Retirement Income Basics and Annuities

Understanding retirement income basics, the role annuities play, and how they protect you from outliving your savings — a benefit known as **protected income**.

What Is Protected Lifetime Income?

There are only three sources of income that you cannot outlive: your Social Security check, your pension check, and an annuity. All others are considered **probable income** since they can go up or down based on the markets and other factors.

Protected Income

Income you can rely on:

- Social Security
- A Pension
- An Annuity

Probable Income

Income that can vary:

- Interest income
- Stock dividends
- Alternative investments (options, gold, art)
- Rental income

What Is an Annuity?

An annuity is an insurance product that can help meet various financial goals. One of its most important features is that annuities allow you to turn part of your savings into steady, protected income for the rest of your life. Think of it this way: you insure your home, your health, and your cars — annuities allow you to insure your retirement income.

How Do Annuities Work?

1. You purchase an annuity from a life insurance company. It can be through a lump sum or multiple payments.
2. Your money can grow tax-deferred until you withdraw it.[3]
3. You can convert your annuity into protected income for a specified period of time — or you can choose an option for payments to continue as long as you live.

[3] Qualified retirement plans, such as a 401(k) or traditional IRA, also offer tax-deferral.

> *“Protected income isn't about avoiding the market — it's about making sure your essential expenses never have to depend on it.”*

How Much Income Do You Need in Retirement?

A 3-Step Framework

1 **Identify the cost of your basic needs.** Start by prioritizing expenses into three categories:

- **Needs** — essentials such as the mortgage, utilities, and groceries.
- **Wants** — expenses for a comfortable retirement lifestyle (dining out or traveling). Note: it's fine to earmark special passions as a basic need.
- **Wishes** — extras, once basic expenses are covered (charitable giving, a second home, etc.)

Add your monthly expenses based only on your needs, plus any wants you can't live without.

2 **Add your protected income sources together** (choose any that apply):

Social Security + Pension + Annuity = Total Protected Income

3 **Subtract your total expenses from your protected income.**

If the result is positive, you have a surplus. If negative, you have a shortfall.

Retirement Income – Basic Monthly Expenses = Surplus or Shortfall

When your retirement expenses and income are clear, you are better prepared to fund your lifestyle and address any shortfall.

Content on this page is adapted from the Alliance for Lifetime Income's consumer guide *"Retirement Income Basics and Annuities"* (ProtectedIncome.org, revised 12/17/24) and is provided for general educational purposes only; it is not investment, tax, or legal advice, and does not describe the features, costs, or guarantees of any specific product. Any guarantees associated with an annuity are subject to the claims-paying ability of the issuing insurance company. Annuities are not a deposit, are not insured by the FDIC or by any government agency, and may lose value.

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"A clear picture of your income need is the first step toward a retirement that doesn't depend on the markets cooperating."