Income for life
A reader wants to know to if he should convert his $400,000 nest egg into an annuity stream.
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By Walter Updegrave, CNNMoney.com contributing columnist

NEW YORK (CNNMoney.com) - My wife and I are both 62 and retired. We receive Social Security and have a $400,000 stock portfolio that generates income of about $500 a month. Would it make sense to take money from our stock portfolio to purchase a fixed income annuity so we can increase our monthly income for life?

-- Eugene Phillips, Wyncote, PA

If you invest skillfully and manage withdrawals carefully, you should be able to make your portfolio last for a very long time. But there's always the chance that market setbacks or other problems could leave you in danger of running out of money later in life.

So buying a fixed-income annuity -- the type where you turn over a lump sum to an insurer in return for a fixed payment each month -- can provide some peace of mind. In short, it offers the knowledge that you and your spouse can count on monthly checks the rest of your life.

That said, you don't want to use too much of your stock holdings to buy an annuity. The reason is that once you turn over the money, you generally lose access to it. So if you "annuitized" your entire stock portfolio, you wouldn't have any money left for emergencies, large unanticipated expenses (a new car, say) or for the occasional indulgence.

So the question you and your wife must answer is how much of your stock portfolio might you devote to an annuity? Clearly, you will have to decide for yourselves how much guaranteed income you want (both from Social Security and the annuity) and how large a stash of liquid assets you would also want to

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**The numbers**

Just to give you a starting point for making your decision, let's play with a few numbers.

If you and your wife were to put, say, $100,000 of your stock portfolio into an income annuity that would pay both of you the same benefit as long as either of you were alive, you could receive about $525 a month.

If you felt you needed more income, you could put $200,000 into the annuity, and receive about $1,050 a month. Those payments, of course, would be in addition to Social Security benefits.

By the way, the annuity payment option I've used in this example is called a "joint lifetime income annuity with 100 percent to the survivor."

You could choose another option, 50 percent to survivor, which would provide a higher initial benefit, but that payment would be cut in half after you or your spouse died.

For more on annuity payment options as well as estimates of how much income you might receive at different ages and for different amounts of money, go to immediateannuities.com.

There are some other things you need to keep in mind.

First, unlike your Social Security benefit, which will be adjusted upward with inflation each year, your annuity payment will remain the same. That means its purchasing power will decline over time. If that becomes a problem, however, you should be able to deal with it by drawing money from your other investments.

In addition, a portion of your monthly payments will be taxed as ordinary income. The remainder of your monthly payments won't be taxed because it will be considered return of your original payment -- though, remember, you'll have paid capital gains tax on that portion when you sold your stocks to send cash to the insurer. The annuity provider will be able to give you a breakdown of the taxed and non-taxed portion.

As for your portfolio, I think you should consider diversifying it beyond stocks. True, at 62, you and your wife probably have decades of life ahead of you, and so you should have a considerable portion of your portfolio in stocks.

But keeping all of your investments in stocks would be a bit too aggressive. So I think you should look into adding some bonds to your holdings. For some guidance on what sort of stocks-bonds mix makes sense for someone in your position, I suggest you check out two features that ran as part of the "Dream Retirement" cover story in MONEY Magazine's November issue: A plan for every stage and The right investment strategy.

To sum up, you and your wife are fortunate in that you've been able to accumulate a sizeable pool of assets. And if you consider the issues I've raised and follow the advice outlined in the articles I've mentioned, the odds are good that you'll be able to rely on those assets to support you throughout what I hope will be a very long and satisfying retirement.

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Walter Updegrave is a senior editor at MONEY Magazine and is the author of "We're Not in Kansas Anymore: Strategies for Retiring Rich in a Totally Changed World."