How to Secure a Lifetime of Guaranteed Income Outside the Social Security System
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By Dr. David Eifrig Jr.

Starting today, I want you to look at retirement in a completely different way.

Erase the dangerous information you’ve been spoon-fed since you were too young to know the difference about your money, your health, and how things work in America.

This dangerous information feeds dangerous beliefs... beliefs like “Go to a good school and get a job with a big corporation, and it takes care of your retirement”... “Buy mutual funds and everything will be fine by the time you retire”...or “Wall Street will take care of your money”... Can you really believe politicians and their promises that Social Security will take care of you?

Notice that phrase that keeps coming up? It’s among the scariest phrases in the English language... especially when Wall Street and Washington D.C. get involved. Here it is again:

“Take care of...”

Starting today, I want you to realize that you need to take care of yourself. I’m going to help show you how in...

Our Interview with Retirement Expert Dr. Larry Kotlikoff

Each day, 10,000 Americans turn 65. And many (if not most) of them are unprepared for the financial realities of retirement. According to a survey from the nonprofit think tank Employee Benefit Research Institute, 64% of Americans aren’t saving enough for retirement. Only 22% believe they’ll have enough money for retirement.

In Retirement Millionaire, we’re devoted to showing you how to set yourself up for the richest retirement possible. That’s why we’re sharing an interview we held with the author of the New York Times bestselling book Get What’s Yours, Dr. Laurence Kotlikoff. After reading his recommendations for maximizing Social Security income, we asked the Boston University professor to talk about another strategy for retirees to maximize retirement income... in addition to boosting Social Security benefits.

While this isn’t technically a chapter in a book, you’ll feel like you’re reading a “missing chapter” of Dr. Kotlikoff’s book, with all of his ideas for improving your income in retirement. (We underlined our favorites parts for you.)

In the edited transcript that follows, you’ll learn what Dr. Kotlikoff considers to be one of the most important assets you can own to protect your money, your assets, and your family. It’s a strategy he used with his own mother, which gives her tens of thousands of dollars per year.

Stansberry Research: Dr. Kotlikoff, you have been telling retirees for years they should wait to collect
Social Security benefits until the last possible moment so that they can get as much money as possible over the long term… But isn’t there a risk that you may not live long enough for waiting to make sense? I mean by the time you are 70 years old, how long can you really expect to live…

Dr. Kotlikoff: Yes, Social Security provides a huge incentive in very many cases to delay taking your retirement benefit until age 70. Unfortunately, most people think of Social Security as an investment, which it isn’t. Social Security represents longevity insurance.

Stansberry Research: What do you mean by longevity insurance?

Dr. Kotlikoff: Longevity insurance is insurance against living longer than you expect, which means having to sustain yourself financially longer than you expect. Longevity insurance guarantees you’ll have income for life, no matter how long you live.

Stansberry Research: Like stocks or bonds?

Dr. Kotlikoff: No, I mean something that pays based on how long you live. The payoff from holding bonds or stocks isn’t related at all to how long you live. If you die, the bonds and stocks still pay off – just to your heirs.

You may not realize it, but Social Security provides longevity insurance. Social Security provides income that you get as long as you live. Even if you live until you’re 120 years old, you’ll get your benefit, which is both guaranteed by the government and protected against inflation by Social Security’s annual cost-of-living adjustment (COLA).

Stansberry Research: But is it really necessary to plan as though you will live so long?

Dr. Kotlikoff: Jeanne Calment, a French lady, apparently holds the world’s record on longevity. She lived until 122 years old. Medicine has advanced rapidly over the last 20 years, and people are now living much longer than most of us realize. In fact, the centenarian population – the number of people 100 or older – is the fastest-growing age group in the country these days. According to the Census Bureau, the total number of centenarians in 2050 could exceed 4 million. That’s enough oldsters to fill up all of Los Angeles.

Here’s the bottom line. If you’ve retired anytime in the last 10 years or expect to retire sometime soon, you need to ensure that your savings will last you 40 years or longer.

That’s why maximizing the one guaranteed source of longevity insurance that you have – Social Security – is so important.

Again, financially speaking, the smallest risk in life is dying. The biggest risk is living, actually outliving your money.

Stansberry Research: Ok, but if you have Social Security, then is excessive longevity still something you need to worry about?

Dr. Kotlikoff: Well, the average American who collects Social Security gets about $1,300 a month. But many people get much less than that… in many cases, less than $1,000 a month. So if you can pay for all your expenses with that money and maintain your current lifestyle, that’s great. But for most Americans, that’s simply not enough to continue living with the same quality of life.

A Guaranteed Income Stream for Life

Stansberry Research: So aside from Social Security, how can Americans get even more guaranteed income… forever?
Dr. Kotlikoff: **One important way is to buy annuities that are fully protected against inflation** and to buy them from reputable insurance companies.

**Stansberry Research:** Can you provide more details about annuities for readers who may not know much about them, or have never purchased one?

Dr. Kotlikoff: Annuities come in different shapes and sizes, but the most simple and straightforward form is called a single-life annuity.

When you purchase a single-life annuity, you and others give a chunk of money to an insurance company and receive an annual payment, if you live, which may or may not be adjusted for inflation – for annual increases in prices.

Stansberry Research: Sounds like a bit of a gamble…

Dr. Kotlikoff: That’s what a lot of people say, but so is buying homeowner’s insurance. You pay the insurance company. If your house doesn’t burn down you get nothing. If it does burn down you get money.

Here you pay the insurance company. If you die you get nothing, just like you get nothing back on your homeowner’s insurance if your house doesn’t burn down.

But if your house does burn down – if you live – you get money… and it’s a fixed stream of payments that continues until you die. It’s insurance protecting you against living for what seems forever because no matter how long you live you’ll keep getting this income from the insurance company.

So you should really think about an annuity like it is a homeowner’s policy. You pay the insurance company. If your house doesn’t burn down you get nothing. If it does burn down you get money, and your life doesn’t fall apart, which is the most important thing.

### The Different Types of Annuities

**Stansberry Research:** Are there particular annuities that are better than others?

Dr. Kotlikoff: Well, there are many different types of annuities, but they all fall under two basic types: inflation adjusted and non-inflation adjusted.

**Stansberry Research:** Which is better?

Dr. Kotlikoff: Inflation-adjusted annuities are always the best way to go… An inflation-adjusted annuity guarantees that the amount of money you receive every month rises at the same rate as prices.

This insures that the purchasing power of your annuity remains the same.

If you don’t buy something that is inflation adjusted and prices go up enough, the purchasing power of that money could go to zero.

**Stansberry Research:** Why would anyone buy an annuity that isn’t protected against inflation?

Dr. Kotlikoff: Well, it is cheaper to buy an annuity that isn’t protected against inflation. And inflation has been very low recently so people have been less inclined to want to pay extra for inflation protection.

But anybody who looks at what the Federal Reserve has been doing with respect to printing money since 2007 will see that’s imprudent. Since 2007 – so in the last eight years – the Federal Reserve has printed roughly five times what it had printed in the prior 100 years.
So while annuities without inflation protection can be attractive in price, it’s likely going to cost you big time in the long run… especially if we experience hyperinflation, which is a real possibility in America today.

**Stansberry Research:** OK, now when you buy an annuity do you immediately start getting payments starting at month No. 1 or are they structured so you only start receiving income sometime in the future?

**Dr. Kotlikoff:** There are some deferred annuities that can begin at a certain date in the future. Unfortunately, I haven’t heard of any deferred annuities that are protected against inflation.

So unless you are quite sure that you’re going to live for the next 10-15 years and you’re really concerned about what would happen if you live beyond that, then a deferred annuity isn’t something you really need to worry about. In my opinion, the risk of inflation is far more important — so you want an inflation-adjusted annuity.

I may sound like a broken record, but it’s so crucial that you get this right, because there are lots of annuities out there that may sound like they rise with inflation, but in reality they don’t. They just rise the same amount no matter the rate of inflation.

**Stansberry Research:** Can you give us an example?

**Dr. Kotlikoff:** The industry has something called “graded annuities,” which are meant to somehow protect against inflation. But the only thing they actually do is raise payments over time. So it may rise about 3% per year but if inflation becomes 10% or 20%, that’s not really going to protect you.

**Stansberry Research:** Makes sense. It’s basically a fixed rate as opposed to a rate based on inflation.

**Dr. Kotlikoff:** Exactly. That’s not real inflation protection, and don’t let any salesman from an insurance company convince you otherwise.

Real inflation protection comes in the form of something like the annuity I bought my mom when she was about 85. My brother and sister thought I was making a mistake, “She’s 85. She’s not going to make it that long,” they said.

But being an economist and understanding the risk, I said well, the real down side is she lives to a very old age. So I bought it from the Principal Life Insurance Co.

I bought two fully inflation protected annuities for her, and they keep rising every year with inflation. As a result, I’ve been able to cover most of her nursing home costs with just those two annuities.

**Stansberry Research:** Now when you went about making that decision – I don’t know how to put this delicately – but at 85 years old, your mother was probably beyond the average life expectancy at that point. So are there any good way an 85 year old can figure out how long they can expect to live?

**Dr. Kotlikoff:** Here’s the thing. My brother and sister are very educated people. My brother is the dean of the veterinary school at Cornell. He’s a major scientist.

**Stansberry Research:** OK.

**Dr. Kotlikoff:** And my sister has run major U.S. companies and is now helping New York University with its fundraising. But my siblings immediately started thinking about life expectancy in terms of how many years on average my mom would live. But we can’t count on dying on time, which is at our life expectancy. And we can’t count on our parents dying on time.

**Stansberry Research:** Is your mother still alive?
**Dr. Kotlikoff:** Yes, she's now 96 and in very good health.

When it comes to buying homeowners insurance, you consider the worst-case scenario: Your house burns to the ground. Here the worst case, financially speaking, was my mom living till, say, 120. Don't get me wrong, it's the best case personally because, you know, we’re glad to have her with us.

**Stansberry Research:** I bet your siblings are happy you purchased those annuities now, huh?

**Dr. Kotlikoff:** Yes, they are very happy. Those two annuities have covered most of my mother's living expenses for the last 10 years, and they'll continue to do so as long as she lives. Which could be awhile, judging by her current condition. She's healthy and enjoying life. She's beating people at bridge. In fact, she had a grand slam the other day.

**Stansberry Research:** That's great.

**Dr. Kotlikoff:** The mistake my siblings made is that they weren't thinking about annuities the same way you think about a homeowner's policy. If you had asked them whether they want to have protection against their house burning down, they would have said, “Of course.” And they do have homeowner's insurance policies.

They’re not saying, “Well, on average, my home won't burn down. The chance of it burning down is really small, so therefore, I won't buy homeowner's insurance.” No. They look at the worst-case scenario, and they protect themselves against it. That's how you should think about an annuity.

Here again, the worst-case scenario, in my mom's case, is she lives to 120 – to what's probably considered her “maximum,” not her expected age of life. And if I hadn't bought the annuities, and if she didn't have children to support her, she could have ended up destitute for years.

Nobody can tell you how long you'll live. There's no “for sure.” There's no statistical table you can rely on. Remember, the oldest person who ever lived died at 122.

### How Much Should You Invest?

**Stansberry Research:** OK, so let's say you've decided to follow this approach. How do you know exactly how much to invest in an annuity? Should it be a certain, set percentage?

**Dr. Kotlikoff:** You don't want to experience a decline in your living standard. So the optimal thing is to have enough guaranteed income to maintain your living standard.

The first thing you need to do is figure out exactly how much money you need to live on every month... That's what I call your “floor.” Everyone can get Social Security, and it is guaranteed as long as you live, so that will make up part of your “floor”...

Then, I recommend that you have enough income from annuities to make up the rest of your floor.

**Stansberry Research:** In other words, between Social Security and annuities, you want to generate as much money as you expect to need to live on?

**Dr. Kotlikoff:** Well, another very important way to floor your living standard, which people don’t think about, comes from owning your house or condo. If you own your residence, nobody can take it away from you, assuming you can pay off your mortgage or don’t have a mortgage and also meet your property taxes and other housing costs. A house produces a stream of benefits, namely housing services, that continue as long as you live. I encourage everybody who's older to have a condo or a house and pay it off as soon as you can. It can become a key part of the floor to your living.
Now, if you have extra money left over, that's what I call your “casino” money.

_Stansberry Research_: Explain…

_Dr. Kotlikoff_: It's like playing at a casino. When we go to a casino what do we do? We typically take a certain amount of money into the casino. This is the amount of money we’re willing to lose. If we’re smart, we leave our wallet at home.

_Stansberry Research_: Right.

_Dr. Kotlikoff_: And the wallet at home represents our living standard today. We can't touch it. So if your wallet -- or your Social Security and annuity income -- is secure and safe at home, then you can put the remainder of your money into more speculative investments, like stocks… or the “casino.”

This method of investing insures that you maintain your living standard… and you also maintain upside…

Because if you take some winnings from the stock market and you invest them in something safe and then spend more out of those safe assets, spend them gradually through time, what you've done is permanently raised your living-standard floor.

_Stansberry Research_: So your point is that retirees shouldn't spend based on money they have in the stock market until those stocks have been sold and transformed into safe assets?

_Dr. Kotlikoff_: Yes, people who are very worried about having to live on less -- and most of us are -- should think of their stocks as money you just put down on a number at the roulette table. Don't spend it until you have actually have won and also have left the casino and, again, converted those stocks into something safe.

_Stansberry Research_: What if you can't afford an annuity? Does it make sense to sell off other assets to pay for one? Did you and your siblings consider that when you bought your mother those two annuities?

_Dr. Kotlikoff_: In my mother's case, the situation was a little different because we were moving her into an assisted-care facility around the same time we purchased the annuities.

Since she wasn't going to be living in her home anymore, I used the proceeds from the home sale to purchase the two annuities.

_Stansberry Research_: Is that something you recommend, selling your home to purchase annuities?

_Dr. Kotlikoff_: Only if you are in a similar situation as my mother's. She needed to live somewhere where she could get some extra assistance, and those kind of facilities are very expensive. Fortunately, I was able to convert the money from her home into two annuities that have covered most of the costs of her facility.

But in general, I think the main message that I have about housing is that **people should own their homes -- own their condos in old age. They shouldn't be renting.** They shouldn't be in a position where somebody can raise the rent on them – where they have no recourse except moving to a worse apartment or some cheaper part of the country.

**Where to Buy Annuities**

_Stansberry Research_: Got it. Now can you tell me a bit about how you chose the particular insurance company for your mother's annuity?
Dr. Kotlikoff: Yes, I bought it through the Principal Insurance Co.

Stansberry Research: Is there any particular reason you chose them?

Dr. Kotlikoff: I think at the time, and this may still be true, AIG, Met Life, and the Principal were the only three companies offering inflation-indexed annuities. Principal had the best rates. That’s why I went with them.

Stansberry Research: Are fees something you should be concerned about when purchasing annuities? Are there different fee structures built in? Are some fee structures superior to others?

Dr. Kotlikoff: Absolutely. You should price out annuities with different companies. It’s just like homeowner’s insurance: You obviously must shop around to find the best deal. And I’d completely avoid any annuity product that’s complicated. Any complicated product being sold by an insurance company is likely to be partly a scam.

Stansberry Research: Are there typically hidden fees, which may not be disclosed up front?

Dr. Kotlikoff: Well, there can be. There are a lot of different things that are called annuities, but are not actually longevity-insurance vehicles. For example, there are things called “equity index” annuities, which pay you a sure return and some upside if the stock market does well. But they aren’t really connected to your longevity.

So you are better off buying your own straight-life annuities and then allocating some funds that you are prepared to lose to be your “casino” money, which you invest in the stock market to, hopefully, produce an upside to your living standards.

Stansberry Research: Are there other products that are marketed as “annuities” that people should watch out for?

Dr. Kotlikoff: A lot of things are called annuities that don’t have anything to do with longevity insurance.

You need to be careful to avoid confusion by the language of the insurance industry. Things are sometimes called “annuities” by the insurance industry so that they’ll be able to sell investment products when they would not otherwise be able to do that because of regulations.

In other words, the government has regulations for investment companies and separate regulations for insurance companies. But insurance companies often want to get in the same business as the investment companies, so they dress up the investing with insurance lingo to avoid violating any laws.

Stansberry Research: Definitely something to watch out for then…

Dr. Kotlikoff: The important thing is to make sure it’s a straight life annuity where you plunk some money down and they start paying you a fixed amount, inflation adjusted, for as long as you live. And if you are married, you could also consider joint annuities or joint survivor annuities, which will pay out if you’re married for as long as you or your spouse is alive.

Stansberry Research: So you bought single straight life annuities for your mother?

Dr. Kotlikoff: Yes.

Stansberry Research: You keep saying “you” purchased the annuities for her… Is there a reason why she didn’t purchase them herself?

Dr. Kotlikoff: Actually, that’s a very good question… in my case, I was and am the owner of the poli-
cies I bought for my mom.

Stansberry Research: So you can buy annuities that pay off on someone else’s longevity? Are there advantage or disadvantages to that?

Dr. Kotlikoff: Yes, it is possible to arrange things so that the annuitant is not the owner of the policy. The owner, though, has to pay taxes –

Stansberry Research: Sorry to interrupt, but I didn’t realize you have to pay taxes on annuity income…

Dr. Kotlikoff: Yes, part of what you get back from the annuity company is taxable income. Moreover, if you need to go onto Medicaid and are in a Medicaid facility (which is not my mom’s case right now), Medicaid will simply confiscate your annuity. So in certain circumstance, it can be advantageous to have the policy owned by one of your children even if they have to pay taxes on it.

Stansberry Research: Got it. So you could have inadvertently wiped out the income from the annuities had you not known that?

Dr. Kotlikoff: Yes, exactly.

Stansberry Research: Yes, that seems like a very important consideration. Are there any other big traps people should be wary of when purchasing annuities?

Dr. Kotlikoff: Well, one risk to consider when buying annuities is the insurance company’s longevity. Are you going to outlive the insurance company? Are they going to go under?

Stansberry Research: Is there any way to navigate that risk?

Dr. Kotlikoff: Nobody has the inside information to really assess the financial status of any financial company. Just look at AIG… everyone thought the company was healthy 10 years, as well as 10 months before the government nationalized the company in 2008. These kinds of things are very difficult to predict.

But don’t let that stop you from buying an annuity because – like homeowner’s insurance – you need the protection, so it is worth the risk.

If you really want to diversify yourself, you can purchase annuities from different companies to reduce the risk of them going out of business.

Stansberry Research: So, just to reiterate, the major risks when buying an annuity is that the company could become insolvent, the threat of inflation, and products that are marketed as annuities that aren’t true forms of longevity insurance?

Dr. Kotlikoff: Yes, that sums up the risks… Oh, and there’s one more thing I just remembered that I want to make sure everyone understands…

Stansberry Research: What’s that?

Dr. Kotlikoff: It is quite possible that there are annuities you aren’t aware you qualify for. For instance, I’m in the process of moving my mom closer to where I live. In the process of talking to the new facility that she might move into, I found out that there was an annuity that she appears to be eligible to collect, which I had never heard of.

It’s a Veteran’s Administration Aid and Assistance Annuity, and it is for the spouses of veterans. My dad was a WWII veteran, so she qualifies. But I had no idea this existed. It’s like Social Security, you know. There are benefits you can be eligible to collect that you never knew about.
**Stansberry Research:** What's the big benefit of this veteran's annuity? And what did you do?

**Dr. Kotlikoff:** You can't believe how surprised I was. I make a living finding money for people who don't know about their benefits and all of a sudden, just two days ago, I discovered that I may be leaving a LOT of money on the table. About $12,000 per year, to be exact. I've been paying out of pocket for 10 years when the VA would have covered many of these expenses all along. Had I known this 10 years ago, my savings would have been $12,000 a year for 10 years, which is a lot of money.

**Stansberry Research:** It's hard to believe you missed out on $120,000, and nobody told you until now…

**Dr. Kotlikoff:** I had no idea. I think it's incredibly unfair that the government has these programs and doesn't keep track if you are eligible and that it doesn't inform you. It seems like they are trying to hide the information. It's like if you can figure it out, God bless you. You get the money. If not, too bad.

It just drives me crazy… My dad was in the military for three years, in World War II. He had to give up three years of his life, with basically no pay. That was a contribution to the country. And so they should pay back at some level to his widow, but they don't tell us anything about it.

**Stansberry Research:** That's too bad.

**Dr. Kotlikoff:** I think the message with all of these government benefits is that you have to ask. I had no idea that the place I'm thinking about moving my mom to is a Medicaid-assisted facility. At the new place, we can pay privately for a while and then she can go onto Medicaid and the government will pay or help pay. And then I'll be able to use the other money from her annuities to pay for extra help from aides when I or my wife can't be around.

**Stansberry Research:** Right, or any of the other expenses. I'm sure there are tons of them.

**Dr. Kotlikoff:** Yes. Lots of expenses. So we need to be helping our parents navigate these systems.

The best piece of advice I can give you is to make sure you as well as your parents have guaranteed income in retirement that you can't outlive. Don't allow the fear of death to paralyze you. And don't let it scare you into making financial decisions that only benefit you in the short term.

**Chances are, you are going to live A LOT longer than you expect…**

So maximize your Social Security income, and purchase sufficient inflation-adjusted annuities to insure you can live at your current living standard indefinitely…

Because who knows? You may actually live to 122, too.

**Stansberry Research:** Thanks so much for taking the time to talk with us Dr. Kotlikoff.

**Dr. Kotlikoff:** My pleasure.

**Summary:** We hope you enjoyed our interview with Dr. Larry Kotlikoff. If you're ready to take your retirement into your own hands, and get guaranteed income for life, take some time to look into annuities. Annuities give you a fixed stream of payments until you die... letting you live your retirement to the fullest and avoid worrying about how you're going to pay for it.

**Dr. Kotlikoff is a professor of economics at Boston University and the owner of Maximize My Social Security, a company with software to help you optimize your Social Security and annuity income in retirement. To learn more about the software, simply head to http://maximizemysocialsecurity.com/**