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Annuity Objectives

In planning for financial security in retirement, an annuity can help satisfy two basic objectives:

1.

To Accumulate Retirement Assets on a Tax-Deferred Basis
If you're already contributing the maximum to IRAs and any employer-sponsored plans and need to save more for retirement, a deferred annuity may be the answer to your retirement savings need.

2.

To Convert Retirement Assets Into an Income You Cannot Outlive
On the other hand, if you're near or at retirement, an immediate income annuity can be used to convert existing retirement assets into a lifetime income.

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, we are not engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

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Annuity Advantages and Disadvantages

An annuity can be a great way to save for retirement on a tax-deferred basis, in effect creating your own personal "pension" plan. As with any investment, however, there are also potential disadvantages that should be evaluated before purchasing an annuity.

Advantages

- Earnings on your annuity premiums are tax deferred so long as they remain in the annuity. When compared to an investment whose earnings are taxed each year, tax deferral offers the potential for accumulating significantly higher amounts of money over time
- An annuity can be used to provide a steady source of retirement income that you cannot outlive.
- Unlike an IRA or employer-sponsored retirement plan, there are no annual contribution limits to an annuity; you can contribute as much as you want.
- Subject to the terms of the contract, there is no required date by which you must begin receiving annuity income payments, providing you with the flexibility to defer payments until you need the income.
- If you die while your annuity still has value, the annuity death benefit passes directly to your beneficiary without probate.

Disadvantages

- Premiums for a non-qualified annuity are not tax deductible, meaning that they are made with after-tax dollars.
- While you can surrender or make withdrawals from a deferred annuity before you begin receiving income payments, the surrender or withdrawal may be subject to a charge if made within a stated number of years after the annuity is initially purchased.
- If made prior to age 59-1/2, a surrender or withdrawal will be subject to a 10% federal penalty tax unless one of the exceptions to this tax is met.
- When received, investment gains are subject to ordinary income tax rates and not the lower capital gains tax rate.
- Once annuity income payments begin, annuity contracts vary in regard to whether the payment amount can be changed and/or whether amounts can be withdrawn from the contract. Ask your licensed financial adviser to explain whether the contract you are considering allows for annuity payments to be increased or decreased and whether withdrawals are available.

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