Annuity Basics

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As the baby boomer generation retires, and life expectancies increase, many have questions about whether they will have enough money to last throughout their golden years. Health care and nursing home costs can be substantial. In many cases, gone are the days of guaranteed pensions offered by employers. Most workers are now left on their own to navigate the jungle of options, including IRA's, stocks and bonds, and annuities. The prospect of developing a retirement income strategy can be daunting. Helping clients navigate the road to retirement is another value-added service of the true insurance professional.

What is an annuity? Annuities are a means of deferring taxes as well as guaranteeing a set income at retirement. Three parties are involved – the owner, the annuitant and the beneficiary. The initial deposit is made by the owner, who also decides when the payout will begin. The term of the annuity is set by the life of the annuitant- often the same individual as the owner. Depending on how the annuity is structured, the beneficiary will receive any death benefit.

Annuities can be immediate or deferred. With deferred annuities, a sum is deposited into an investment account for a period of time before withdrawals start, typically at retirement. Payouts under an immediate annuity start shortly after the initial deposit. Annuities can be fixed, with predetermined fixed payouts, or variable, with payouts tied to investment performance (https://money.cnn.com).

Several factors go into the determination of the annuity payout amount. They include the amount deposited, the age of the annuitant, and options, such as built in cost of living increases, and whether or not payouts continue upon the death of the annuitant. Deferring the payout for a number of years after the initial deposit is made increases the amount that is available. Payouts can be set up to go to the annuitant for life, with no payment to a beneficiary or spouse upon the annuitant's death. This also increases the amount the annuitant receives.

Annuities may be an option for people who have maxed out their contributions to other retirement options, such as 401ks and pension plans. Unlike retirement plans such as 401ks, there are no annual contribution limits for annuities. People who cannot qualify for life insurance can purchase an annuity to provide some of the same benefits. Annuities can also be used to pay for long term care (www.goodfinancialcents.com).

Drawbacks include tying up a significant amount of money – sometimes for several years before payouts begin, and annuities may have high fees. There may be significant

penalties or restrictions for early withdrawals. Annuities may not have the same growth potential offered by other investments, such as stocks. As with any investment, careful research should be done to find a reputable and fiscally sound annuity provider. Carefully research the fees and regulations before committing to the purchase.

As is often the case in life, balance is important. Adding an annuity to the retirement portfolio may be one way to guarantee a set income. Helping clients understand the various retirement options may be another value-added service of the professional insurance agent.

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