Modern Retirement Planning Insights from Ancient Greece

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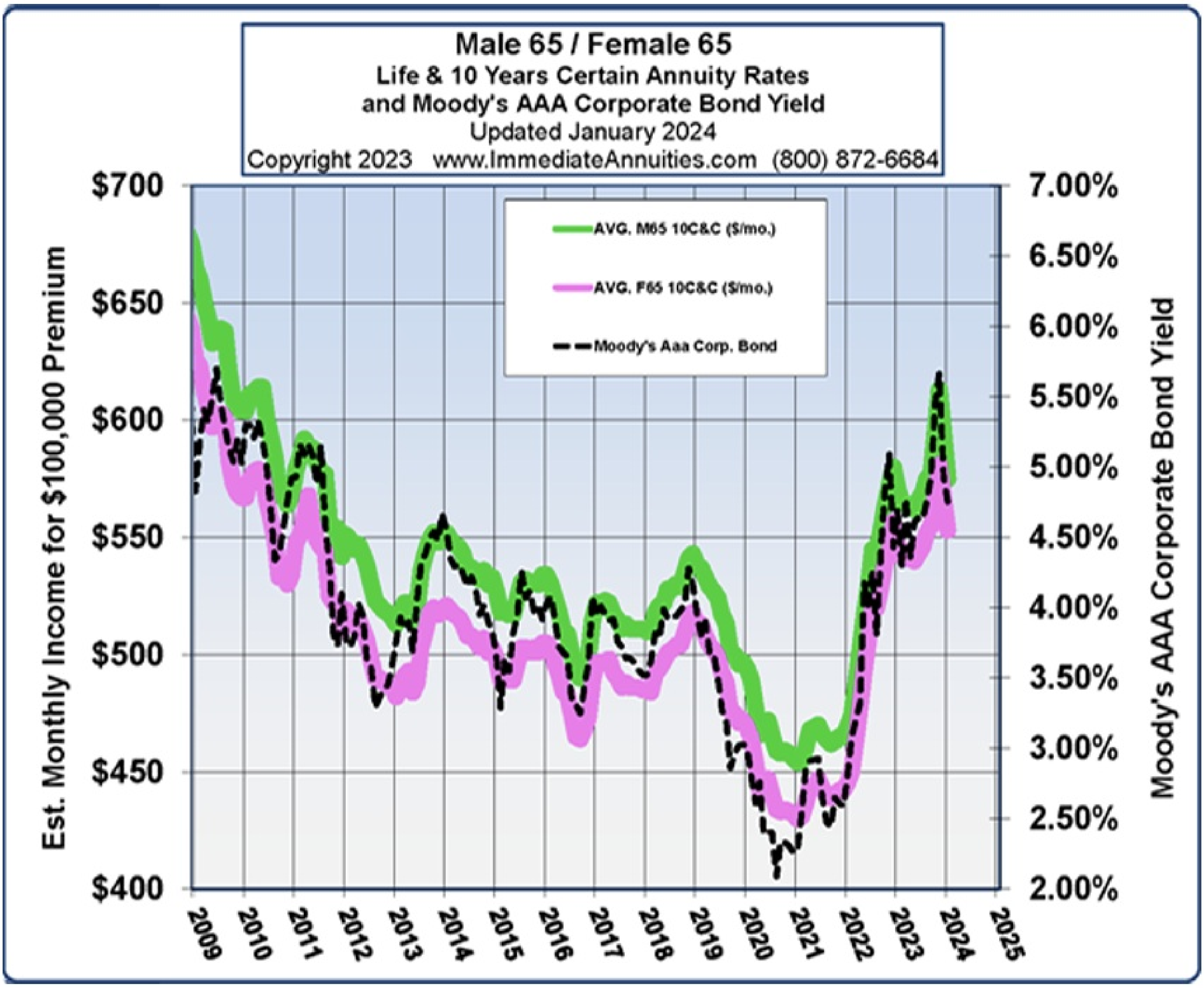
In ancient Greece, there were two different forms of the word "time": chronos, which aligns with our understanding of time as chronological or sequential, and kairos. Kairos is not a date or a number on the clock, but a critical time or passing instance of an opportune moment. Although there is no equivalent word to kairos in modern English, we all have experienced windows of opportunity that have produced better results than if we acted at another time.

When we keep in mind that opportunities are grounded in specific moments with particular conditions, we can better understand when and why certain opportunities should be taken. Recently, a large number of retirement-bound Americans have purchased annuities, driving curiosity among Americans as to when and why they should purchase one. To understand why so many retirement-bound Americans are purchasing annuities – and why now is such a critical window of opportunity – it is vital to know about the relationship between annuity payout rates and interest rates.

In the graph below, the green and pink lines represent the historical payout rates of annuities, and the dashed black line reflects corporate bond rates. Annuity income rates follow the bond market, indicating a correlation between high-interest rates and high-annuity returns.



With interest rates in the United States the highest in 15 years, many are jumping at the opportunity to purchase an annuity and lock in higher payout rates. We are near the peak of this rate-hike cycle, and the Fed has indicated three rate reductions later this year. Although rates have started to drop, there has been volatility in recent months, providing an opportunity to lock in those rates before the Fed cuts later this year.

To emphasize the importance of acting on these rates, consider the cost of waiting. For example, let's look at the different returns for someone who would have purchased an annuity at the last peak compared to their returns if they waited just two years later to buy one.

A $100,000 life with a 10-year certain single-premium immediate annuity (SPIA) for a 65-year-old male would have provided close to $550 a month of lifetime income at the peak of the last interest rate cycle that ended in 2018. A 65-year-old buying that same annuity two years later would have only received roughly $450 a month of guaranteed lifetime income.

While $100 a month may not seem meaningful initially, what if you were considering a $500,000 annuity? Consider the impact of having an extra $500 of guaranteed income every month for as long as you live – regardless of interest rate changes or stock market performance. That additional income could provide priceless memories to share and enjoy with loved ones. The guaranteed basis on which you receive that income could be applied to any discretionary expenses you encounter, increasing the affordability of your desired retirement lifestyle.

If we applied the same scenario to today's near-peak rates, a 65-year-old buying the same $100,000 annuity would receive approximately $600 monthly. Current, near-peak rates may not last and could decrease towards the back half of this year.

The impact of locking in today's rates could significantly boost your retirement income compared to returns in lower interest-rate environments. While there is always the potential for these rates to increase in the future, there is no guarantee that they will surpass the current 15-year high rates. We know, however, that today’s higher interest rates increase the lifetime guaranteed income an insurance company can provide.

Look back to the last rate hike in 2018. Think about the people who didn’t act on the peak-rate opportunity and waited for rates to rise; instead, rates diminished significantly and quickly over the next four years. Unfortunately, some Americans will inevitably ignore the timeliness of this opportunity, watching the rates fall and suffering losses in a stock market that is sitting near all-time highs. Luckily, many retirement planners are seeing the potential in this opportunity, which is why so many are raising their hands to take advantage of high-payout annuities.

With the interest-rate peak being the highest in 15 years, now is the opportunity to lock in near-peak lifetime income payments while avoiding future stock market losses. If anyone is looking to benefit from these rates, it is imperative to act while that window is open. Reach out to your financial advisor or planner to discuss the role of annuities in your retirement plan to expand your understanding of the kairos of purchasing an annuity.

Brittany Maples is a marketing coordinator who works with financial professionals to develop creative content and implement effective communication strategies that deliver relevant and timely content to their community. She brings her knowledge in rhetorical writing, social media marketing, and content creation to the financial services industry, where she finds immense value and opportunity in helping others.
