Annuities: The Unsung Heroes of Retirement Planning

There are many ways to grow your savings when it comes to retirement planning. A retirement account, like a 401(k) or TSP, allows you to contribute a set amount of money from your paycheck to your account each year – and hopefully to take advantage of a company match. An IRA lets you do the same thing (with lower contribution limits) if you do not have access to an employer-sponsored retirement account or simply want to put more money aside. But what if you already have retirement accounts and are looking for another way to protect your income after you finish working?

Enter **annuities**.

An annuity is a product sold by an insurance company that allows you to invest a sum of money or a series of premium contributions in exchange for future income payments.

Why annuities?

First, **safety.**

When it comes to retirement and financial planning in general, there are rarely any guarantees. In fact, a standard investment disclosure is “Past performance is no guarantee of future results.” With an annuity, though, there is one. Annuities can provide *guaranteed* income for the duration of your entire life. This is different from your IRA, 401(k), or TSP, where it is possible for your withdrawals to cause a zero balance. Annuity payments will never cause a zero balance, because an insurance company pools the longevity risk of all insured parties – which allows them to pay out a systematic monthly income payment regardless of how long you live.

You can choose between two different types of annuity payouts: fixed and variable. A fixed annuity payment means that the amount you will receive for each payment is set in the contract. The amount will never increase or decrease, and you can use that number when it comes to budgeting for the remainder of your years. Variable annuity payments usually guarantee a minimum floor of income but can change based on performance of an underlying investment portfolio. Some insurance companies offering variable annuities may guarantee that you will not lose your initial investment (meaning your beneficiary may receive a return of premium at death), but this is not the case with every insurer. On the bright side, if the market does well, you may get a higher payment than you were expecting.

Second, **ease.**

Instead of figuring out how to budget a lump sum of cash, like that which you might have in a savings account or as a payout from an investment, you know how much money you will get each month from an annuity. This provides you with peace of mind, knowing that your bills will be covered because money is consistently coming in. You do not have to worry about mismanaging funds like you might with those from other sources because, like with Social Security income, benefits are not paid out all at once. Furthermore, you don't have to do anything to receive your annuity payments. Once you have made the initial premium deposit, you will receive your payments without having to log in to any accounts to move money around. Once you set it up, you could even forget about it and the payments would still come.

Third, **tax savings.**

The power of tax deferral and compound interest should be primary considerations when deciding what type of accounts are appropriate for retirement planning. A non-qualified annuity, or an annuity not used to fund a 401(k), TSP or IRA, has another substantial benefit that is often overlooked. Premium contributions are made with after-tax dollars, which means when those deposits are ultimately returned in income payments, a portion is tax free – this is known as an exclusion ratio. This means that the owner gained more interest due to tax deferral while accumulating and pays less taxes in retirement when income payments begin.

Depending on what payout option you choose, you may be able to pass along your annuity payments to a beneficiary after your passing. At Navy Mutual, there are three **payout options** that would allow for your beneficiary to receive payments:

- **Fixed Period:** You receive payments for a set period between one and 30 years, at the completion of which, payments cease. If you were to pass during this period, your beneficiary would receive the remainder of the payments.
- **Life Income with Period Certain:** You will receive guaranteed payments for the remainder of your life. You also must select a period certain, or a length of time between five and 20 years (in increments of five years). If you were to pass during the period certain, your beneficiary would receive annuity payments until the end of the period certain. For example, if you chose a 15-year period certain and passed away during the ninth year, your beneficiary would receive six years of payments.
- **Joint and Survivor Income:** Both you and a joint annuitant will receive payments until one of you passes away. After death, the surviving annuitant will continue to receive a previously decided percentage of the original payment amount until their eventual death.

These different payout options help ensure that not only are you protected, but that you can protect your loved ones as well.

People don't always think of annuities when it comes to retirement and **estate planning**, 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, you can make an appointment to learn more **here**.