One general retirement guideline is that the majority of your retirement income will probably come from you and your planning efforts.
This includes employer-sponsored retirement plans such as 401(k) and 403(b) plans, personal retirement plans such as IRAs,
and other savings and investment vehicles such as stocks, mutual funds, and annuities.
The balance of retirement income may come from Social Security.
Let's take a look at Cathy's situation.
She is serious about preparing for her retirement and has set aside $300,000 to invest for retirement.
Cathy has three fairly straightforward objectives.
First, she would like to preserve principal.
She would like to proceed cautiously where risk is involved.
Second, she would like to achieve some growth.
Cathy is aware that inflation will take a bite out of her earning power and she'd like her money to grow and mitigate that possibility.
And finally, Cathy won't need her money until she retires, so she is willing to lock up her money for 10 years.
Cathy's strategy is to combine vehicles.
She will combine a fixed annuity with other investments that have the potential to grow over time.
In order to preserve her original principal, Cathy used $213,000 of her money to purchase a fixed annuity with a 3.5% guaranteed return,
which is contingent on the financial strength and claims-paying ability of the issuing insurance company.
In 10 years, the value of that annuity contract will climb to roughly $300,000, effectively guaranteeing that she won't lose her initial principal.
To pursue growth, Cathy used the remaining money to purchase a diversified mix of investments that have the potential to grow over time.
After 10 years, she hopes that these investments will outperform the fixed annuity and eventually provide the growth that she is seeking.
Remember, no financial strategy is guaranteed.
But Cathy's approach seeks to manage risk while pursuing growth.
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