



# Diversifying your income in retirement

Having multiple sources of retirement income  
can help reduce certain risks














We all know the importance of diversification when saving for retirement to help address market downturns and low interest rates. At retirement, diversification remains just as important to help manage the risk that comes with longer life expectancies: running out of money. That's where annuities come in; beyond Social Security and traditional pension plans, they're the only way for you to receive income for life.

## Your retirement income



## Addressing the four important retirement risks

	Fixed annuities	Variable annuities	Systematic withdrawals	Diversified income strategy
Longevity protection				
Market volatility				
Inflation				
Cognitive decline				

## Opportunity for more retirement income

More income is possible by combining income from both fixed and variable annuities, according to Morningstar, an independent research firm.<sup>3</sup>



## How to build a diversified income portfolio in retirement

A general starting point for an optimal diversified retirement income plan is to dedicate about two-thirds of your income needs to sources that provide lifetime income.\* An important component will be a mix of fixed and variable annuities to complement other lifetime income sources such as Social Security and pensions. Then, take the rest of your income from traditional portfolio withdrawals. Here's a quick guide:

1

Estimate how much income you'll need in retirement

2

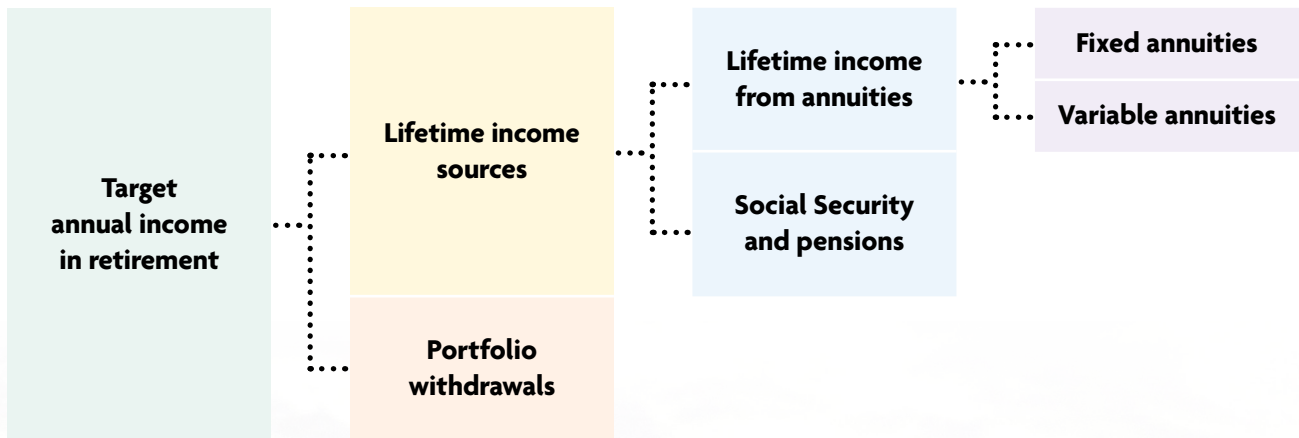
Take 2/3 of that from sources that provide lifetime income

3

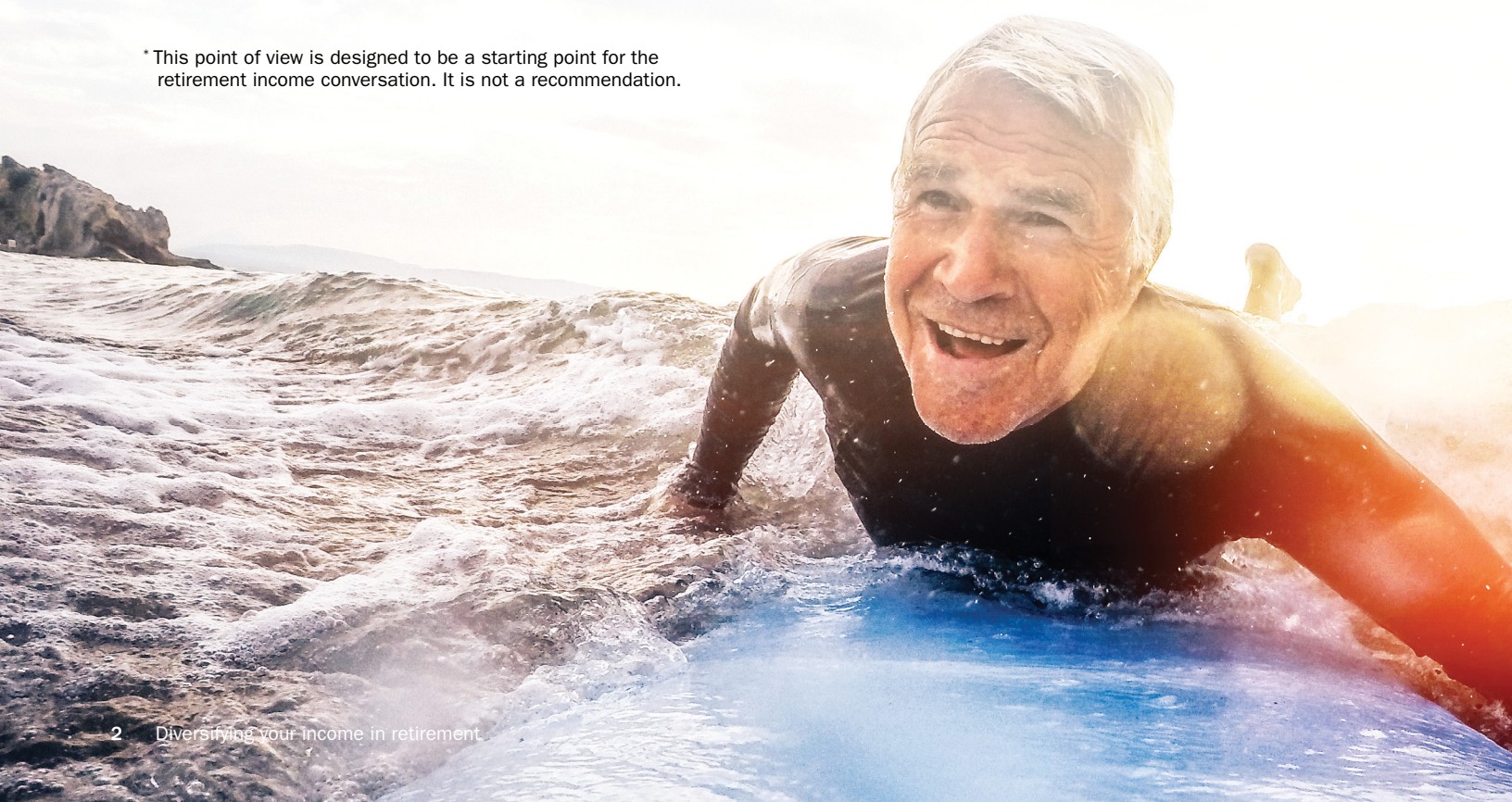
Subtract Social Security and pensions to determine your allocation to annuities

4

Determine the mix of fixed and variable annuities that suits you



\* This point of view is designed to be a starting point for the retirement income conversation. It is not a recommendation.

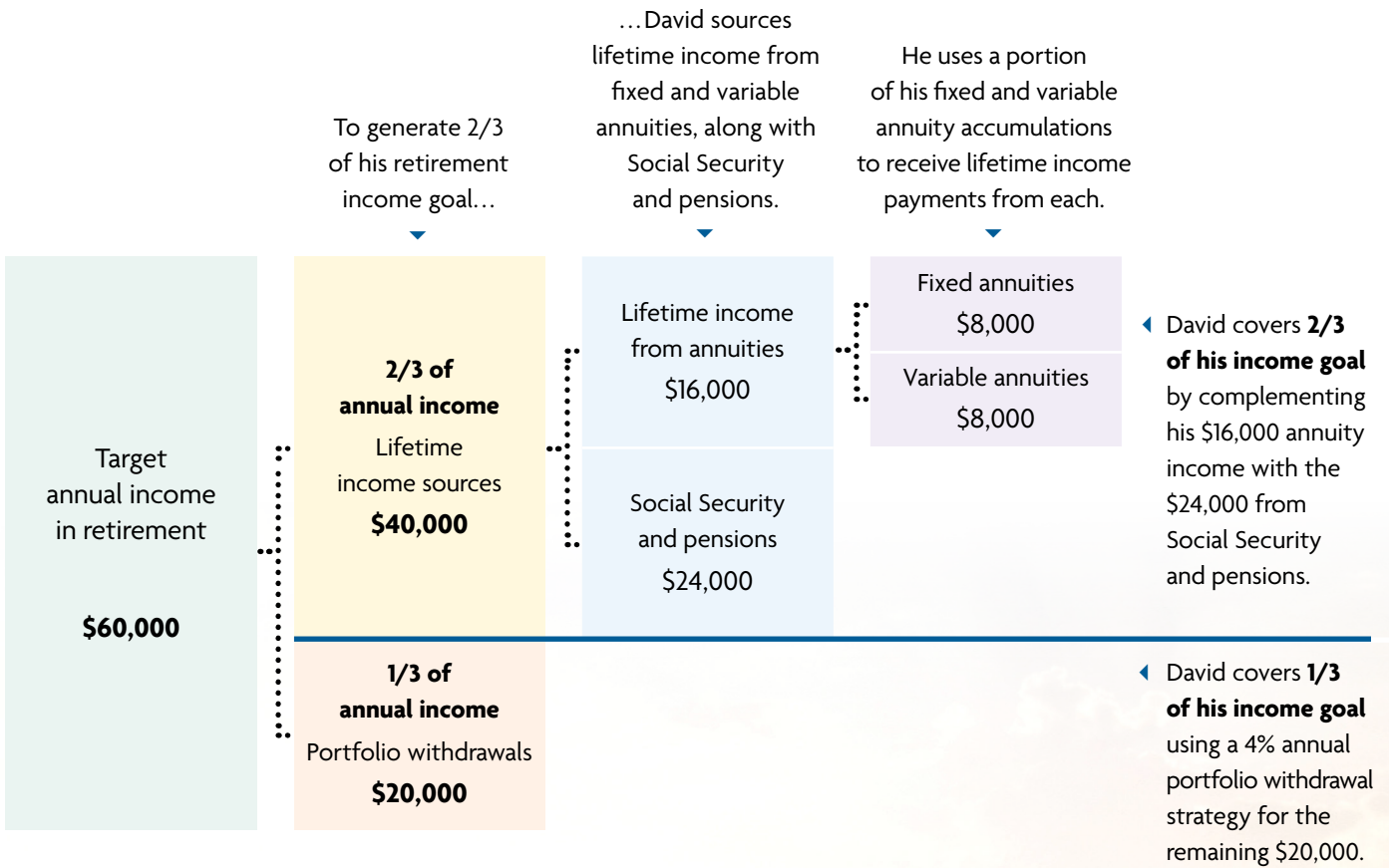


## Example

### Lifetime income from a mix of fixed and variable annuities as well as investment portfolio withdrawals may improve outcomes

Below is a hypothetical illustration of how a diversified income strategy can help improve retirement readiness. This example is not intended to predict or project performance of any account. Actual returns will vary.

In this example, David is 68 years old. He has saved \$750,000 and wants an annual income in retirement of \$60,000. Of that, \$24,000 will come from Social Security and pensions. David needs to generate \$36,000 a year to meet his retirement income goal.



continued

## Example (continued)

With a mix of portfolio withdrawals, annuities, and other lifetime income sources, David has enough assets saved to meet his retirement income goal—and has savings remaining to use in other ways.

Annual income breakdown			Total savings \$750,000	
<b>2/3 of retirement income goal = \$40,000</b>				
<b>Use lifetime income sources</b>	Social Security and pensions	\$24,000		
	Annuities	\$16,000		
	▪ Fixed	\$8,000	Amount required for fixed annuity payment*	\$126,000
	▪ Variable	\$8,000	Amount required for variable annuity payment*	\$112,500
<b>1/3 of retirement income goal = \$20,000</b>				
<b>Use typical withdrawal strategies</b>	4% portfolio withdrawals		Amount required from savings portfolio	\$500,000
<b>Annual retirement income goal</b>		<b>\$60,000</b>	<b>Total savings required to meet income need</b>	<b>\$738,500</b>
			<b>Total savings remaining</b>	<b>\$11,500</b>

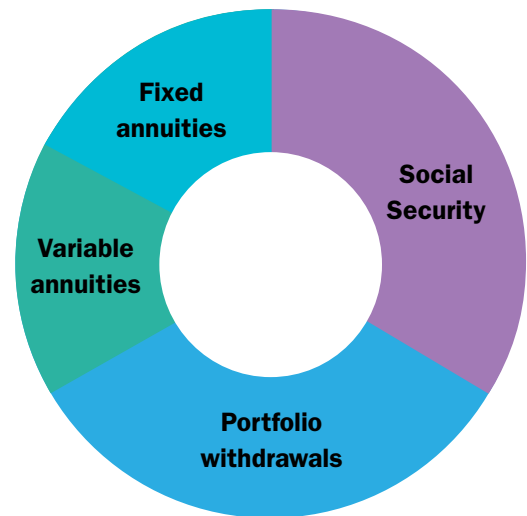
\* Desired income uses an inflation rate using Consumer Price Index (Urban) data from the Bureau of Labor Statistics. This case study assumes a combination of a variable annuity using actual CREF Stock history, a pure fixed annuity, and a withdrawal account with a 60/40 equity/fixed portfolio. Variable annuity assumes a CREF Stock Account payout rate of 7.12%, which was the 2022 payout rate, no matter which unit class the money was in before retirement. Fixed annuity assumes a TIAA Traditional payout rate of 6.35% based on the 2022 TIAA new money rates of March 2022. This rate applies to all new settlements and is the same for all accumulating contracts. Income rates based on a Single Life Annuity with 10 years guaranteed, issued at age 68. The pure withdrawal strategy is a 60/40 equity/fixed portfolio. Equities assume historical CREF Stock performance; the fixed component is based on historical Ibbotson bond data with a 70/30 government/corporate mix. This hypothetical illustration is not intended to predict or project returns. Actual results will vary.



# Summary

A diversified portfolio that includes lifetime income from fixed and variable annuities, available through the plan, can provide participants with more confidence, better outcomes, the ability to retire on time, and the reliability of having income for life.

- The accumulated savings needs to generate \$36,000 to meet the retirement income goal.
- A 4% withdrawal from current savings alone would result in a \$6,000 annual income shortfall ( $\$750,000 \times .04 = \$30,000$ ). \$900,000 of savings would be needed to generate \$36,000 under a 4% withdrawal strategy.
- A diversified lifetime income plan generally provides higher payout rates compared to the typical 4% withdrawals.
- The example above illustrates how to achieve the desired income goal using fewer assets, leaving \$11,500 to allocate towards discretionary spending (i.e., “true liquidity”).



<sup>1</sup> Any guarantees under annuities issued by TIAA are subject to TIAA's claims-paying ability.

<sup>2</sup> A variable annuity is an insurance contract and includes underlying investments whose value is tied to market performance. When markets are up, you can capture the gains, but you may also experience losses when markets are down. When you retire, you can choose to receive income for life and/or other income options. There are risks associated with investing in securities including possible loss of principal.

<sup>3</sup> Morningstar, “The Benefit of Diversified Income for Retirees: Combining Fixed and Variable Annuities,” November 2019

- The potential benefits of developing a retirement income strategy considering both immediate fixed annuities (IFA) and immediate variable annuities (IVA), using a stochastic utility model, using a Monte Carlo approach combined with a scenario framework.
- Households that should consider annuitization are generally those with conservative portfolios, lower levels of existing guaranteed income (i.e., Social Security benefits), higher initial withdrawal rates, higher subjective life expectancies, higher levels of shortfall risk aversion, and lower liquidity preferences.
- “Certainty-equivalent” retirement income increases by 20%, on average, when incorporating annuities, although the gains differ significantly across households. The certainty-equivalent is closely related to the concept of risk premium or the amount of additional return an investor requires to choose a risky investment over a safer investment.
- Withdrawals are always assumed to take place at the beginning of the year. Taxes are ignored for the analysis.
- The discount rate for the IFA pricing calculation is constant and assumed to be 5%.
- The discount rate for the IVA pricing calculation is also constant for the pricing calculation and is based on the assumed interest rate (AIR) of 4%.
- The pricing model for the analysis intended to target the average annuity payout, not the best possible payout available.
- For each of the 22 variables we allow for low, moderate, and high values. Examples of the variables included were retirement age, portfolio equity allocation, Social Security retirement benefits, etc.
- With 31 billion different potential combinations across these 22 different assumptions, the authors ran 10,000 different scenarios generated from the three values randomly selected for each variable.
- The annuity allocation is assumed to never exceed 50% of the portfolio.
- Every retiree household is different. The greater the range of potential products and solutions a financial advisor has available to recommend to the household, the better the retirement income strategy is likely to be. In this paper, we explore the potential benefits associated with using immediate fixed annuities (IFAs) and immediate variable annuities (IVAs), with a particular focus on when each is the best fit.
- The analysis suggests there is considerable benefit to not only incorporating additional guaranteed income into retirement income strategies (consistent with past research), but also in helping retirees determine which form of guaranteed income is optimal. While many financial advisors often talk about the benefits of diversification from a portfolio perspective, the same concepts also apply to retirement income products.

# Discover how a diversified income plan can help you in retirement.



Visit [TIAA.org/retirementannuities](https://TIAA.org/retirementannuities)



Call **800-842-2252**, weekdays,  
8 a.m. to 10 p.m. (ET)



This material is for informational or educational purposes only and does not constitute fiduciary investment advice under ERISA, a securities recommendation under all securities laws, or an insurance product recommendation under state insurance laws or regulations. This material does not take into account any specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on the investor's own objectives and circumstances.

**Investment, insurance, and annuity products are not FDIC insured, are not bank guaranteed, are not deposits, are not insured by any federal government agency, are not a condition to any banking service or activity, and may lose value.**

**You should consider the investment objectives, risks, charges, and expenses carefully before investing. Please call 877-518-9161 or go to [TIAA.org/prospectuses](https://TIAA.org/prospectuses) for current product and fund prospectuses that contain this and other information. Please read the prospectuses carefully before investing.**

TIAA-CREF Individual & Institutional Services, LLC, Member FINRA, distributes securities products. Annuity contracts and certificates are issued by Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), New York, NY. Each is solely responsible for its own financial condition and contractual obligations.

Past performance is not a guarantee of future results.

There is no guarantee that a diversified portfolio will enhance overall returns or protect against market risk.

©2022 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund, 730 Third Avenue, New York, NY 10017