

Brad Brain: Guaranteed income for life

Brad Brain / Alaska Highway News

MAY 12, 2020 11:40 AM



Brad Brain: "Rather than guaranteeing your principle, lets take a look at guaranteeing your income. I call this the Guaranteed Income Strategy, also known as Guaranteed Minimum Withdrawal Benefit."
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The last few weeks of investment activity have taken a lot of people off guard. That is not that surprising given the speed of recent events.

In the first quarter of 2020 we saw the quickest bear market in history, as defined as a 20 percent decline from the market top. For comparison in 2008, the Great Recession, it took 8 months for the markets to shed 20 percent. In 2020 we did it in just 20 days.

This has left some people searching for options. I have written about taking advantage of the sale and buying more quality investments while prices are cheap, but the fact is that strategy does not fit for every reader.

The good news is that there are solutions.

One thing that likely is not a great solution for most people is to think that they will be able to meet their retirement objectives with the modest returns that they are going to get from Guaranteed Investment Certificates. I realize that the stability of GICs can seem pretty tempting in volatile times, but historically having too much exposure to low-paying GICs has been a lousy strategy.

Rather than guaranteeing your principle, lets take a look at guaranteeing your income. I call this the Guaranteed Income Strategy, also known as Guaranteed Minimum Withdrawal Benefit (GMWB).

As with most investments a person's future income is determined by how much an investment grows to over time. The basic concept of a GMWB is that, regardless of market conditions, the base amount of money that will generate future income will grow by at least a minimum amount while you are accumulating the money. Then, regardless of longevity or market conditions, provide a guaranteed income for life.

You read that right. Guaranteed income for life, regardless of market conditions and regardless of longevity.

GMWB products won't fit every scenario, but there are two general situations where they can fit brilliantly.

The first situation is for a person who is risk averse. Income that is guaranteed to increase during the accumulation stage, and guaranteed to pay lifetime income in the withdrawal stage is appealing to people who don't like risk.

The second situation is as a substitute for the fixed-income component of a portfolio. Traditionally, fixed income investments have been used to lend a bit of stability to an investment portfolio. That's a valid role – even for investors looking for growth. Not everyone wants their entire portfolio fully exposed to the full roller-coaster ride of the stock market.

The problem is, it's pretty hard to get excited about fixed income investing these days. Fixed income products aren't paying much right now, and when we see rising interest rates (which we will once we get through the current troubles and inflation pops back up on the Central Banks radar), that's a tough environment for fixed income products to operate in.

But substitute in a GMWB for fixed income and a person might get the best of both worlds. Stability isn't compromised because we know that the income base will go up by every year in the growth stage, with minimum income guarantees in the withdrawal stage.

These products have evolved over the years, and it is vitally important to speak with someone who is qualified to discuss them intelligently. You probably wouldn't ask your dentist to fix your car, nor your mechanic to fix your teeth. Unfortunately, I have seen unqualified people who don't understand the GMWB product dare to venture uninformed opinions, and that's a dangerous thing in any field.

For proper advice you will want to talk to not just an advisor who is licensed for GMWB, but one who specializes in GMWB. But the Guaranteed Income Strategy payoff is sustainable, predictable, and potentially increasing retirement income for your lifetime, and that is certainly worth having a conversation about.

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