What Annuities Are and How They Can Help Your Savings Last

Retirement will cost the average American an estimated $828,000 and most risk falling short.[1] According to an industry survey, only 33% of Americans are confident they have adequate retirement savings.[2] If the fear of outliving your retirement savings really haunts you, then looking into income sources that will keep you going as long as you do may not be such a bad idea. You can potentially alleviate this financial anxiety by considering an annuity as a part of your retirement planning.

An annuity is an insurance product that generally turns your invested assets into a stable income stream to help you grow your money, secure what you've already saved and pass on the remaining value. 73% of retirees who own an annuity are confident that they will be able to live the retirement lifestyle they want.[3]

Why an annuity?

You've worked all your life saving money to retire comfortably. But it's important to think about how you're going to be spending your hard-earned savings. Consider these questions:

1. Do you have enough money to cover essential living expenses such as food, housing, and healthcare?
   a. Estimate your "income floor" – the minimum income you'll need to cover the basic expenses.
      i. Itemize and total up the monthly costs of each expense. These are the costs that you'll need to cover as long as you live.
      ii. Add up your income. Social Security and pension plans are guaranteed sources of income. Look at both benefits and add them together to determine the monthly amount you'll receive.
   b. Determine if you have an "income gap". Now do the math. If Social Security and pension plans won't cover all of your essential expenses, consider investing a portion of your assets into an annuity for that income stream that lasts as long as you do.
2. Do you want to protect your portfolio against a market downturn?
   a. Preparation and diversification are key to protecting your investments from market volatility. While stocks, bonds, and real estate may help your portfolio grow, they may not mitigate these risks. Many annuities provide a way to diversify your portfolio while providing a reliable income stream that doesn't depend on the stock markets.
3. Do you want the flexibility to fund unexpected events?
   a. Develop a contingency plan. It only takes one unexpected expense such as a serious illness or disability to affect your financial security. Life takes unexpected turns and next thing you know, Social Security and pensions aren't enough to cover those additional expenses.

      And in the event that you pass away prematurely, your assets won't be lost. They can be passed to beneficiaries while avoiding the costly probate process.[4]

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What are the different types of annuities? And which is right for me?

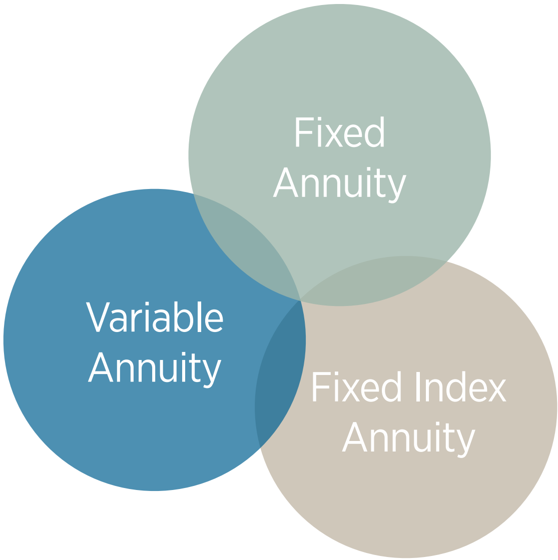
Some annuities are customizable. There are different types of annuities with very different purposes that range from accumulation and growth to a stream of income. Understanding the different formats will help you choose the right annuity that may help you achieve your retirement goals.

Annuities are generally divided into two categories based on when payouts are scheduled to begin:

1. Deferred annuities – With a lump sum payment or periodic payments, you defer the payout allowing the principal to grow, tax-deferred, until a future date determined by you (typically in retirement). This waiting period is called an accumulation phase.
2. Immediate annuities – With a lump sum payment upfront, your income stream begins within the first year without an accumulation phase and continues for the remainder of your life or for a specified period of time. A person already retired may find this a useful way to increase spending to cover daily expenses.

And within these two categories, annuities can be either variable, fixed, or fixed indexed—depending on whether the payout is a fixed sum, tied to market performance, or a combination of the two:

1. Variable annuities – For investors who can handle the ups and downs of the market. The rate of the return changes along with the market, giving you the opportunity to receive a greater return if the investments of the annuity fund does well, but you also take on risk for potential negative returns in a worst-case scenario.
2. Fixed annuities – Unlike variable annuities, you're not investing in the market. This limits growth but provides security. So regardless of market conditions, you'll receive a fixed payout through this conservative and low-risk option.
3. Fixed indexed annuities – This type of fixed annuity offers the best of both worlds: security and opportunity for additional growth*. Instead of investing in the market, fixed indexed annuities allow you to earn interest based on the positive change of a market index, such as the S&P 500. And no matter how poorly the indexes perform, your principal is protected from losses.[5]



Taking the next step.

Still not sure if an annuity is for you or unclear on which type is best for your financial situation? Making sure you have enough income to last in retirement can be overwhelming. And when it comes to annuities, understanding all the different facets is key. It's never too early or too late to save. Annuities may help make the savings for your retirement goals manageable, and we're here as a resource to answer any questions you may have and to help you plan for a comfortable retirement.

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Safe. Smart. Simple.

[1] https://www.fool.com/retirement/2018/03/18/retirement-will-cost-the-average-american-828000-a.aspx
[2] https://www.planadviser.com/one-third-boomers-confident-adequate-retirement-savings/
[3] https://www.planadviser.com/retirees-annuity-confident/
[4] https://www.annuity.org/annuities/beneficiaries/
[5] https://www.immediateannuities.com/fixed-index-annuities/minimize-market-risk-with-a-fixed-annuity.html

*Fixed indexed annuities have limited upside growth potential. Most fixed indexed annuities set limits (known as caps) on the maximum amount of interest one can gain or there may be participation rates or other calculations the insurance company employs to set the maximum rate one could achieve. Customers should understand these limitations prior to purchase.

The information within this document is for educational purposes only. Customers should consult their tax or legal professional regarding their own unique situation. Annuity products and their related features, benefits, and/or guarantees are backed by the claims paying ability of an insurance company.