BEYOND PROTECTED LIFETIME INCOME

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BEYOND PROTECTED LIFETIME INCOME: ANNUITIES OFFER MANY FEATURES

Close to 10,000 people turn 65 every day, many of them not sure whether they'll outlive their money in retirement. That's because the majority of young baby boomers (and the generations that follow) will retire without a pension, making Social Security their only source of guaranteed income.

By adding certain types of annuities to your portfolio, you can secure protected lifetime income for your retirement. An annuity is simply a contract between you and an insurance company which, for an upfront payment, provides a steady payment for the rest of your life.

Protected lifetime income is one financial advantage that annuities can offer, but that's just the beginning of the reasons you may want to include an annuity in your portfolio. Even if you don't think you need to add more protected lifetime income to your retirement plan, annuities can:

- Offer significant tax advantages
- Help you "catch up" on your retirement savings
- Help transfer your wealth to your family

Like other investment or savings products, annuities have fees and expenses associated with them, and they are not right for every situation. Annuities offer protected lifetime income, but that guarantee is dependent upon the financial strength of the insurance company. It's a good idea to speak with a financial professional who can guide you before making any decisions.

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TAX ADVANTAGES

If you're saving for retirement, you know that every dollar matters. The more you can save, the more money you have to invest, and that can make it easier to generate the gains you need from your investments. Taxes are a drag on that — if you have to pay taxes on your earnings each year, you have fewer dollars invested.

That's one reason financial experts recommend tax-deferred investments, like 401(k) or IRA accounts. They allow your money to potentially grow without paying taxes right away on your earnings; instead, you pay taxes when you take withdrawals — typically at a time when you're retired, have less income and are in a lower tax bracket.

For example, if you invest $500 annually — that's less than $10 a week — at an average annual compounded rate of 5 percent, it would grow to $12,300 over 15 years.

Annuities offer those same tax-deferred advantages, so you can have more of your money work harder for you, while also offering flexibility in choosing what you purchase. For example, fixed annuities generate a guaranteed return, while index annuities generate a return (up to certain limits) linked to an investment index, like the S&P 500. Index annuities even allow you to benefit from potential growth in the stock market without the risk of losing your principal if there's a downturn.

There are costs associated with annuities that may be higher than other investment products, but the tax advantages they offer may provide a benefit for your portfolio, especially if you have a long time to save and want investment options.

CONTRIBUTE MORE, EARN MORE

One of the biggest advantages of having an annuity is the absence of a contribution limit. With an IRA, you are only allowed to contribute up to $6,000 per year ($7,000 if over 50) to the account. That can add up, but it takes longer to generate the level of savings that many of us will need in retirement. With a 401(k), your limit is $19,000 annually. That's better, but not everyone has access to a 401(k).

With an annuity, though, there are usually no contribution limits, so you're able to add more of your savings and potentially grow your money tax-deferred, a boost to the total amount you can generate for retirement. This is especially helpful if you're trying to "catch up" on retirement savings because you weren't able to contribute as much when you were younger. By adding larger amounts of money now, you can start building your retirement assets even though you have less time to grow those funds.

TRANSFER YOUR WEALTH

Finally, annuities offer substantial benefits in transferring your wealth. If you pass along a lump sum to your children, grandchildren or favorite charity, you could unintentionally create tax consequences such as pushing them into a higher tax bracket, which can increase the tax they'll pay on their inheritance and reduce the amount of money they'll actually receive.

With an annuity, you can have the money distributed via an ongoing income stream that delivers results over years or even decades. This can help smooth out the tax consequences. And, perhaps more important, it means that your gift will last for many years, providing ongoing support to your family or a charity that means a lot to you.

It's also possible to annuitize a portion of your portfolio to create an income stream that funds a life insurance policy — helping you leave a legacy potentially without having to worry about your ability to continue to pay for the insurance. But you should consider that in some cases, you may have limited access to the funds in the annuity, so be sure to ask.

However you decide to do it, an annuity can help ensure that you leave a legacy for your family and community after you're gone.

You need to consider your financial circumstances and goals before purchasing any product — including an annuity. So talk to your financial advisor. Together, you can map out the financial future that's ideal for you and your family.