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Financial protection: a new asset class for retirement plans

A mix of asset types makes up a diversified portfolio

Here's how the financial protection asset class, including annuities, makes for a potentially safer retirement plan.

By working with a financial professional, you can design a plan that includes the right mix of assets for your needs now and in retirement. Making financial protection assets, including annuities, part of that plan may help give you more security. These types of assets are all built to help provide a measure of protection against some sort of dire financial event such as living longer than expected or dying too early.

Defining asset class

To start the conversation, let's consider the definition of an asset class. It's basically a grouping of investments that act similarly. Historically, there were the big three asset classes: equities, bonds, and cash. However, the investment world has gotten more complicated, so financial professionals expanded the traditional list of asset classes, including investments such as commodities and real estate to the mix. You can buy corn, or even a share of a shopping mall, for example. The thinking is that by diversifying your investments among asset classes, instead of having all your eggs in one basket, you can help reduce the risk inherent in any one asset class.

> "If you're not considering types of investment products that fall into the financial protection asset class, you may be missing the opportunity to help improve your retirement plan for future success."

Michael Harris, CFP, CLU, CHFC
Senior Education Advisor, Alliance

In addition to investing in stocks and bonds, you should consider annuities and insurance as part of your asset allocation. What do they offer that most traditional stock and bond portfolios don't? They offer a measure of financial protection against the effects of declining investment values.[1]

While all of these asset classes can play an important role in your overall portfolio, what they're usually missing is the benefit of protected income.

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What's in the financial protection asset class?

Life insurance, disability insurance, long-term care insurance and retirement income insurance

Take life insurance. Everybody is going to die. The question is when. You don't know. So what happens if you're a young breadwinner with a family and you pass away prematurely? Your income needs to be protected. The strategy: life insurance because it helps protect your family from the loss of your income stream.

When you're working, there's also a chance you could become disabled and unable to work. There's a protection strategy for that: disability insurance. If you become disabled, it provides you with income to replace some of your missing paychecks.

Long-term care insurance fills another financial protection need. It protects against the high cost of ongoing care if you need help performing everyday activities. In the case you need care at home or in a nursing facility, long-term care insurance acts as an income stream to cover the expense of hiring a caregiver or the monthly fees at a care center.

If you are a breadwinner with a family and you pass away prematurely, life insurance helps protect your family from the loss of your income stream.

If you become disabled, disability insurance provides income to replace some of your missing paychecks.

Long-term care insurance protects against the high cost of ongoing care if you need help performing everyday tasks.

Where do annuities fit in?

The role of annuities

Annuities, which provide protected lifetime income, protect you from the risk of longevity — living past the average life expectancy and running out of money. They're a blend of investments and insurance. The investments, such as stocks and bonds, can fluctuate in value; the insurance provides some measure of protection against the effects of declines in the value of the investments. "That's what makes them fit in the financial protection asset class that nobody talks about," Harris says.

Annuities clearly aren't cash, commodities or real estate. Some investors might fall into the trap of putting annuities into the equities or fixed income bucket. But Harris warns that might be a mistake. "It's easy to avoid annuities if you say they're just the same as everything else, but they don't act like everything else," Harris says.

Annuities protect you from the risk of living past the average life expectancy and running out of money.

Harris says that while all types of annuities — income annuities, fixed annuities, variable annuities, indexed annuities — carry different levels of market risk, they all fit in the portfolio insurance asset class because they all combine, in one form or another, the risk of investments with the protection of insurance.

Maybe you've heard you can just pick 60% stocks, 40% bonds, and be done with your plan. "But what about cash in an emergency fund?" Harris says. "Do you own your home? Do you have life insurance? Have you considered an annuity that is going to generate lifetime income? All those assets together make up a comprehensive, diversified financial plan."

When you diversify your retirement plan with an asset class that includes protected income, you may be likely to feel more confident and secure about the future, too. That's why you want to ask a financial professional how this asset class may fit into your retirement plan.

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But what about cash in an emergency fund?

It's time to start talking about a new asset class: **financial protection.**

Contact your financial professional or visit equitable.com.

1 Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate.

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Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company. Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½. Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

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