

When It Comes To Income, Is The Reward Worth The Risk?

By Randall “Dolph” Janis



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Imagine you are at a roulette table in a casino and are given an opportunity for your lifetime savings of \$500,000. You have two choices, A and B. If you choose option A, you will receive a monthly paycheck of \$2,000 for the rest of your life. With option B, you could receive a monthly paycheck of \$5,000 for the rest of your life.

The choice seems obvious, right? Not quite. If you read it correctly, option B does not offer the certainty of option A. The word ‘could’ expresses possibility – and only possibility. That means there is a risk involved – a spin on the wheel. If it lands on red, you will receive the \$5,000 monthly paycheck for the rest of your life, but if it lands on black, you receive nothing. Now, what do you do? Is the reward worth the risk?

That is the BIG question! Since I began focusing on income planning in 2005, four out of five clients I meet face this decision: the known versus the unknown, the certainty of a paycheck versus the possibility of making more money in the market. We refer to it as ‘income planning’ versus ‘income guessing.’

One of the most common fears individuals have is that of outliving their money. Think of it this way: in retirement, you ‘pay’ yourself instead of someone paying you. So, you have to consider the many unknowns attached not only to retirement but also through retirement. For example, how long will you live? You could live 10, 20, 30, or more years in retirement! That is why longevity is considered one of the biggest risks in retirement. How much will health care cost? What will inflation do? These are just a few of the unknowns. So, again I ask, when it comes to your savings and the income you need for the rest of your life, is the reward worth the risk?

In my years of experience, I have seen many individuals worry more about how much money they have to retire, rather than how much income they will receive in retirement. Many of them have not even considered longevity, health care, inflation, and all the other unknowns associated with the cost of living during retirement. When you focus on income, you can eliminate many fears and worries. Social Security, pensions, and income annuities are the primary sources of lifetime income (based on the strength of the government, the company you worked for, and the insurance company). So, if you could plan for a monthly income for as long as you live, no matter how long, would that take away your fear? This is what I call ‘income planning.’

Even though the phrase ‘income planning’ is quite clear, a high number of individuals go for option B. They choose the risk, hoping to make more money without looking at the consequences; they are ‘income guessing.’

As I often say on my radio show, "The best way to make money is to not lose money." That is why working with an income strategist makes a lot of sense.

When it comes to income planning, there are many strategies out there. Finding the best strategies for you is the job of the income planner you work with. Keep in mind that it is more important to focus on how much income you will have coming in, rather than how much money you have going into retirement. You can count on lifetime income; it will always be there. With assets, you are dealing with the unknown.

In building your portfolio, besides the main question, "Do I want to live with no worries or fears about my finances?" you also have to ask yourself the following: "Would I like to leave my loved ones a legacy? Is keeping control of my funds important to me?" These are the questions that shape your financial future. Your path will be unique. What is right for one person is not necessarily right for another person. Finding what is best for you and your family for your financial future should be one of your priorities. Your portfolio has to be what is comfortable for you, be it protecting it all or deciding to risk some in hopes of making more. To make your decisions, you must ponder the consequences and ask yourself, "Is the reward of making more money worth the risk of losing more money?"

Now, imagine this scenario: You admit your fear of running out of money in retirement and take the first step, to see a financial professional. After a couple meetings, they offer you a solution to your concern. The solution is everything you were looking for. Now, you have to commit to that solution. Sadly, this is where many people fail; they procrastinate making the decision. Procrastination can change your financial outcome!

If you, along with your financial professional, have done the work, cleverly decided to income plan, designed the best portfolio for you, and found a solution to your financial worries about retirement, is it worth the wait? No, it is not worth that wait! Do not procrastinate. Think of the reward: added peace of mind.

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