

Annuities and your retirement savings

When investing for retirement, your two greatest challenges are to produce enough income to meet your expenses and to make your savings last. An annuity might provide a solution.

You contribute money, either in one lump sum or in a series of contributions over time. Annuity investment gains grow tax deferred. The annuity pays you income in retirement: You can arrange to receive payments for a specific period of time or for the rest of your life. (Taxable gain is distributed first, followed by any non-taxable basis in the annuity second.)

The Choices

Annuities come in many forms, under two categories:

- A *fixed* annuity pays a predetermined amount. Payments typically remain constant, though they may increase with inflation.
- A *variable annuity* pays income that depends on the performance of its underlying investments. Variable annuities generally offer greater growth potential than fixed annuities, but carry the risk that investment losses will lead to smaller payments.

With either type, you can elect to receive payments right away (an *immediate annuity*) or at a later date a (*deferred annuity*).

The Strategies

If you're on the cusp of retirement, you might use a portion of your nest egg to invest in an immediate fixed annuity to cover your essential expenses for the rest of your life.

An annuity also might be attractive if you already contribute the maximum to an employer-sponsored retirement plan or an IRA and want another tax-advantaged investment option. In this case you could open a deferred variable annuity. (Variable annuities are tax-deferred: You pay no taxes on their income and investment gains until you withdraw your money.)

Annuities aren't ideal for everyone, however. They can be complex, may charge substantial fees and restrict access to your money. Consult your advisor to decide whether an annuity could improve your financial picture in retirement.

Annuity and life insurance guarantees are based on the financial strength and claims-paying ability of the issuing insurance company. The guarantees have no bearing on the performance of a variable investment option. Variable investment options are subject to market risk, including loss of principal. There are charges and expenses associated with annuities and variable life insurance products, including mortality and expense risk charges, management fees, administrative fees, expenses for optional riders and deferred sales charges for early withdrawals. Withdrawals before age 59½ may be subject to a 10% IRS tax penalty, and a surrender charge may apply.

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