdrawal features and investors should read the policies carefully for details. Bonds and CDs are more liquid (with CDs having shorter term). At maturity of the CD or bond, the purchaser recovers the full principal back. Keep in mind, too, that these products have differing insurance protections.

Even when interest rates fluctuate, income annuities make good sense.

Income annuities are less sensitive to interest rates than other fixed income instruments like bonds or CDs because part of an income annuity payout is in the form of "mortality credits." These mortality credits do not fluctuate with interest rates and are only available via the mortality pool of an annuity. Simply put, in low interest rate environments generating income from bonds or CDs is very expensive, especially when you need to plan for the chance of living to an advanced age. There is wide academic support for the finding that income annuities have an advantage to bonds or CDs in generating retirement income because they provide mortality credits that results in an income stream that one cannot outlive.

What you need to know about mortality credits.

An income annuity is a way to create a "pension-like" income for life. Because annuity premiums are based off mortality tables that estimate life expectancy at every age,

premiums paid by those who die earlier than expected contribute to the overall pool. This can provide a higher yield to survivors than individuals could achieve through individual investments. Mortality credits are a hedge against longevity risk, often creating an income stream that would be difficult to match in the broader financial markets.

In short, fluctuations in monetary policy will not have a great impact on income annuities. Income annuity payouts are not particularly sensitive to changes in interest rates or other economic debt instruments such as 10-year treasury notes. Income annuities provide a base of guaranteed income that might allow the purchaser to take more risk with the rest of the portfolio, knowing that a portion is guaranteed. Pre-retirees and retirees seeking solutions to address the range of financial risks in retirement, such as longevity, inflation, or sequence of return risks, can create a stable, guaranteed income for life through income annuities.

Mutual Income Annuity products are issued by New York Life Insurance Company, 51 Madison Avenue, New York, NY 10010. All guarantees are dependent on the claims-paying ability of the issuer. Available in jurisdictions where approved. The policy form number for the New York Lifetime Mutual Income Annuity is 214-P200. The policy form number for the New York Future Mutual Income Annuity is 215-P200. State variations may apply.

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