

Considering an Annuity? Managed Payout Funds Are One More Entry in the Retirement Spend-Down Picture

Insurers have long been part of the effort to help retirees spend down their nest eggs through annuity products. Now, the mutual fund industry is jumping in with a competing offering for individuals who may or may not be so keen on annuities.

Called “target distribution” or “managed payout” funds, individuals who are retired or about to retire can invest in these fund products that contain stocks, bonds or other asset classes. They are structured so investors can designate regular withdrawals and the account balance can be transferred easily at the time of the account holder’s death to any spousal or non-spousal beneficiary.

Managed payout funds have been compared to fixed immediate annuities and are also known as retirement income funds. Any distribution taken by the account holder is expected to keep pace with inflation and come from dividends, fund appreciation and a portion of principal. The rest of the assets stays invested.

For retirees who want to continue building their nest egg while generating a steady stream of monthly income, they’re worth examining. It’s estimated that some \$16 trillion in retirement assets are up for grabs and looking for disciplined distribution.

These funds issue checks regularly based on the account holder’s preferences, but the amounts are tied overall to fund performance. Vanguard, Fidelity Investments and Charles Schwab have all recently entered this business. Most of these funds encourage account holders to pull out between 3-7 percent of their total portfolio annually.

As the number of retiring Americans continues to increase, there will continue to be new wrinkles in the spend-out game. It makes good sense to get some personalized advice on how to best spend down your assets in a way that fits your needs. One way would be to consult a financial planning professional a few years before you’re ready to retire to check the following:

- See how your current assets are working so you know if you have enough to retire – know what you have before you question how to spend it.
- Consider various scenarios that describe the way you’ll want to live after retirement and whether your invested assets support that plan.
- Are your long-term care needs covered? Before you start talking about locking up assets in specialized fund products, make sure you have money in reserve or long-term care insurance in place should you need to pay for temporary disability or end-of-life care.

- What are the fees on the various managed payout funds you're looking at? Most specialized funds have some fee structure that you should compare against other alternatives. Compare the expense ratio of your chosen fund against other possibilities.
- How will your assets in these funds be invested? Do those choices match your risk tolerance and your investment goals post-retirement? You'll still need to be making smart investing choices with what hasn't been spent down.

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