

Product Spotlight: Retirement Annuities

Retirement planning can be overwhelming. However, engaging in the process early will provide the education to empower you to make a confident and purposeful decision at the appropriate time that best meets your objectives.

Outliving your savings is a common concern. If not addressed, it requires keeping an account balance that never goes below a specified amount. This money is no longer accessible to fund your retirement. Inevitably you will die, and the money will still be in the bank or slowly be spent as you live past life expectancy.

Alternatively, the situation isn't a concern, and you spend down your account. However, the risk of outliving your savings still exists. If that occurs, then reliance on others and living with the overwhelming guilt of becoming a burden to your children subsumes your retirement.

A strategy that addresses the issues of outliving your savings, efficient use of account balances, and minimizing the chance of becoming a financial burden is an annuity.

An annuity can provide a guaranteed lifetime cash flow or a payment schedule that best fits your objectives. Allocating a portion of your retirement savings to an annuity that covers your RUB (rent, utilities, board) is a prudent strategy.

Annuities traditionally were financial products that provided a lifetime income stream. However, the term annuity now refers to a broad range of investment products, that all allow for tax deferred growth. Annuities are issued by life insurance companies and offer a variety of investment and income options to target the different objectives of retirees.

There are some annuity products that focus on both investment and income capabilities, and they offer incentives on income payouts based on the longevity of the investment period. This is important, because if you feel the annuity product meets your objectives, then investing in them as early as possible can increase your retirement income.

One of the traditional drawbacks of an annuity was the risk of losing all your investment once you died. Annuity products have evolved to both provide a

lifetime of income and an account value that serves as a death benefit for beneficiaries. The account value will eventually go to zero as income is withdrawn, however future lifetime payments will continue.

Annuities can be purchased with after-tax or pre-tax money (transfer a 401k). There are no limits on annual purchases. The tax treatment of annuity payments is dependent on the terms of withdrawal. Gains are taxed as ordinary income.

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