

The Advantages of Annuitization

Looking for a source of retirement income?

An often-overlooked benefit of annuities is annuitization: a stream of income payments. What might annuitization offer you?

Ease of mind With fixed annuitization, you know the amount of money you will receive and for what length of time you will receive it. You may even choose an option that gives you payments for as long as you live. A steady income stream in retirement can be a great source of comfort and security, especially if you will not have a pension from your employer.

Growth potential With variable annuitization, you receive income payments based on a fixed number of units whose value fluctuates. The value depends on the investment results of the underlying portfolios, as well as the applicable charges and the selected income option. Variable annuitization offers upside potential through continued investment in the annuity's variable subaccounts, which are typically invested in portfolios of stocks and/or bonds. Of course, there is a potential risk of smaller payments if the values of the stock and bond portfolios decline. Keep in mind that variable annuities can decrease in value.

Tax advantages In a nonqualified annuity,* each annuitized payment represents a combination of two things: earnings and return of principal. Only the earnings portion of an annuitized payment is taxable. This is in contrast to simple withdrawals, which are distributed as earnings first and are therefore 100 percent taxable at ordinary tax rates until earnings are depleted—and which may be subject to a 10 percent federal tax penalty for withdrawals prior to the owner's age 59½.

* Not held in a qualified retirement plan or IRA.

Help with long-term care needs Annuitized payments may be used to pay premiums on a long-term care insurance policy, or the payments themselves may be used to meet long-term care costs. In fact, converting assets to income through annuitization may prevent disqualification for Medicaid benefits. Many restrictions apply to a Medicaid “spend down” strategy, however, so be sure to consult with an attorney or tax advisor who specializes in elder care issues.

Estate planning benefits If you don't need income from the annuity to meet your current living expenses, you may want to use the annuitized payments to buy life insurance. This strategy may enable you to leave a larger amount to loved ones, free from income tax (of course, you must pay income taxes on a portion of the annuitized payments). Wealthier individuals who are willing to gift their annuity income to a properly structured irrevocable life insurance trust may further leverage their gift by avoiding estate tax as well.

Take a look at annuities—and the unique benefits of annuitization. It might be just what you need to secure your financial future.

And you might be one of them!

Who might benefit from having income they can't outlive? Centenarians! In 1990, only 37,000 Americans were age 100 or older. By 2002, the number will double to 74,000. In 2050, over one million Americans are projected to be 100 years of age or older. Buying an annuity in your middle age can help build a secure future for your old age.

Source: U.S. Census Bureau, 2002.

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- May lose value

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