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Annuities vs. 4% Rule:
Which Strategy Wins For Retirement Income?

By Thomas Shultz

Thirty years after financial adviser Willian Bengen advanced the currently popular strategy of withdrawing 4% of retirement savings each year from an equally balanced stock-bond portfolio, indexed throughout retirement for inflation, a new study prompts a reassessment.

Economists Mark Warshawsky and Gaobo Pang, after conducting new research, published a study that found the 4% rule has significant failure rates at advanced ages and provides the lowest levels of income when compared with other asset strategies that involve fixed-indexed annuities. The findings could change the way people think about retirement strategies.

Warshawsky is principal of ReLIA Strategies, former deputy commissioner for Retirement and Disability Policy at the Social Security Administration (2017-2021), and a senior fellow at the American Enterprise Institute. Pang is principal of Zillore LLC, a research firm. The American Council of Life Insurers (ACLI) financially supported the research. The paper and its conclusions are solely the responsibility of the authors.

Warshawsky and Pang ran simulations on various approaches to asset management in retirement: the 4% rule, going all in on annuities, and two hybrid strategies where retirement portfolios combined annuities with the 4% rule. In addition to inflation, they factored in investment returns, how long people live, gender, retiring early versus retiring later and other factors. They even looked at people's different levels of risk tolerance.

They aimed to determine strategies

Cont. next page

JAN/FEB

New Year and New Content!

Inside This Issue

RETIREMENT 101	1
CORALYN'S CORNER	4
RITA'S REVIEWS	5
HEALTH CARE HACKER	6
FUN STUFF	8
SOCIAL SECURITY	9
MONTHLY RATES	10
WORKSHOPS	11

that would provide the most income and here's what the research found:

A portfolio of around 40-45% Annuities tends to work best for most people

For most people, the study found that a strategic balance of annuities and systematic withdrawals, tailored to individual needs, preferences and market conditions, is the key to optimal retirement outcomes that generate higher, steadier, and more reliable income flow throughout retirement. This was the case whether through a one-time purchase of an immediate annuity or a strategy that included a gradual process of periodic annuity purchases over a period of years.

A strategic balance amounts to partial annuitization of retirement savings, where an annuity or annuities in a portfolio are accompanied by investments in an equal split between stocks and bonds.

Annuity-based strategies outpace the 4% withdrawal strategy

Warshawsky and Pang found that the advantage of the 4% rule is that it keeps assets accessible — assets that might be needed for a big home repair, medical expenses, to cover an emergency, to leave an inheritance or for some other purpose.

But under the 4%-only strategy where money is withdrawn every year in retirement, there's a risk of running out of money for people who live into their 80s, which is growing increasingly common. An extended bad turn in the markets could also undermine the 4% withdrawal strategy, the researchers said.

Full annuitization provides highest initial level of retirement income

The study found that while full annuitization is great early in retirement, providing the most income and a guarantee of lifetime income, this strategy has a potential drawback: it could leave the retiree illiquid. That is, it may not leave someone who fully annuitizes with enough income to cover certain costs, such as long-term care. And as they write in their paper, "it can be subject to timing risk, that is, interest rates may be low (say owing to Federal Board monetary policy or recession) and annuity prices relatively high."

Those retiring with $500,000 or less will benefit most of all by annuitizing higher portions of their savings, if not all of their savings, the researchers said.

Annuities Reduce RMDs

The researchers found that retirees can keep more in income and reduce their required minimum distributions (RMDs) from their 401(k)s and IRAs – effectively keeping more money for themselves – through annuity ownership. That is because, under recently enacted legislation, money in an annuity is excluded from RMD calculations.

Currently, RMD rules kick in at age 73 but may increase to age 75 in future years. Warshawsky and Pang noted surprise at how much annuity ownership reduces the amount a retiree has to take out of their savings.

The Bottom Line

Putting their research findings in as simple a way as possible, Warshawsky and Pang said people with modest sums of Cont. next page

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retirement savings would probably do best to annuitize all or most of it. People with between $500,000 and $1,000,000 would probably do best with annuitizing half of their assets and withdrawing at 4 percent annually the remaining half. In all events, the annuity would play a major role to optimize retirement income.

In addition to contributing greatly to the body of research on long-term personal asset management, Warshawsky and Pang's paper makes clear that even more retirement finance research is needed. For example, how should Social Security claiming decisions factor into the calculations? What are the best strategies when retirees work part-time or when a retiree may be lucky enough to have a pension from a prior employer?

In the meantime, Warshawsky and Pang have made clear that an annuity not only can guarantee lifetime income, but it can also maximize the overall income potential of a retiree's nest egg.

If you'd like a second opinion on your current portfolio or are getting ready to retire and would like to see what retirement could look like for you, we would love the chance to show you our skills!

Thomas Shultz

CURRENT MULTIYEAR ANNUITY RATES

JANUARY 2025

4.50%

1 Year Fixed Annuity

5.25%

2 Year Fixed Annuity

6.00%

3 Year Fixed Annuity

5.95%

5 Year Fixed Annuity

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Coralyn's Corner

Every month, my corner is to keep you updated on changes in our world, AZMedicare101.org, LyfeAdvisors and our family.

The holidays went by so fast, I didn't even know we celebrated them. After finishing the annual election period, healthcare.gov annual enrollment period, and required minimum distributions, there was very little time for rest and relaxation.

We have been working tirelessly to make sure that all the changes that were implemented during the annual election period were indeed, put in place. This year it seems that more carriers are making more mistakes, so if you're having an issue please give us a call so we can make sure everything is correct.

With a new administration looming, it's hard to tell which direction interest rates are going to go. Thomas continues to tell our clients that Trump wants to slash them but the Fed doesn't, which is good news for retirees who still are trying to get annuities. The payout factors have come down from all-time highs, but still are very attractive against historical averages. Thomas has been trying to speak to as many of you as possible that have been thinking of getting an annuity to try and get you taken care of before rates drop and make them unattractive.

On a family note, our holidays were pretty tame. We worked most days and just celebrated with immediate family. We did get a chance in mid December to go see my mom in Las Vegas and she treated us to free tickets to see one of our favorite artists, Zach Top. It was my mom's first time ever going to a country music concert but she seemed to enjoy it, and the seats she got us were awesome. She is a little bit of a gambler, and her casino of choice is Palms. Because she plays there so much, they comp her things all the time and these tickets (which were free) also included free drinks and food, even the big box movie theatre candy for kids (Jackson was in heaven).

I wish we would have gotten to spend Christmas with her but the flights were just too expensive to justify (always next year!)

Coralyn Shultz

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RITA'S REVIEWS

Every month, my husband and I enjoy trying out places to eat. This month we decided to try a place called "Alma" in McCormick Ranch...

Every now and then my husband and I decide to have a date night and enjoy a restaurant that is a bit more up-scale and adventurous. This particular location is very near to us, and we have talked about it for months, so we finally decided to check it out. Alma is on Scottsdale Road across the road from the McCormick Train Park. The owner and chef is Sheila Bryson. She also owns and operates Soul Café, Vic & Ola's, Pescada and just recently Little Snitch. Vic & Ola's is for her grandparents, Victor and Ola who grew up in Southern Italy. She grew up cooking with her grandmother and wanted to bring that family feeling to all her restaurants. Soul Café and Alma both are influenced by the American Southwest and Mexican flavors. Pescada features Mediterranean style seafood while her newest "Little Snitch" is a coffee shop with a bakery counter and a full bar offering mostly a brunch menu. She really has something for everyone. Unfortunately, most of her restaurants are in North Scottsdale in the Pinnacle Peak/Thompson Peak area.

Alma is a bit secluded and all you can see from the road is the sign. Once you walk under the sign and down the palm tree lined sidewalk, you come to a lovely outdoor covered patio. Upon entering, you are offered a variety of seating options, depending on the size of your group, including couches for maybe just drinks and appetizers. The décor was beautiful but didn't require dressing up. We were quickly seated in an intimate spot for two. Their menu is not large but offers wonderful Mexican dishes, some traditional and some that are not. I had the blackened Mahi Mahi with Southwest rice mixed with vegetables and my husband had the Cowboy ribeye. The Mahi Mahi was wonderful, and the steak was cooked to perfection. The vegetables with both meals were quite tasty and I especially loved my husband's mashed potatoes. Every now and then nothing says home cooking like mashed potatoes. Next time I think I want to try their brunch menu for the Churro waffles with strawberries. Makes my mouth water just thinking about them.

Rita Henderson

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Medicare Hack #63

What is IRMAA and how to cope and plan for it in the future

You may be one of many people, I'm sure, who've been blindsided by IRMAA.

My condolences and congratulations on your IRMAA surcharges. I know people hate IRMAA once they find out what it's all about, but it usually means you're doing pretty well in retirement — unless, perhaps, you simply made a strategy error and took out a big withdrawal without understanding the consequences. You learn pretty fast once you are of Medicare age that the government looks back at your tax returns from two years ago to figure out what you'll pay in premiums in the current year.

For 2025, that means the government is looking at your 2023 income. If you, say, took out a huge withdrawal from a tax-deferred IRA to buy your dream retirement home, you might be getting a letter that says you must pay an Income-Related Monthly Adjustment Amount (IRMAA), which is on a sliding scale based on your income. Each year, usually in November, the Centers for Medicare and Medicaid Services (CMS) release the threshold numbers for the next calendar year, along with the new base premiums for Medicare.

For a single filer in 2025, you'll start to incur IRMAA surcharges if your modified adjusted gross income (which is your adjusted gross income with some specific line items added back in) is over $106,000. It was $103,000 in 2024 and $97,000 in 2023. So you catch the drift, right? By 2027, it'll likely be in the range of $112,000 if inflation runs around 3%. For married couples filing jointly, the income thresholds are basically double.

There are five income tiers above the base. At each level, you pay a bit more for Medicare each month. The first tier is from $106,000 to $133,000 in 2025, which adds $74 a month for a single person. The last tier is for $500,000 and above and adds $443.90 per month.

All of those numbers will go up next year, and the year after and forevermore, unless the laws change. There are also IRMAA surcharges for Part D drug plans.

The payment, by the way, usually comes out of your Social Security check, but if you haven't claimed yet, you have to pay it directly.

How to avoid IRMAA

You're on the right track to plan now to avoid IRMAA, and the first step is simply knowing it exists. Many people don't. And even if they do, they don't usually think about it until they turn 65 and sign up for Medicare. But if they don't realize there's a two-year look-back period, they can get tripped up by transactions they make at age 63, thinking they're in the clear.

A lot of times, people get an IRMAA letter because of work income that a person had at 63, and then they retire at 65 but the calculation hasn't caught up with their new life. The government has an out for that — you can appeal to the Social Security Administration if your income has changed because of the death of a spouse, a divorce or a change of employment.

If none of the accepted reasons apply to you, consider taking the hit one year and then moving on. Many people do not realize that if your income subsequently goes down, your IRMAA charges will go away; it's calculated fresh each year.

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If you want to plan ahead for the long term because your income will always be over the limit, you'll have to consider making less. That's why I offered congratulations, because you're actually doing pretty well in retirement if you're worried about this. CMS said that only 8% of Medicare recipients pay IRMAA charges.

You don't want to get too granular with your planning by worrying about the future amount of the threshold two years in advance.

The most effective thing you can do if most of your income is from withdrawals from tax-deferred accounts is get the money out of there before the IRMAA look-back period starts, meaning before you turn 63 if you're going to claim Medicare at 65. That means giving the money away to charity or heirs, converting a large amount to a Roth IRA or not putting too much into the tax-deferred account in the first place.

If you're already past 63, there's not much you can do about it, so this is mostly a message for younger high-income workers who fear a tax and IRMAA bomb later in life. You could start contributing now to a Roth 401(k) if you already have significant savings in a traditional IRA or 401(k). Or, you could start a Roth conversion plan earlier than you might have otherwise intended before realizing there could be IRMAA in your future, paying tax upfront in exchange for long-term growth that is never taxed.

If you're mindful of that IRMAA threshold, you'd generally want the amount of your required minimum distribution (RMD) to be less than what it will be when you start Medicare. That RMD starts out around 4%, so you'd have to take out $40,000 or so out of a $1 million account, which, in combination with Social Security and any other income you have, shouldn't push you over. Given that the median retirement balance of those aged 64-74 is $200,000, according to the Survey of Consumer Finance by the Federal Reserve, you can see that most people aren't dealing with this issue.

If you have had an IRMAA issue or are trying to prepare for one in the future, reach out to us. We have helped thousands of clients file appeals with the Social Security Administration and can assess your situation and give you best practices of winning the appeal.

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CLOUDY	CUDDLE	FEBRUARY
FREEZING	FROSTBITE	GIVING
GLITTERY	JANUARY	MIGRATE
PARKA	SKIING	SLUSHY
SNOWSUIT	SNUGGLE	SOLSTICE
SPRUCE	STORMY	WEATHER

Jan/Feb Quiz

Question 1:
What is the term for a group of flamingos?

A. Flames
B. Flamboyance
C. Pink Triangle

Question 2:
What animal is known to laugh and has been proven to have a sense of humor?

A. Crow
B. Rooster
C. Rat

Question 3: What year was the very first model of the iPhone released?

A. 2004
B. 2007
C. 2006

Answers for December

Question 1: How many towns in America are named “Christmas”?

C. two

Question 2: In total, how many gifts were given in the “Twelve Days of Christmas”?

A. 364

Question 3: In the movie, Elf, what condiment does Buddy put on everything?

C. Syrup

Social Security Fairness Act: What Will Happen to Your Benefits Now That It's Become Law

The Social Security Fairness Act (SSFA), which was recently signed into law on Jan. 5, by President Joe Biden, eliminates rules that reduce Social Security benefits for those who also get income from public pensions.

Now that it's become law, nearly three million teachers, firefighters, policeman and other public sector workers who receive pension income will see increases in their Social Security benefits.

What Is the Social Security Fairness Act?

The Social Security Fairness Act fully repeals the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO). Historically, these provisions have affected individuals who receive a pension from work where they did not pay into Social Security.

These provisions have been in place since 1983. According to lawmakers, the WEP reduces benefits based on an individual's own work record, while the GPO reduces spousal or survivor benefits that an individual has otherwise been entitled to receive.

For example, let's say a teacher with a pension from their teaching job — which is not subject to Social Security taxes — also has a second job that qualifies them for Social Security benefits. Under WEP, Social Security benefits are calculated in a way that results in a lower benefit amount than the standard formula would provide.

GPO is similar to WEP; however, it impacts Social Security spousal and survivor benefits of someone receiving a pension from a job not covered by Social Security.

With this repeal, all benefits will now be calculated using the same formulas and rules.

There have been previous proposals to address these provisions, but they were never passed.

Unlike past proposals that sought to replace the WEP with an alternative calculation formula, this legislation eliminates the WEP entirely.

Additionally, most previous proposals did not address the GPO, but the Social Security Fairness Act removes both provisions.

Now that the bill was signed into law, adjusted payments will be retroactive to January 2025.

However, it is not yet clear whether retroactive payments will be issued as a lump sum or distributed over time.

Will the New Law Affect You?

To determine whether the SSFA impacts you, the International Association of Fire Fighters (IAFF) recommends reviewing your employment history to determine if you worked in a public sector job and/or received a pension through your public employment. You should also contact the Social Security Administration to find out how these changes specifically impact your benefits.

The IAFF also recommends contacting your financial advisor for more detailed information about how these changes may affect your monthly benefits.

Medicare Supplement Rates

Lowest Medicare Supplement Rates For 85258 Maricopa County

Gender	Age	Plan	Carrier	Premium*
Female	65	G	Cigna	$132.60
Male	65	G	BCBS	$147.52
Female	65	GHD	New Era Life	$40.37
Male	65	GHD	New Era Life	$44.41
Female	65	N	Cigna	$94.93
Male	65	N	Cigna	$106.93
Female	70	F	American Home Life	$173.20
Male	70	F	Cigna	$191.33
Female	70	G	Allstate	$139.44
Male	70	G	Allstate	$157.51
Female	70	N	Allstate	$102.66
Male	70	N	Cigna	$116.50

Rates are accurate at the time of production. Included in the list are fraternal organizations, service organizations, and carriers with ratings above B+.
**Source: CSG Actuarial effective dates 01/11/2025*

Interest Rates

Highest CDs and Share Rates Highest National Rates

Duration	Institution	Yield to Maturity*
1 year	Tampa Bay FCU	4.50%
18 month	XCEL FCU	4.50%
2 year	Credit Human	4.40%
4 year	Transport FCU	4.40%
5 year	Transport FCU	4.40%

Rates are accurate at the time of production. We include banks and federal credit unions in our national search. All have FDIC or NCUA Insurance. **Source: BankRate.com 01/11/2025*

Highest Fixed Annuity Rates

Highest Arizona Rates

Duration	Institution	Yield to Maturity*
3 year	Upstream Life	6.00%
4 year	Upstream Life	5.70%
5 year	Upstream Life	5.95%
7 year	Revol One	5.70%
10 year	Heartland National	5.55%

Rates are accurate at the time of production. Excluded from the list are fraternal organizations, service organizations, and carriers with ratings below B **Source: AnnuityRateWatch 01/11/2025*

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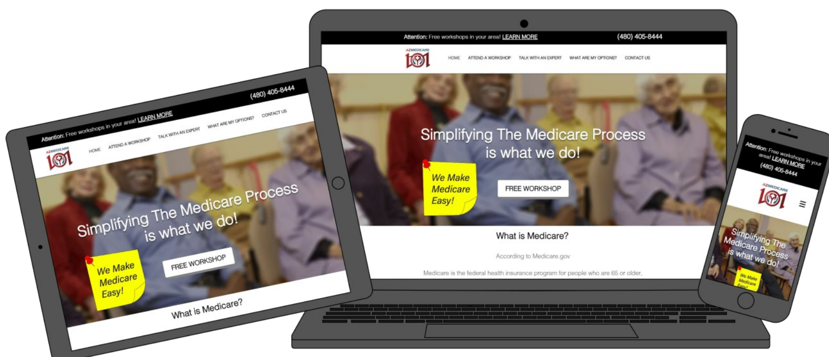

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Medicare Workshops

1 Hour Presentation - Everything you need to know about Medicare. We explain how Medicare works and what you can expect before you choose!

THIS PRESENTATION HAS BEEN APPROVED BY MEDICARE

Online Workshop
Thursday, January 30th
05:30pm to 06:30pm

Online Workshop
Monday, February 3rd
01:30pm to 02:30pm

All Of Arizona in Blue

Online Workshop
Wednesday, February 5th
11:30am to 12:30pm

"As a fiduciary, it is our responsibility to make sure that both the Health and Wealth areas of your retirement have been planned for accordingly. You can't have a sound financial plan without addressing both and here at LyfeAdvisors we believe that it starts with Healthcare! For the last 13 years, we have been helping thousands of retirees all throughout Arizona and we'd love to help you as well." - **Thomas Shultz, Managing Partner**

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