With the Market So Uncertain, Are Immediate Annuities A Good Way To Preserve Your Retirement Savings?

One day, the market is up 400 points. The next day, down 300. Stocks in 2008 haven't won any points for stability. In periods of market uncertainty, you'll hear a lot about safe harbor investments that will supposedly guarantee income for life. One of these alternatives is an immediate annuity.

Here's how they work. Any annuity is a contract offered by an insurance company that promises you a set amount of annual income for life. An immediate annuity is an insurance contract you put money into and soon after starts paying a portion of the agreed-to amount on a set schedule. Retirees who use this option successfully are not pouring their whole retirement savings into an annuity – optimally, they are breaking off only a piece of their retirement savings to place in this option. For example, a 65-year-old individual might buy an annuity with $100,000 or more that will come back to her in predictable form – maybe $6,000 or $7,000 a year for the rest of her life.

This option is a good one if you luck out and buy one at age 65 and live past 90 – that way, you'll pull out more money than you put in. But depending on how the annuity contract is written, if you die before your principal is paid out, that money may go into the pocket of the insurance company.

As with other aspects of your retirement strategy, it's a good idea to discuss such a move with trusted financial experts such as a certified public accountant or a financial planner such as a CERTIFIED FINANCIAL PLANNER™ professional. It makes sense to ask the following questions of your own financial circumstances and the annuity product you're considering:

Before you lock up money in an annuity, how well are your other retirement assets working for you? Perhaps you plan to work a significant number of years in retirement if your health and your will hold out. Those are two big "if's." But if you want a part of your retirement money to be "secure," you still need to have a substantial portion of your assets continuing to grow for you as your life continues. A visit to a CFP® practitioner before you retire can help you balance how you invest your assets as you age.

Does the immediate annuity have inflation protection? It's not a big surprise to know that $6,000 today won't be worth $6,000 five years from now. See if the immediate annuity product you're considering automatically increases your payout each year in accordance with inflation.

Does it make sense to ladder annuities based on your age? If annuity products make sense for you and you have the financial freedom to purchase more than one, it might make sense to buy them in staggered form with amounts and terms that allow you to get larger payouts as you age. That could keep other assets more liquid to invest for your heirs or for other purposes. It's

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also a good idea to go with more than one AA-rated (or higher) insurer since the fortunes of such companies may be great now but can change later. Also, remember that immediate annuities can be bought with specific terms such as 10 or 15 years that would allow your estate to recoup unspent assets if you die before the end of that payment term. It's very important to seek advice here.

Have you projected what your actual income needs will be? Again, you need to ask yourself whether you choose to work or not, and then what your living expenses might be in retirement. This is why an annuity decision should be discussed from both a tax and general financial planning standpoint.

Are your long-term care needs covered? Before you start talking about locking up assets in annuity products, make sure you have money in reserve or long-term care insurance in place should you need to pay for temporary disability or end-of-life care.

Are you fully informed about all the fees? Keep in mind that inflation protection and other features added on to an immediate annuity cost more money than those without. Compare the costs.

-30-

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