

Personal Pension Plans

- With more companies phasing out traditional pension plans, financial-services companies have begun investments that behave a lot like a pension.
- [MetLife](#) Inc. has a product called Personal Pension Builder: You pay now for assurances that you'll receive a steady monthly check in retirement. A 40-year-old putting away \$3,000 a year would get \$10,200 a year starting at age 65.
- [Genworth Financial](#) Inc. has a product called ClearCourse.
- New York Life Insurance Co. offers a product called Personal Pension.
- Compared with mutual funds, they are more complex, offer less flexibility and transparency and come with more restrictions.
- These products have emerged as some investors worry that either they'll outlive their savings, or that the markets could shift, eroding a nest egg built up in mutual funds, 401(k)s or other retirement investments.
- Given the long-term nature of these offerings -- you're paying a company now for the promise that it will pay you back decades in the future -- investors need to feel comfortable that the company will still be around in 30 or 50 years.
- Since the start of 1995, 76 life and health insurance companies have gone out of business. Note that when an insurer fails, state-run insurance pools step in to fulfill certain obligations, but investors can have accounts frozen and face other significant hassles.
- All these products are based on annuities, a type of tax-deferred investment that has long struggled with a reputation for complexity, high costs and penalties for withdrawing money after it is invested. The challenge for insurance companies is persuading investors and financial advisers to give these products another look.
- For some investors, these products can be useful for some of their portfolio, especially if it appears there's a good chance of running out of money during retirement. They can provide a safety net, so investors can be in position to take slightly greater risks with the remainder of their portfolio, and thus hopefully earn higher returns.
- The basic idea is that while mutual funds in a 401(k) plan may provide a great deal of flexibility and work well for building savings over a long period of time, they don't protect against outliving a nest egg. A 65-year-old today has a life expectancy of another 20 years. If that person has \$1 million in savings, he or she stands a good chance of running out of money by age 85 if they pull \$60,000 a year out of their account.
- Investors are able to convert their savings into a lifetime stream of income at retirement by taking that money and buying what is known as an "immediate annuity." But an investor's returns on an immediate annuity are highly dependent on interest rates at the time of purchase. That means a retiree who happens to stop working at a time when interest rates are historically low will do much worse than somebody who retires at a different time, when rates were higher. In addition, many investors have a hard time persuading themselves to turn over a big chunk of cash to an insurance company.
- That's where the new products come in. Individuals make periodic investments while employed and they are guaranteed a certain amount of income for life after retirement.

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- A fixed annuity such as this makes sense for an investor whose goal is to have a predictable level of income, irrespective of what happens in the markets between the time the investment is made and retirement, the company says.
- Some personal pension plans are available for 401(k) plans. But there is an important distinction between it and mutual funds: Unlike with a mutual-fund investment, money can't be switched into another investment in the 401(k) plan.
- There may also be restrictions on withdrawals. For example, if an investor wanted to withdraw money outright from some personal pensions plans the employees must have first withdrawn money from all other investment options. In addition to taxes, other charges may be levied on withdrawals.