

# *The Role Of Annuities In Retirement Planning*

Having financial independence, more spendable income, and security as one ages are some of the financial goals people have for retirement. An annuity can play an invaluable role in fulfilling these goals.

## **What is an annuity?**

An annuity is a contract with an insurance company that allows the annuity holder to save for retirement. It is a way to guarantee income payment for life; therefore, an annuity can be a valuable part of any financial plan.

## **How does an annuity compare to other financial planning products?**

An annuity is unique in that it has a combination of benefits:

- Potential guaranteed income
- Tax deferred accumulation
- Probate advantages
- Flexibility of selecting the type of interest rates guarantee or the index of investment portfolio.

## **Why buy an annuity?**

**Tax Advantages:** during the accumulation phase, interest earned on annuities is not taxable until funds are withdrawn. During the payout (annuitization phase), tax liability is spread out over the duration of the payout period.

**Income for Life:** An annuity is the only financial product that can provide income to people for as long as they live – guaranteed

**No Limit on Contributions:** Rules limiting contribution amounts to IRAs, 401K and other qualified plans do not apply to an annuity

**Safety of Premium:** Fixed annuities and indexed annuities contain provisions that allow the owner to help minimize the risk.

## **What are the various types and benefits of annuities?**

- *Fixed deferred annuity: a retirement savings plan for people*
  - who are averse to risk contributing the maximum to their employer-sponsored qualified plan
  - who feel they are "behind" in their retirement savings
  - who are seeking a tax-deferred product
  - who desire on-going retirement income
- *Immediate annuity: a retirement plan for people*
  - who are seeking to start receiving income payment within the next 12 months
  - who are concerned about outliving his/her money
  - can be purchased with pre-tax or after-tax dollars

- can be purchased with transferred funds from an IRA, Roth IRA, 401(k), 403(b), life insurance policy

**How does an annuity compare with other savings instruments?**

**COMPARISON OF ANNUITIES TO OTHER SAVING VEHICLES**

	Fixed Annuity	EIA	VA	CD	Money Market	Passbook	Stocks	Bonds
Upfront sales charges	No	No	Yes	No	No	No	Yes	Yes
Annual expenses & fees	No	No	Yes	No	No	No	No	No
Safety of principal	Yes	Yes	No <sup>1</sup>	Yes <sup>2</sup>	Yes	Yes	No	No <sup>3</sup>
Partial access to money	Yes	Yes	Yes	No <sup>4</sup>	Yes	Yes	Yes	Yes
Tax penalties	Yes	Yes	Yes	No	No	No	No	No
Taxation on accumulated earnings	No	No	No	Yes	Yes	Yes	Yes	Yes
Probate advantages	Yes	Yes	Yes	Yes	Yes	Yes	No	No
Guaranteed income	Yes	Yes	Yes	No	No	No	No	No
Pre-mature surrender penalties	Yes	Yes	Yes	Yes <sup>5</sup>	No	No	No	No

1) - Yes, with fixed account. 2) FDIC insured. 3) Only at renewal. 4) Loss of interest penalties. 5) Government Bonds yes; Corporate Bonds No. Source: Annuity Selling Guide, February/March 2005