A RETIREMENT INSTITUTE GUIDE

The Role of Income Annuities in Your *Income Plan*

Creating predictable, guaranteed income can help increase your longevity, health, and happiness in retirement.

WELCOME

Knowledge first. Always.

The Retirement Institute exists to help Americans approaching and living in retirement make clear, confident, well-informed financial decisions — without the pressure of a sales pitch.

This guide is the first in our Retirement Income Series, a growing library of educational resources built to put real knowledge — and real control — back in your hands.

Few products in all of finance are as misunderstood as the annuity — dismissed by some, oversold by others, and rarely explained plainly. Yet the idea beneath it, a predictable paycheck that lasts as long as you do, sits at the heart of a sound retirement. You already rely on one: Social Security.

This guide is not a sales pitch, and it isn't an argument that annuities are right for everyone. It's a clear-eyed look at the role guaranteed income can play — the behavioral, emotional, and mathematical reasons it earns a place in the conversation — so the choice is yours to make on purpose.

INTRODUCTION

The paradox of the careful saver

You spent a working life learning to save — to be disciplined, to watch a balance grow, to resist the urge to touch it. Those instincts built your nest egg. The day you retire, they can begin to work against you.

Researchers keep finding the same thing. Retirees who hold their wealth as a *pile of assets* tend to hoard it — watching the market, worrying over every withdrawal, spending far less than they can afford, and often leaving most of it behind. Retirees who hold part of that wealth as **income** behave differently: when a dependable check arrives every month, they spend it, and they enjoy it. This guide makes the case in three parts.

PART ONE · BEHAVIOR

You spend it

Guaranteed income gives retirees permission to enjoy what they saved, instead of hoarding it out of fear.

PART TWO · WELL-BEING

You enjoy it

Predictable income is tied to higher happiness, lower stress, and better health across decades of research.

PART THREE · THE MATH

It can pay

Leading researchers find a measured allocation to guaranteed income can improve retirement outcomes.

When you have **assets**, you tend to hoard and worry. When you have **income**, you spend it — and you have fun, especially when you know that income is predictable or guaranteed. Understanding that difference is the whole point of income planning.

NUMBER 1

Build a paycheck, not just a pile

For forty years your paycheck did the planning for you: it arrived on schedule, covered the bills, and left something for the fun. Retirement removes that structure and hands you a lump sum instead. The central task of income planning is to rebuild the paycheck — to turn savings back into a dependable stream you can live on.

Most retirement income flows from four sources. A sound plan is deliberate about how much of your *essential* spending each one covers:

- **Social Security** — guaranteed, inflation-adjusted, government-backed. For most households the largest and most valuable source. (It is, in fact, an income annuity.)
- **Pensions** — guaranteed lifetime income, for the shrinking share who still have one.
- **Guaranteed income products, including annuities** — a way to convert a portion of savings into a paycheck that lasts as long as you do.
- **Your investment portfolio** — the engine of growth, liquidity, and flexibility.

THE CORE PRINCIPLE — COVER THE FLOOR

Separate spending into two buckets: **essential** expenses (housing, food, healthcare, insurance) and **discretionary** ones (travel, hobbies, gifts). Cover your essential floor with guaranteed income you can count on regardless of markets — then use your portfolio for growth and for the discretionary life you retired to enjoy.

When the floor is secure, everything above it can grow — without the fear that a bad year threatens the lights and the groceries.

NUMBER 2

The risks a plan must survive

A retirement income plan is really a plan to survive a handful of specific risks. Growth alone addresses none of them. Guaranteed income addresses several at once — which is the practical reason it earns a place in the conversation.

Longevity risk — outliving your money. The hardest number in planning is the one nobody knows: how long you'll live. Plan for 90 and reach 100, and the money runs short exactly when you're least able to return to work. Guaranteed lifetime income is one of the only tools that pays as long as you do — however long that is.

Sequence-of-returns risk — bad timing. Two retirees can earn the same average return and end up worlds apart if one meets a downturn in the first few years. Selling investments in a falling market to cover expenses locks in losses you never recover. An income floor lets you leave the portfolio alone precisely when that matters most.

Inflation risk — the slow leak. Even modest inflation erodes fixed income over a long retirement. This is a genuine limitation of many annuities and a reason not to over-commit; it's also why Social Security's cost-of-living adjustments are so valuable, and why a growth portfolio still belongs alongside any guaranteed income.

Behavioral risk — us. The most underrated risk is our own psychology: the urge to panic-sell in downturns, or — just as costly to a good retirement — to hoard out of fear and never enjoy what we saved. Predictable income is a powerful antidote to both.

Growth builds the nest egg. Guaranteed income is what protects it from the risks that growth cannot.

NUMBER 3

What an income annuity actually is

At its simplest, an income annuity is a contract with an insurance company: you hand over a sum, and in return the company pays you a set income — for a chosen period, or for the rest of your life. In other words, you are buying a paycheck.

You already know the idea — and likely rely on it. **Social Security is an income annuity**: a lifetime, inflation-adjusted, government-backed stream. So is a traditional **pension** — so when people lament the vanishing company pension, what they are really mourning is the vanishing of employer-provided annuities. An income annuity simply lets you build one for yourself: a private, personal pension. Notice that, and much of the skepticism aimed at annuities eases.

> WHY THE MATH CAN WORK — RISK POOLING
>
> An income annuity can pay more than you could safely draw from a bond of the same size, for one reason: **pooling**. Many contract holders share the risk of living long; those who pass earlier help fund those who live longer — the principle behind all insurance. Economists call the added return "mortality credits" — math an individual bond ladder cannot replicate.

Not all annuities are alike, and lumping them together is the root of most confusion. They range from simple, low-cost immediate and deferred income annuities to more complex fixed indexed and variable contracts. Three misconceptions do the most damage:

- **"If I die early, the company keeps everything."** Depends on the contract — many include period-certain or refund options that pay heirs. The "lose it all" fear reflects one design, not all of them.
- **"They're all high-fee products."** Some are complex and costly; a basic income annuity is among the simpler contracts in finance. Judge the contract, not the category.
- **"I can do better myself."** Maybe — but that compares a guarantee to a hope, and ignores the longevity protection income provides.

The question isn't whether annuities are good or bad. It's which kind, how much, and for what job in your plan.

NUMBER 4

Income gives you permission to spend

This may be the most important — and least discussed — reason guaranteed income belongs in a plan. It isn't about a higher return. It's about actually *enjoying* the money you worked so hard to save.

Economists David Blanchett and Michael Finke studied how retirees spend and titled their findings with the phrase that says it all: guaranteed income is **"a license to spend."** Retirees are deeply reluctant to draw down a portfolio. They treat the principal as sacred, spend only the interest and dividends, and leave the rest — often the bulk of it — behind.

RESEARCH FINDING · BLANCHETT & FINKE (2021)

WEALTH AS A PORTFOLIO	WEALTH AS GUARANTEED INCOME
Hoards	**~2×**
Principal feels sacred; spending stays fearful and low.	Retirees spend roughly twice as much of their savings.

Two households with identical wealth can experience very different retirements — not because one earned more, but because one felt *safe enough to spend.* A guaranteed check that arrives every month, rain or shine, gives permission a portfolio balance never quite does.

Stated plainly: with assets, we hoard and worry; with income, we spend and enjoy — especially when we know that income is predictable or guaranteed. Predictable income, in short, tends to produce more *fun* in retirement. And fun, it turns out, is not a frivolous outcome — as the next page shows, it's tied to how long and how well retirees live.

You didn't save for decades so the money could sit untouched. You saved it to live.

NUMBER 5

The happiness & health dividend

If the behavioral research explains why income holders *spend* more, a separate body of work explains why they seem to *live* better. Study after study finds that retirees with guaranteed income report higher satisfaction, better emotional health, and in some cases better physical outcomes — even after accounting for how wealthy they are. Researchers at TIAA have a name for it: the **"happiness dividend"** that guaranteed lifetime income appears to pay, over and above the income itself.

GUARANTEED INCOME & WELL-BEING — WHAT THE RESEARCH SUGGESTS

BlackRock's retirement research has repeatedly found that retirees with guaranteed income beyond Social Security report being notably happier and more confident than those relying on savings alone. A **Towers Watson** study (Nyce & Quade) found annuitized retirees were happier than comparable retirees without it — and the gap *widened* with age. Earlier RAND-affiliated work by **Constantijn Panis** found annuitants stayed more satisfied over time, with satisfaction declining more slowly.

The mechanism is intuitive. Money worry is among the most corrosive forms of chronic stress, and chronic stress is tied to poorer health. Remove the daily question of "will my money last?" and you remove a weight many retirees carry alone. What replaces it is the freedom to engage — to travel, stay socially active, and pursue what gives later life meaning.

These studies identify strong, repeated associations between guaranteed income and well-being; as with all such research, association is not proof of cause and individual results vary. Summary figures are available from The Retirement Institute on request.

Guaranteed income appears to buy something beyond spending power: peace of mind — and peace of mind shows up in health, mood, and longevity.

NUMBER 6

The math — and where it fits

The behavioral and emotional benefits are compelling on their own. But some of the most respected quantitative researchers in retirement finance reach the same conclusion from the numbers: for many retirees, a *portion* of guaranteed income improves outcomes versus investments alone.

- **Wade Pfau, Ph.D.**, in his *Journal of Financial Planning* research on an efficient frontier for retirement income ("A Broader Framework for Determining an Efficient Frontier for Retirement Income," 2013), finds that *combining* partial annuitization with a portfolio can outperform either alone — supporting a higher, more secure income floor while often preserving more legacy under adverse conditions. The answer for most isn't "all" or "none," but a blend.
- **Roger G. Ibbotson**, the Yale economist, in "Fixed Indexed Annuities: Consider the Alternative" (2018), studied whether certain fixed indexed annuities could play the role bonds traditionally play, concluding they had potential to compete with bonds while reducing downside. (Sponsored research, cited for its reasoning, not as a product endorsement.)
- **Ernst & Young**, in its 2025 holistic-planning study, modeled shifting part of a traditional portfolio into the right kind of annuity — low-cost, with no market risk. At a 30% allocation, their analysis showed retirement income rising **22.8%** versus an investments-only approach, with only a modest effect on legacy.

BALANCE — WHERE THEY DON'T FIT

None of this argues for annuitizing everything, and honesty requires the limits: annuitized money is generally **not liquid**; level payments **lose ground to inflation** without a cost-adding rider; payments rely on the **insurer's strength**; and in strong markets you give up some upside. The sensible middle ground: enough guaranteed income to cover essentials, the rest invested for growth.

A measured allocation to guaranteed income can build a better retirement than markets alone — before you even count the peace of mind.

IN PRACTICE · CASE STUDY

June's $500,000 question

Principles are easy to nod along to; numbers decide. Meet **June**, a hypothetical retiree whose situation shows plainly what a guarantee is worth. She is setting aside a portion of her portfolio to create income — and asking a simple question: *which income tool serves her best?*

62	$500K	67	~18%	6.5%
AGE TODAY	SET ASIDE FOR INCOME	INCOME BEGINS	JOINT EFFECTIVE TAX	ASSUMED RETURN

First, the **guaranteed income annuity**, issued by an A+-rated insurer. It will pay June **$58,044 every year — without fail — for the rest of her life.** Whether she lives to 82 or 102, the check never stops. Through age 92, that comes to $1,509,144 in total income. This is not a projection or an average; it is a contractual, defined outcome, unmoved by markets, interest rates, or the economy.

$58,044

GUARANTEED INCOME · EVERY YEAR · FOR LIFE

$1,509,144 in total income through age 92 — with **no** market risk and **no** chance of running out.

INCOME THAT NEVER STOPS

Age 67 75 82 92 for life →

This is the number every other option now has to try to beat.

IN PRACTICE · CASE STUDY

Can the market keep up?

Now ask the account where June's money sits today — a brokerage account — to do the same job: pay $58,044 a year. We test it two ways. First a steady **6.5% every year**. Then, because no market is steady, we replay the **actual year-by-year returns of a 60/40 portfolio over the last 31 years** — the ugly years and the great ones alike.

CASE STUDY · HYPOTHETICAL · MATCHING $58,044 OF ANNUAL INCOME

	Guaranteed Annuity CONTRACTUAL · FOR LIFE	Current Account FLAT 6.5% RETURN	Current Account 60/40 MARKET HISTORY
TOTAL INCOME	$1,509,144	$813,049	$1,093,444
LASTS	For life	20 years	24 years
SHORTFALL	None	11 yrs · $696,095	7 yrs · $415,700

At a flat 6.5%, the account is exhausted after 20 years — an 11-year, $696,095 income gap June would have to live through. Actual market history does better, lasting 24 years, but still runs dry: a 7-year, $415,700 gap. Same $58,044 target; only the annuity delivers it for life.

A portfolio can match the annuity's income — right up until the year it can't.

IN PRACTICE · CASE STUDY

What matching a guarantee really takes

If the market portfolio can't match the guarantee as it stands, what would it take? There are only three levers — and June wouldn't like any of them.

Take less income LOWER THE WITHDRAWAL TO LAST	**$39,120** AT 6.5% · A 33% PAY CUT	**$47,918** 60/40 HISTORY · A 17% PAY CUT
Earn more — every year REQUIRED CONSTANT RETURN	6.5% → **9.94%** EVERY SINGLE YEAR · NOT AN AVERAGE	**~21%** HISTORICAL ODDS OF PULLING IT OFF
Invest more up front REQUIRED STARTING BALANCE	**$741,862** AT 6.5% · +$241,862	**$605,659** 60/40 HISTORY · +$105,659

To match a guarantee, the portfolio must give up income, earn a return no one can promise, or start with far more money — instead of June's $500,000. That is the quiet power behind the old line about annuities: they can *do more with less.*

Hypothetical illustration for educational purposes only, based on a representative analysis. Figures depend on the assumptions shown — including a 6.5% assumed return, an ~18% effective tax rate, and the specific 60/40 historical returns used — and on an A+-rated insurer's contractual guarantee, which is subject to the issuer's claims-paying ability. Not a recommendation; individual results will differ.

Less income, an impossible return, or more money — sometimes all three. That gap is the value of the guarantee.

THE BOTTOM LINE

Retirement is meant to be lived — not just funded.

Guaranteed income won't make sense for everyone, and it's only one piece of a complete plan. But understanding its role — free of the myths and the sales pressure — puts you in a stronger position to build a retirement secure enough to actually enjoy.

The evidence points one way across all three parts of this guide: predictable income helps retirees spend with confidence, live with less stress, and, on the numbers, often build a more durable plan. The goal is a secure floor, not a gilded cage — enough certainty to set the worry down and get on with living.

TWO HONEST QUESTIONS WORTH SITTING WITH

— Is your essential spending covered by income you can count on no matter what the markets do — or is it riding on your portfolio?

Are you holding your savings so carefully that you've forgotten to enjoy them? —

About The Retirement Institute

The Retirement Institute is a non-profit dedicated to financial education for Americans approaching and living in retirement. We publish clear, unbiased guides on the decisions that matter most — taxes, income, healthcare costs, and legacy — so that families can act from knowledge rather than fear. We don't sell products. We teach.

IMPORTANT DISCLOSURES

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Certain research cited was sponsored by industry parties and is referenced for its analysis, not as an endorsement of any product or issuer. Studies cited identify associations that may not establish causation, and past results do not guarantee future outcomes. Consult qualified, appropriately licensed professionals regarding your circumstances before making any decision.

[1] Research referenced in this guide includes: David Blanchett & Michael Finke, "Guaranteed Income: A License to Spend" (2021); BlackRock, "Read on Retirement" (survey series); Steven Nyce & Billie Jean Quade (Towers Watson), "Annuities and Retirement Happiness"; Constantijn Panis, "Annuities and Retirement Satisfaction" (2004); TIAA research describing the "happiness dividend" of guaranteed lifetime income; Wade Pfau, Ph.D., "A Broader Framework for Determining an Efficient Frontier for Retirement Income" (Journal of Financial Planning, 2013); Roger G. Ibbotson, "Fixed Indexed Annuities: Consider the Alternative" (2018, sponsored); and Ernst & Young, "Holistic Planning: Integrating Insurance Products for Better Outcomes in Retirement" (2025).