Janus Henderson
INVESTORS

AVOIDING
RETIREMENT PITFALLS

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Closing the retirement gap

As investors approach retirement, their priority generally shifts from growth to protecting investments.

But some investors are nearing retirement only to discover a gap between what they have saved and what they require in retirement. That gap may be due to not saving enough, increased expenses, changes in lifestyle, or longer life spans.

Whatever the cause, this shortfall may push investors to try to take more risk to close the gap. But if that strategy fails, the results can be disastrous. Losses early in retirement (called sequence-of-returns risk) can wipe out years of savings, which highlights how important risk management is as investors plan for and get closer to retirement.

The question becomes, how can investors balance all the competing issues associated with a retirement that could last 20 or 30 years – or longer? Not only do they need to adhere to good long-term investing strategies like diversification, they also must start incorporating risk management and purchasing power protection, as well as creating consistent cash flows and addressing the gaps that may exist.

With so many issues at play, there isn't just one answer. It takes a mosaic of financial solutions to achieve these ends. A growing part of that mosaic may be the use of annuities, and more specifically indexed annuities. In fact, in our 2024 Investor Survey, we found that 54% of retirees seeking greater stability are incorporating annuities in their portfolios.

Where do annuities fit?

Annuities can help address several core retirement challenges, including managing risk, generating lifetime income, and supporting growth.

At a high level, annuity products span a spectrum of risk and return:

- **Variable annuities (VAs):** Offer full market participation and the highest growth potential, but also expose investors to market losses
- **Indexed annuities such as fixed indexed annuities (FIAs) and registered index-linked annuities (RILAs):** Link returns to market performance while incorporating varying levels of downside protection
- **Fixed annuities**: Provide stable, predictable returns with minimal market exposure

For investors comfortable with market volatility, variable annuities may support long-term growth. However, for those prioritizing risk management – particularly as they approach or enter retirement – indexed annuities can offer a balance between protection and growth.

U.S. annuity sales hit **$461.3 billion in 2025**, the fourth record year in a row. Indexed products (FIAs and RILAs) now make up **45% of all sales**, up from just 24% a decade ago. This surge shows strong demand for products that balance growth and protection.

Source: LIMRA Secure Retirement Institute, 2025 Reports.

What are indexed annuities?

Fixed indexed annuities (FIAs) and registered index-linked annuities (RILAs) are designed to provide market-linked growth with varying levels of downside protection. Both products tie returns to an index such as the S&P 500® or a proprietary index but differ in how they balance risk and return.

While FIAs prioritize downside protection, RILAs introduce more flexibility, allowing investors to accept some risk in exchange for more growth potential.

TERM	DEFINITION	EXAMPLE
Cap	Maximum return an annuity can earn	If the Index gains 12%, with a 6% cap, you get 6% return
Floor	Minimum credited return, which helps prevent account value from decreasing	If the Index declines -5%, with a 0% floor, you lose 0%
Participation Rate	Percentage of the index gains that can be earned	If the Index gains 10%, with an 80% rate, you get 8% return
Spread	Amount subtracted from an index's return	If the Index gains 8%, with a 2% spread, you get 6% return
Buffer (RILA only)	A downside protection mechanism that acts as a "shock absorber", protecting investors from a specific percentage of market losses	If the Index falls -15%, with a 10% buffer, you lose only -5%

RILAs and the volatility advantage

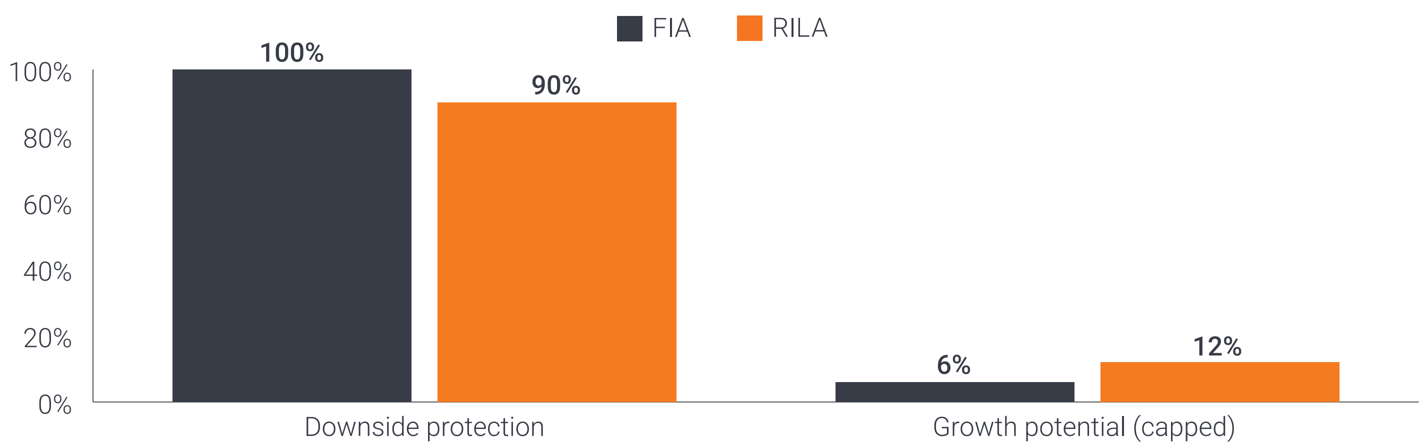
The ability to absorb a portion of losses in exchange for higher upside potential can make RILAs particularly attractive in volatile markets. In exchange for this partial protection, insurers can offer higher caps and participation rates, or even uncapped growth potential.

Example: If the index returns 12%:

- A FIA with a 6% cap credits only 6%
- A RILA with a 10% buffer and 12% cap credits the full 12%

This positions RILAs between FIAs and traditional VAs, offering more growth potential than FIAs, but with less downside exposure than fully market-based investments. As a result, FIAs may be better suited for conservative investors prioritizing protection and RILAs may appeal to investors seeking a balance between protection and growth potential.[1]

Volatility trade-offs: FIA vs. RILA



Examples are for illustrative purposes only and do not represent the returns of any particular investment. Actual caps, buffers, floors, fees, and contract terms vary.
Source: LIMRA Secure Retirement Institute, NAFA, S&P Dow Jones Indices (illustrative data)

[1] Blanchett, D. (2023). "RILAs: Buffers are Still Much Better than Floors." Advisor Perspectives.

Putting it all together: Planning for a long retirement

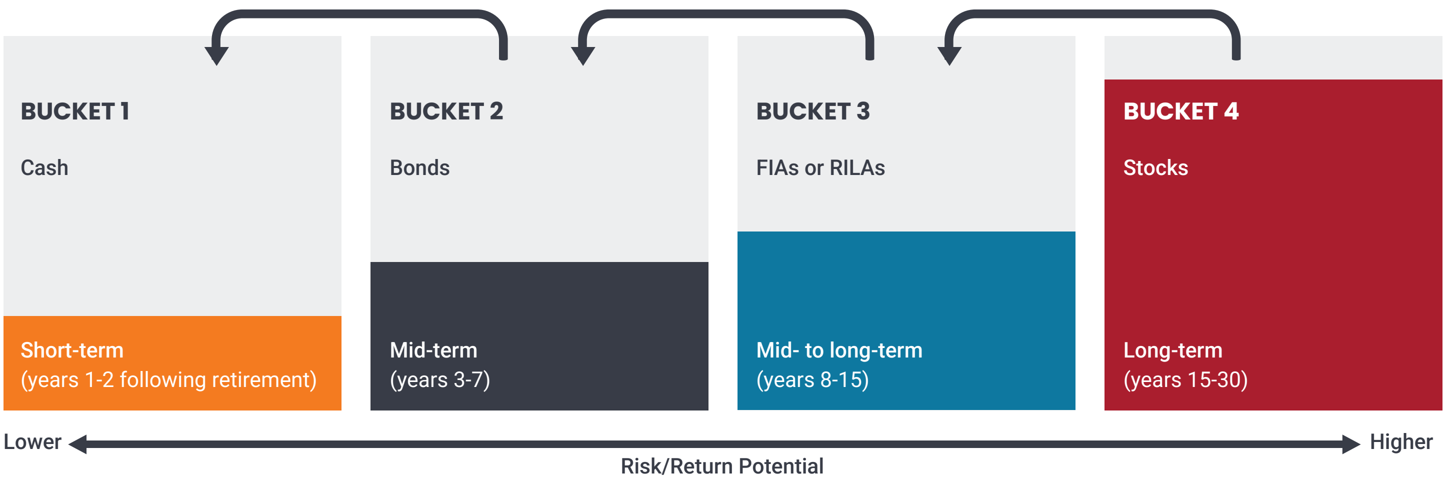
As retirement planning shifts from accumulation to distribution, investors face competing objectives that include income stability, growth, liquidity, and risk control. Segmenting retirement assets by time horizon can help address these challenges. Within this framework, annuity-based solutions such as FIAs and RILAs may serve different roles, depending on the investor's tolerance for volatility and need for growth during various phases of retirement.

However, compared to simply changing an allocation, investing for a 30-year retirement is a far more involved process. This can be especially challenging when investors have conflicting objectives, such as immediate liquidity and capital preservation to meet short-term needs versus the need for portfolio growth to keep pace with higher future expenses as well as increased longevity.

One solution is the **bucket strategy**, in which retirement assets are divided into time-based buckets. This approach balances near-term needs with long-term growth.

Bucket strategy

Incorporating FIAs and RILAs when planning for a 30-year retirement



Source: Morningstar (2024). "A Comparative Study of Retirement-Income Bucket Strategies."

Bucket 1 (years 1-2): Cash

Keep two years of expenses in cash or equivalents. This cushion can provide peace of mind, no matter what the market does.

Bucket 2 (years 3-7): Bonds/Fixed Income

Conservative investments cover near-term expenses after the cash runs out.

Bucket 3 (years 8-15): FIA

A FIA with a Guaranteed Lifetime Withdrawal Benefit (GLWB) provides income for middle retirement. Match the bucket timeframe to the FIA's surrender period (typically 5-10 years). A GLWB is a rider that can be added to an annuity product for a fee and provides lifetime income.

OR

Bucket 3 (years 8-15): RILA

For investors with moderate risk tolerance, a RILA offers more growth potential than a FIA but less volatility than stocks. This may be appropriate for investors seeking growth beyond FIA caps while maintaining protection against severe market downturns.

Bucket 4 (years 15-30): Stocks

Equities provide long-term growth potential to help outpace inflation and longevity risk.

How the strategy plays out

Here's how it works in practice:

Year 1: An investor spends from Bucket 1 (cash). The other buckets stay invested.

If stocks fall: Avoid panic-selling; move to Bucket 2 (bonds) to cover expenses, giving stocks time to recover.

If stocks rise: Use gains to refill Buckets 1 and 2. This keeps a safety net intact.

Years 8-15: FIA reaches the end of its surrender period. Turn on the GLWB for guaranteed lifetime income. If the investor also has a RILA in Bucket 3, it provides additional growth or income flexibility.

- **Surrender period:** The time an investor must hold an annuity before withdrawing without penalty (typically 5-10 years).

Fast forward several years when the FIAs and RILAs are past their surrender periods and can be drawn on for guaranteed income for life without a fee or penalty.

This strategy may help investors achieve two important goals: First, it allows them to systematically meet expense requirements and potentially grow assets in a way that more thoughtfully maximizes risk and return. Second, it may provide additional peace of mind for clients to know that assets have been earmarked for future needs.

This approach has been used by many in the past. However, the addition of an indexed annuity provides the potential for a greater level of security and stability, since those assets will not decrease in value (excluding fees and contract costs). Investors will also have a guaranteed income stream waiting for them after their disciplined approach at the beginning of retirement. That peace of mind can help investors avoid making emotional, rash investment decisions at an inopportune time.

Key takeaways:

- Divide retirement into time-based buckets.
- Use cash for years 1-2, bonds for years 3-7.
- Add FIAs (years 8-12) or RILAs (years 8-15) for protection plus growth.
- Keep stocks for years 15-30 to help outpace inflation.

Helping investors meet the retirement challenge

The challenge of generating and sustaining income in retirement has been well publicized. In addition, many investors today are faced with increased difficulty as they attempt to manage income and expenses in retirement as their cost of living increases, markets fluctuate, and life expectancies grow. Being able to plan for all these variables has never been easy and requires continuous effort.

While no single solution can address every challenge, incorporating a broader set of tools may help investors avoid the potential pitfalls that arise from relying solely on traditional allocations. Indexed annuities, including FIAs and RILAs, offer alternative approaches to managing risk while maintaining the potential for growth. When aligned with an investor's goals, time horizon, and risk capacity, these solutions may support greater confidence and stability throughout retirement.

Authors

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Managing Director, Head of Insurance and Retirement

Michelin Sharp is a Managing Director, Head of Insurance & Retirement Group at Janus Henderson Investors, a position she has held since 2024. In this role, she leads a team that supports the firm's investment relationships with insurance, retirement, and asset management clients. Prior to this, she was lead director of insurance and annuities within the Insurance and Retirement Group. Earlier, Michelin was the director of product and channel marketing at Janus. Prior to joining Janus in 1999, she was an associate product manager at J. & W. Seligman where she was responsible for supporting the offshore channel.

Michelin received her Bachelor of Science degree in biochemistry from Occidental College and an MBA from the University of Denver. She holds the Certified Investment Management Analyst (CIMA®) certification and has 28 years of financial industry experience.

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Ben Rizzuto is a Director, Wealth Strategist with the Specialist Consulting Group at Janus Henderson Investors. He works with financial advisors and their high-net-worth clients to navigate complex retirement, wealth transfer, and financial planning challenges, helping them ask better questions and make more informed decisions—particularly around the behavioral and emotional aspects of money. Ben is a regular contributor to Janus Henderson Insights and is periodically cited in industry publications. Prior to joining Janus in 2013, he worked as a business development consultant for Jackson National Life, where he helped financial advisors grow their fee-based practices.

Ben received his BA degree in political science from the University of Colorado – Boulder and an International MBA with concentrations in finance and Italian from the University of South Carolina, Darla Moore School of Business. He holds FINRA Series 7 and 63 securities licenses and the Certified Financial Planner (CFP®), Chartered Retirement Plans Specialist (CRPS®), and Certified Private Wealth Advisor (CPWA®) designations. He has 21 years of financial industry experience.

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