Annuities: Fact vs. Fiction

Annuities have long been used as a strategy to round out an individual's retirement planning. Many people have heard of annuities in one form or another, but there are some persistent misconceptions about them.

Just about all annuities allow you to invest a sum of money with a life insurance company in exchange for **a guarantee of future fixed income** over a set period of time or even a lifetime. Variable annuities act similarly to traditional retirement accounts in which the amount of gains or losses is tied to the market. Fixed annuities provide a guaranteed interest rate, while indexed annuities provide a guaranteed *minimum* interest rate but allow for growth tied to an equity market index.

Even though annuities are sold by life insurance companies, they are not life insurance. Life insurance is designed to meet the needs of survivors by leveraging premium payments made during your lifetime into a death benefit for a beneficiary. Instead, an annuity is typically used to accumulate assets for retirement purposes or generate income during your lifetime or the lifetime of your beneficiary.

There are many myths about annuities floating around. Here are the facts.

Fiction: Money invested in an annuity is not liquid.

Fact: This depends on the product and the company. At Navy Mutual, our Flexible Premium Retirement Annuity can be surrendered at any time without any contractual risk of loss, and we will return your surrender value within seven business days. Our Single Premium Deferred Annuity allows risk-free withdrawals after the first 12 months and can be turned into lifelong income at any point without penalty. It should be noted, though, that there may be tax consequences for withdrawing money from an annuity if you are under age 59 ½. Speak with a representative and read over the policy provisions before making any money moves.

Fiction: Annuities are inflexible.

Fact: As its name implies, our Flexible Premium Retirement Annuity allows the owner multiple options: to accumulate indefinitely, to surrender at any point without the risk of loss, and the ability to make future contributions – up to $1 million – to the contract at their discretion. While other annuities may be less flexible, the owner still has options: how much money to fund the annuity with, when they would like to receive payments from the annuity, and which **payout option** would they prefer. Annuities are set up to help you thrive financially, not hinder your success.

Fiction: Annuities are only good for people that do not know how to invest their own money.

Fact: Fixed annuities are financial instruments that reduce overall portfolio risk through diversification while providing for a predictable and steady growth of assets regardless of market volatility. Regardless of your investment prowess, a life income annuity stream cannot be outlived, unlike alternative investments. This makes annuities a good choice for anyone who wants a safe, long-lasting investment with a high degree of predictability. Annuities provide stable supplementary income that can offer those living on a fixed income a little more breathing room.

Fiction: I do not need an annuity if I have other retirement accounts.

Fact: While investing in your **Thrift Savings Plan**, 401(k), or IRA is always a good idea, retirement accounts do not have the same built-in safety net that comes with a fixed annuity's life income payout options: guaranteed streams of income that you cannot outlive. Diversifying your sources of income in retirement by drawing from dedicated retirement accounts **and** receiving income from an annuity helps reduce the risk of depleting your savings and may ensure that you can maintain your desired standard of living.

Fiction: Annuities are only for older people.

Fact: While immediate annuities are more often used by people in retirement, deferred annuities offer maximum growth potential when they are started early – to allow for a longer accumulation phase and more compounding of interest earnings. Individuals who have reached annual retirement account contribution limits can use a deferred annuity as an additional tax-deferred option to grow their savings while also avoiding market volatility.

Fiction: Annuities are only appropriate to generate recurring income payments.

Fact: Annuities are often used to safely grow a sum of money for a temporary period of time, not necessarily the rest of an individual's life. Our Flexible Premium Retirement Annuity and Single Premium Deferred Annuity allow you to access up to 10% of your accumulation value each policy year without incurring any fees. Note, however, that the IRS will impose a 10% tax penalty on withdrawals made prior to age 59 ½, and you must pay income taxes on any gains received in the form of income payments.

The last point that often comes up with annuities is this: “I can earn a greater return by keeping my money invested elsewhere.” The answer? Maybe. Any potential return depends on the risk involved with the alternative investments and your investment time horizon. It is possible for money invested in the stock market to earn more than money invested into an annuity over the same time horizon, but the alternate scenario is also possible. The stock market could dip and lose some of your principal investment, or earn a lower rate of return than expected when it comes time to withdraw funds. Adding an annuity to your portfolio allows you to diversify your income streams in retirement and help mitigate risk. Plus, with annuities, you can have guaranteed income for life. That’s priceless.

People don’t always think of annuities when it comes to retirement, but having one in your portfolio can provide a margin of safety, provide predictable income, and enhance your standard of living during retirement. If you would like to speak with a representative about your annuity options, call **800-628-6011** or make an appointment to learn more **here**.