How annuities can help you live your best retirement

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No matter how diligently you've planned, there may be surprises that pop up once you reach retirement. You could celebrate more grandchildren than expected, discover an unexpected talent or hobby, or even find a new love. But one surprise that no one wants during their golden years is learning that their savings won't last as long as anticipated.

One way to help ensure that doesn't happen is by purchasing an annuity. Annuities are financial products that may offer guaranteed regular payments for the rest of your life or for a set number of years.

While annuities can be a useful tool to secure a comfortable retirement, they're often misunderstood. Read on for answers to your questions about how annuities might fit into your retirement plan.

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How do annuities work?

Annuities are insurance contracts that allow you to potentially grow assets on a tax-deferred basis. Annuities typically provide a death benefit and may also provide a guaranteed income stream that can last a lifetime. Generally, annuities can be purchased with fixed, fixed index, or variable investment options. The terms of the contract may vary, with the payments starting immediately or at some point in the future, and they may last for the rest of your life or for a specific number of years.

There are two basic types of annuities: deferred and immediate.

Deferred Annuities: Deferred annuities have two phases: an accumulation (or "savings") phase and an annuitization (or "income" or "payout") phase. During the accumulation phase, the contract owner pays the required premiums and the annuity accumulates value. During this period, the contract owner may also take partial withdrawals or surrender the contract, if desired. Deferred annuities are purchased in two ways:

- Single premium annuities are established with a single payment.
- Flexible premium annuities allow for a series of payments over time.

Immediate Annuities: Immediate annuities are funded through with a single, lump-sum payment and the income stream begins shortly after the payment is made (within one (1) year of the payment). Thus, there is no accumulation phase. Immediate annuities are primarily used to create guaranteed income streams during retirement and are often purchased using personal savings or 401(k) retirement savings.

What are some of the benefits of annuities?

Each annuity contract may offer different benefits or features, but here are some important advantages that annuities may be able to offer:

- **Unlimited contribution** - Depending on limits set by the insurance company, you can contribute as much as you want to an annuity each year. That makes it an appealing option if you have more cash to put toward retirement ***after*** hitting your 401(k) or Individual Retirement Account (IRA) maximum limitations.
- **Tax-deferred growth** - During the accumulation phase, the earnings in an annuity accumulate on a tax-deferred basis, so you won't owe taxes on potential earnings until you make withdrawals or start receiving an income.
- **Multiple income options** - There are several ways to access funds in your annuity, including via regular payments for the rest of your life or payments for a specific number of years. With some annuities, you also have the option to withdraw assets as you need them.
- **More flexibility in a retirement portfolio** - Having guaranteed income may allow you to take more risks within your retirement investments, knowing that you have guaranteed lifetime income or to hold onto investments that have lost value without being forced to sell and lock in losses.
- **Living & Death Benefits** - Annuities are characterized by their ability to provide retirement income that cannot be outlived during the payout phase. Many annuities also offer optional features – "Living and Death Benefits" – that provide various guarantees to help protect investors from declining markets and facilitate legacy planning.

How is an annuity different than life insurance?

Life insurance and annuities are both financial products that can support your retirement plan, but they have some important differences. While the primary goal of annuities is to provide income throughout your life, the aim of many life insurance policies is to provide financial security to your loved ones after you've passed away.

While it is possible to tap into some permanent life insurance policies once their cash value reaches a certain level, there is no guarantee that the funding will last for a certain period or for the rest of your life.

Can I leave my annuity to a beneficiary?

It depends on the type of annuity you have. If you have an immediate annuity, in which you're already receiving payments, you typically cannot leave it to a beneficiary.

If, on the other hand, you have a deferred annuity, in which you're receiving payments at a later date, standard death benefits allow you to leave money to a named beneficiary. Death benefits may provide partial replacement for the financial support you may have been providing.

What's the best way to buy an annuity?

There are several ways to purchase an annuity, including directly from an insurance company or through a licensed insurance agent at a brokerage firm, bank, or other financial institution. Working with an advisor to purchase your annuity is a smart way to ensure that it meets your broader financial needs and fits in well with the rest of your retirement plan.

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