

Reasons for purchasing an annuity

Financial Planning

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Annuities can serve many useful purposes.

If you are in a saving-money stage of life, a deferred annuity can...

- **Help you meet your retirement income goals.** Employer-sponsored plans such as a 401(k), 403(b) or Keogh are an important part of planning for retirement. However, contributions to these plans and to IRAs are limited, and they might not add up to enough for the retirement income you need, especially if you started saving for retirement late or had contributions interrupted—perhaps due to job changes and/or family responsibilities. Moreover, your social security and defined-benefit pension (if you have one) may provide less than you need to retire. Remember that the purchasing power of defined-benefit pension income is eroded by inflation.
- **Help you diversify your investment portfolio.** Investment experts routinely advise that, to

get the best return for a given level of risk, you should diversify your investments among a number of asset classes. Fixed annuities, in particular, offer a unique asset class—an investment that is guaranteed not to decrease and that will actually increase at a specified interest rate (and, often, potentially more). The guarantees are supported by the claims-paying ability of the insurer.

- **Help you manage your investment portfolio.** Investment experts routinely advise that, whenever your investments in various asset classes get too far from the percentage allocations you prefer, you “rebalance” to the original formulation, by shifting funds from the classes that have grown faster to the ones that have grown more slowly. If you do this with mutual funds, you pay capital gains taxes; if you do it in a variable annuity, you don’t pay capital gains taxes. When you eventually withdraw money from the annuity (which could be many years after the rebalancing), you pay tax then at the ordinary income rate.

If you are in a need-income stage of life, an immediate annuity can...

- **Help protect you against outliving your assets.** Social security pays retirement income for as long as you live, as do defined-benefit pension plans. But the only other source of income available that continues indefinitely is an immediate annuity.
- **Help protect your assets from creditors.** Generally the most that creditors can access is the payments from an immediate annuity as they’re made, since the money you gave the insurance company now belongs to the company. Some state statutes and court decisions also protect some or all of the payments from those annuities.

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