Refund annuity. This approach also creates the possibility of an inheritance. The annuitant is guaranteed to collect at least 100% of the premiums paid for the annuity. Any shortfall is paid to heirs. On the other hand, if the annuitant has a long life, the annuity continues until death.

The value of trusted advice

If you think sorting through the minutiae of stocks, bonds and company annual reports is daunting, you may find the task of evaluating your alternatives among the many annuity providers to be equally challenging. Some questions to discuss with your financial professionals.

- What are my financial goals?
- What is my time horizon?
- What are my financial resources?
- Am I willing to accept the financial risk of the annuity?

For each annuity under consideration, you'll want to know:

- What are the features of the annuity?
- How will the assets be managed?
- What are the surrender charges?
- What are the mortality and expense risk charges?
- What are the administrative expenses?
- What other expenses might come into play?

The purchase of an annuity is a serious decision, not to be made lightly. In the right circumstances, however, an annuity can deliver a more financially secure, confident retirement. Discuss the situation thoroughly with your financial professionals before reaching any conclusions.

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What are Annuities?

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What are annuities?

One of the most important concerns of retirees is the possibility of running out of money during retirement. Social Security benefits continue throughout retirement, as do pensions. Whether one's personal savings will last is a function of investment returns and expenses.

Increasingly, retirees are adding annuities to the mix. An annuity is a promise by a person or organization to make a series of payments. During retirement an annuity can be an additional income source that can't be outlived.

A "deferred annuity" is one that is in an accumulation phase, and an "immediate annuity" is one that begins payments when it is acquired.

Annuity benefits

The value of an income stream for life is readily apparent. Today's annuities have additional benefits that may not be so obvious.

- **Tax deferral.** During the accumulation phase of an annuity, there are no income or capital gains taxes on the investment buildup. The same is true of IRAs and 401(k) accounts, but with annuities there is no dollar limit on contributions. *Caveat:* When gains eventually are distributed, they will be taxed as ordinary income, just as they are from IRAs and 401(k)s.
- **Creditor protection.** In general, creditor claims are limited to the amount of the annuity payments; the underlying principal can't be reached.
- **A wide range of investment choices.** Annuity companies have developed many investment strategies from which to choose during the accumulation phase of the annuity. These may range from stock and bond funds, which have the usual market risk and reward characteristics, to guaranteed interest rates, which are based on the claims paying ability of the issuer. Some companies offer "floors" under the value of the annuity, in order to limit the downside risk.
- **Tax-free transfers among investment choices.** When one rebalances a taxable investment portfolio, selling investments that have done well or achieved their targets in order to maintain a consistent risk/reward profile, there can be taxes to pay. In contrast, changing the underlying investments in an annuity is not normally subject to income tax.

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Types of annuities

During the savings years, to generalize, there are two types of annuities.

Deferred variable annuities invest in the financial markets. They offer the possibility of substantial growth, but also carry the risk of loss. These annuities are better for investors with long time horizons who won't be severely upset by market fluctuations.

Deferred fixed annuities, in contrast, provide for a fixed rate of return for a number that is guaranteed by the issuer. This approach may be better for the conservative investor who puts a premium on avoiding market volatility.

With each of these products, earnings will compound on a tax-deferred basis. Tax penalties will apply to withdrawals before age 59½.

During retirement, when distribution becomes important, there are also two ways to go.

Variable annuities are sold by prospectus. Investors should carefully consider the investment objectives, risks, charges and expenses before investing. The prospectus contains this and other information about the investment company. A prospectus can be obtained from your advisor. Be sure to read the prospectus carefully before investing.

Immediate variable income annuities are linked to the financial markets. Although payments will be made for life, the amount of the payments will vary with the success of the investment strategy. Because there is a chance that the payments can grow over time, this approach has a chance of keeping up with inflation. However, the payments may go down if there are financial market reversals.

Immediate fixed income annuities offer a stated monthly payment—period. Market volatility becomes someone else's concern, at least as it relates to this retirement resource.

An intermediate choice, **the deferred fixed income annuity**, starts payments at a future date. The delay increases the size of the income payments.

The payouts

Annuity payments may be structured in several ways.

Joint and survivor life is probably the most popular choice for married couples. Annuity payments continue until both spouses have died.

Single life ties the payments to the lifetime of one beneficiary. For a given amount of savings, this approach will permit a larger monthly benefit. Payments terminate at death. Should the annuitant outlive his or her life expectancy, exhausting the savings, the insurance company has to make up the difference. In the event of premature death, excess assets go to the annuity company.

Term certain. Rather than use life expectancy, the annuity may last for a specific number of years. At the end of that period, the annuity stops, even if the annuitant still lives. But if the annuitant dies early, his or her heirs will receive the annuity for the balance of the term.

Life and term certain. With this alternative, the annuity will continue for the longer of the life of the annuitant or a specific number of years. This offers both an income that can't be outlived and the possibility of an inheritance for the beneficiary.