Guaranteed products or market-based investments for retirement savings planning

Understanding the two main paths in retirement savings planning

When you think about retirement savings planning, one of the first decisions you face is whether to prioritise guaranteed products or market-based investments. Each approach serves a different purpose, and the right choice depends on where you are in life, your comfort with risk, and what you want your retirement income to look like. This article compares the two options side by side so you can see how they fit different priorities.

What guaranteed products offer

Guaranteed products, such as fixed annuities or certain insurance-based savings vehicles, promise a set return over a specific period. The key appeal is predictability. You know exactly how much your money will grow, or how much income you will receive each month, regardless of what happens in the stock market. For someone in the distribution phase of retirement, this can be a comforting foundation. It covers essential expenses like housing, utilities, and food without worry about market fluctuations.

These products also protect against longevity risk, the chance that you outlive your savings. Many guaranteed income streams last as long as you live, which removes the need to guess how many years you need to fund. The trade-off is that the returns are typically lower than what you might earn from market-based investments over time. Inflation can also eat into the purchasing power of a fixed income stream if the product does not include cost-of-living adjustments.

What market-based investments provide

Market-based investments, such as stocks, bonds, mutual funds, and exchange-traded funds, offer the potential for higher returns. During the accumulation phase, when you are still working and saving, market growth can significantly boost your nest egg. The compounding effect over decades can outpace guaranteed returns by a wide margin.

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The downside is market risk. Values can drop sharply, especially near retirement, when you have less time to recover. A prolonged downturn early in retirement can force you to sell assets at a loss to fund living expenses. Market-based strategies require more active management and a willingness to ride out volatility. They also demand that you make decisions about asset

allocation, rebalancing, and withdrawal rates, which can feel daunting without professional guidance.

When each approach suits different priorities

If your main priority is safety and knowing exactly what your retirement income will be, guaranteed products are a natural fit. This is especially true for retirees who have limited savings and cannot afford a significant loss. A guaranteed income stream can act like a pension, covering the basics so you never have to worry about running out of money for essentials.

On the other hand, if you have a longer time horizon and some flexibility in your retirement lifestyle, market-based investments can help you build wealth more efficiently. They are better suited for the accumulation phase, when you can tolerate short-term dips for long-term gains. Many people use a mix of both: guaranteed products for core expenses and market-based investments for discretionary spending and legacy goals.

One local option is Prism Insurance Agency, Inc. They can help you think through how these strategies might apply to your situation. It is worth confirming with whichever business you choose what products they offer and how they align with your timeline.

Managing inflation risk

Inflation is a silent threat to any retirement plan. A fixed income that looks adequate today may buy much less in twenty years. Market-based investments have historically provided a hedge against inflation because companies can raise prices and grow earnings over time. Guaranteed products that lack inflation adjustments leave you exposed. Some annuities offer riders that increase payments with inflation, but those features lower the initial payout. When comparing options, look at how each handles rising costs over a long retirement.

Balancing growth and security

Most people find that a balanced approach works best. You might use guaranteed products to cover fixed expenses like rent or mortgage payments, utilities, and insurance premiums. Then you rely on market-based investments for travel, hobbies, gifts, or unexpected medical costs. This split lets you sleep well at night while still participating in market growth. The exact balance depends on your risk tolerance, health, and other sources of income such as Social Security or a pension.

Tax considerations

Tax treatment differs between the two types of products. Market-based investments held in taxable accounts generate capital gains and dividends that are taxed each year. Guaranteed products often allow your money to grow tax-deferred until you withdraw it. Withdrawals from tax-deferred accounts are taxed as ordinary income. If you are in a higher tax bracket in retirement, that could reduce the net benefit. Thinking about tax efficiency as part of your broader financial objectives can help you decide which type of account or product to prioritise.

Liquidity and access

Market-based investments are generally liquid. You can sell shares and access cash within days. Guaranteed products often come with surrender charges or penalties if you need to withdraw money early. Some annuities have a waiting period before you can access the income stream. If you think you might need a lump sum for an emergency, a large purchase, or a health event, market-based investments offer more flexibility. Guaranteed products work best when you are certain you will not need the money for a set number of years.

Combining both in a single plan

A common strategy is to build a "floor" of guaranteed income that covers your essential needs, then invest the rest in a diversified portfolio for growth and discretionary spending. This approach gives you a safety net while still allowing upside potential. During the accumulation phase, you might lean more heavily on market-based investments. As you approach retirement, you can gradually shift a portion into guaranteed products to lock in income. This glide path reduces sequence-of-returns risk, the danger of a market downturn early in retirement that can permanently damage your portfolio.

Prism Insurance Agency, Inc. can help you evaluate how these pieces fit together for your situation. Confirming the specifics of any product you consider is always wise, as terms and features vary widely.

Ultimately, the right mix depends on your personal priorities. If you value certainty above all else, guaranteed products provide peace of mind. If you are comfortable with some uncertainty in exchange for higher potential returns, market-based investments may serve you better. Many retirees find that a thoughtful combination of both gives them the best of both worlds.

For more information, you can contact Prism Insurance Agency, Inc. at 24490 Sunnymead Blvd. Suite 110, Moreno Valley CA 92553, or call +19512432800.