

Lifetime Income Stream Key to Retirement Happiness

LONDON — In this city known for grumps and complainers, the happiest people are those with a pension and those too young to understand how a pension works, according to Britain's first-ever national happiness survey, out last week. Results further show that people living in rural areas and those who own their own house are happier than those living in the city and renting.

The inaugural survey looked only at British citizens. Yet the results offer universal lessons, the main one being the importance of guaranteed income in retirement. Owning a house also helps, reinforcing what is commonly called the American Dream. The highest happiness readings came from pensioners aged 65-69, who scored 7.8 on a 10-point scale. But all pension-collecting age groups scored at least 7.6—ahead of every other age group save for teens, who generally haven't yet experienced financial stress and also scored 7.8.

Pensions that provide guaranteed income have become increasingly rare around the world, as employers have shifted from defined benefits plans to defined contribution plans. But many of today's retirees enjoy the old-style plans, which play into their elevated happiness reading. Studies in the U.S. have shown that retirees with a guaranteed income stream are more confident about their financial future.

In Britain, the groundbreaking study is expected to lead to policy change, something that is already happening in the U.S. where both lawmakers and large employers are looking at ways to make it easier for the next generation of pensioners—those with a 401(k)

and no built-in income stream—to easily convert some or all of the assets in their plan into a guaranteed lifetime annuity.

The Obama administration has gotten behind this push, encouraging employers to offer a deferred fixed annuity as one investment option within 401(k) plans. Meanwhile, one in five employers expect to introduce some kind of guaranteed lifetime income product in the next 12 months, according to the 2012 BlackRock Retirement Survey. That would double the number already offering such an option.

You don't have to wait for your employer to make things easy. Annuities sold through big insurance companies like New York Life, Allianz and John Hancock have soared in popularity as retirees have come to understand that guaranteed lifetime income makes them more financially confident—and happier, too. In general, immediate fixed annuities offer the best combination of certainty and low cost. Warning: With interest rates at historic lows today these products are relatively expensive, and you should get professional advice before buying a potentially higher-paying variable annuity. But securing at least a base level of lifetime income should be every retiree's priority—at least if they want to live happily ever after.

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