4 WAYS ANNUITIES

(Yes, Those!)

Could Help You Get More Out of Your Retirement

5280 RETIREMENT GROUP

From today until 2030, 10,000 Baby Boomers each day will hit retirement age, and while this might be welcome news for some, others wonder if their savings will last through retirement as inflation and healthcare costs continue to increase.[1] In fact, 42% of full-time workers cited their most prevalent retirement fear was outliving their savings, whereas 39% were most troubled by the possibility of health concerns requiring expensive long-term care.[2]

Annuities are long-term contracts issued by insurance carriers that can convert a lump sum of retirement savings or a series of payments into a guaranteed stream of income in your remaining years. The guarantees offered by the insurance contracts are backed by the claims paying ability of the issuing insurance carriers. As the retirement crisis rises to the forefront of the public eye, annuities could become more of a retirement cornerstone, supplying at least a portion of the income needed to help address healthcare costs, inflation, and market turbulence. Read on to learn how annuities can offer benefits that could help make a difference in the quality of your retirement.

1. The Baby Boomer Generation | Baby Boomers are Reaching Retiring Age Accessed 6/3/22
2. A Compendium of Findings About the Retirement Outlook of US Workers | 21st Annual Retirement Survey Accessed 6/2/22

#1 Annuities Can Help You Prepare for Longevity (And the Unexpected)

It's estimated that more than a third of retirees could live to age 90.[3] With people living longer and requiring more healthcare, the possibility of outliving your savings becomes an all too real concern. The Administration for Community Living estimates that 70% of people turning 65 will need some form of long-term care or health support services in their remaining years, and at a hefty price tag, especially if this care has to last over a 20 or 30-year period.[4] For a private room in a nursing home, you can expect to pay an average of $108,405 each year.[5] Even more unsettling is that the median retirement savings of all workers is only roughly $97,000 total.[6] The risk of outliving retirement savings is compounded by the ever-present possibility of market volatility.

For a private room in a nursing home, you can expect to pay an average of $108,405 each year.

For people who are approaching retirement or fearful of losing a portion of their nest egg during retirement, annuities can offer the opportunity for interest growth without the risk of losing money due to downward market fluctuations. How interest is earned and the underlying guarantee will vary based on the nature of the policy and the insurance company. As an example, some annuities may credit interest based on a stated guaranteed rate of return. Whereas other annuities may provide an opportunity for interest growth based on the performance of an external index. In the latter case, it's important to note that the funds are not actually participating in the index, which means that the annuities interest earning potential may be capped or limited, but with that comes protection from losses due to market downturns.

3. **How Living Longer Will Impact Your Retirement.** Accessed 6/2/22
4. **How Much Care Will You Need? | ACL Administration for Community Living** Accessed 6/2/22
5. **Genworth Financial - Genworth's 2021 Cost of Care Survey: Long-Term Care Costs Increase Due to Labor Market Shifts and Costs Associated with Continued COVID-19 Response** Accessed 6/2/22
6. **50+ Essential Retirement Statistics for 2022 | Demographics, Savings** Accessed 6/2/22

While no one can accurately predict the market, it's likely that sometime over the next 30 years or so, you will experience multiple market downturns while still having to pay for everyday living expenses. On a fixed income, how will you cope if your fixed sources of income (e.g., Social Security or pensions) are not enough to cover your basic living expenses? One option is to continue to pull money out of your savings while the market is down, meaning you may have to liquidate assets at a loss and further deplete your retirement savings. Another potential option might be an annuity, which offers the opportunity for guaranteed income that can help cover at least a portion of living expenses, helping you better weather market turbulence without increasing your risk of running out of money.

#2 Tax Deferral Within Annuities Can Provide an Effective Retirement Savings Tool

You should always purchase an annuity based on its features. However, tax deferral could help reduce your tax liability and potentially enhance your retirement savings. Annuities purchased with after-tax funds can offer additional opportunities to defer taxes after maxing out contributions to traditional retirement plans like 401(k)s or 403(b)s, IRAs, and HSAs. The total annual contribution limits for workers younger than 50 in 2022 are $20,500 for 401(k)s and 403(b)s, $6,000 for IRAs, and $3,650 for HSAs.[7] Workers age 50 or older can add an extra $6,500 per year in "catch-up" contributions to their 401(k)s.[8] That being the case, the question becomes what to do with any excess funds you might want to save.

In tax-deferred vehicles like annuities, the funds and any interest earned can compound year after year without taxation. That means your money has a greater opportunity to accrue a higher overall balance for your retirement. The funds within an annuity are taxed only when you withdraw them. And because there's no IRS annual contribution limit (assuming the annuity is not held within a qualified retirement plan), annuities can be especially helpful for those behind in their retirement savings.

Keep in mind that purchasing an annuity can get complicated, which is part of the reason they're often underutilized by retirees. There are nuanced rules that, without the help of a financial professional, can seem like trapdoors for your retirement nest egg. For instance, withdrawals are subject to ordinary income taxes, but if you take income before age 59-1/2, you may incur a 10% federal penalty. Furthermore, tax deferral is only a potential tool to use with a viable tax strategy; annuities within a retirement plan that provide tax deferral under sections of the Internal Revenue Code result in no additional tax benefit. Typically, an annuity should be used for retirement savings and income based upon features other than tax deferral. A financial professional who specializes in retirement planning and annuity features can help identify risks, limitations, and costs that should be considered before purchasing an annuity within a tax-qualified retirement plan.

Annuities can be funded in two overarching ways, qualified and non-qualified, each with their own unique tax benefits.

7. **Retirement Topics - 401(k) and Profit-Sharing Plan Contribution Limits | Internal Revenue Service** Accessed 6/2/22
8. **Retirement Topics - 401(k) and Profit-Sharing Plan Contribution Limits | Internal Revenue Service** Accessed 6/2/22

#3 Annuities Can Offer Flexible Income Options

Ever since Nobel laureate James Tobin introduced the “bucket approach” to investing and saving, financial professionals and economic experts the world over have recommended it as a tried and tested method of growing wealth while protecting assets.[9] The concept is simple: allocate funds between diverse financial “buckets” to stay economically agile. And it’s through this concept that we gain real clarity as to why annuities are often the cornerstone of a sound retirement plan.

It’s a common misconception that annuities can only offer cookie-cutter options for retirement income. Part of the benefit of this product is that they come in all shapes and sizes. Contract riders, addendums that serve to add features to existing contract language, can alter wildly from one annuity to another. Moreover, annuities can involve a variety of withdrawal options, depending on the company issuing your contract. For instance, a surrender charge is a common fee that results when you withdraw or sell annuity funds before a designated “surrender period.” A specialist in retirement planning can help you determine which combination of the following annuities features you could benefit from.

- Surrender penalty-free withdrawals.
- Lump-sum withdrawals.
- Income riders that allow you to start and stop income as needed.
- Guaranteed income stream for life.
- Guaranteed income stream for a specific span of time.

Again, annuity contracts are often as unique as you are. These are possible withdrawal options that could be available to you, contingent upon the parameters of your annuity contract. Knowing which ones you should engage with will depend on your personal situation. Be sure to sit down with a financial professional who specializes in the nuances of retirement income planning before coming to a decision.

Be sure to sit down with a financial professional who specializes in the nuances of retirement income planning before coming to a decision.

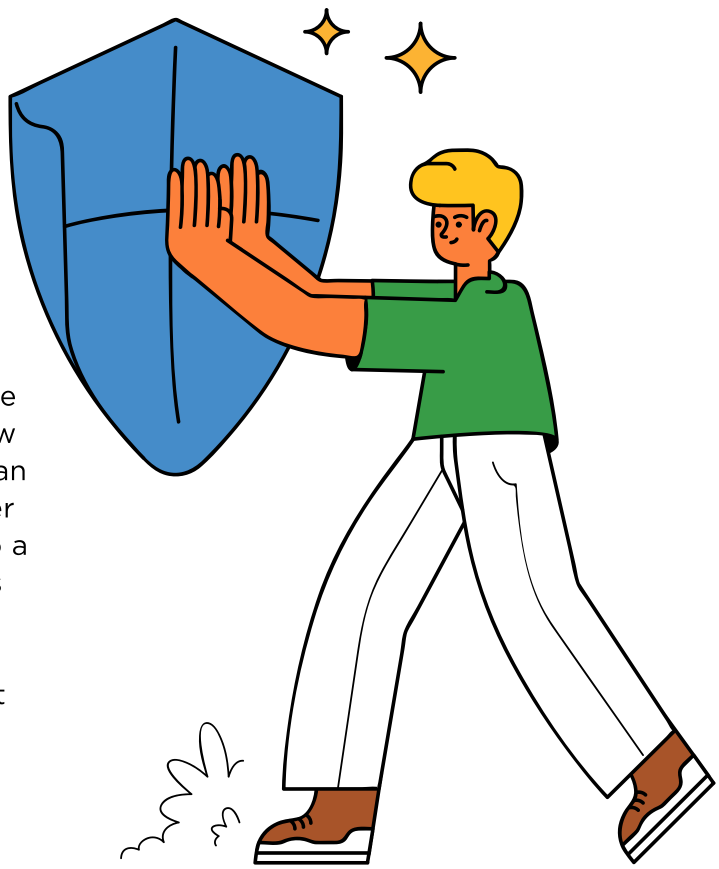
9. **Bucket Definition** Accessed 6/2/22

Annuities Can Offer Additional Protections for Your Family

#4

Married couples may want to consider either a joint and survivor annuity, or a single annuity with a spousal beneficiary for additional income protections. Though they may sound similar, they are not the same thing and offer different benefits. A joint and survivor annuity is an annuity that guarantees the income will be paid out for the remainder of each of their lives. If one spouse dies, the income will continue until the death of the second spouse.

On the other hand, surviving spouses who are beneficiaries of their partner's single annuity can simply keep the annuity intact and continue to defer taxes by making themselves the new beneficiary and owner of the annuity. This can help them avoid getting kicked into a higher tax bracket and owing more in taxes due to a lump-sum death benefit payment. With this option, the beneficiary can receive monthly, quarterly, or annual payouts based on their life expectancy, or other payout options that the issuing company may offer. Because the payments are spread out and smaller, the beneficiary may be able to avoid a higher tax bracket while the remaining funds in the annuity have the potential to continue to grow tax deferred. The beneficiary also has the right to cancel the annuity and take a lump sum payment of the surrender value at any time, subject to rules and limits under the contract, including potential surrender penalties. And there's no waiting for the assets—in general, annuities bypass the probate process if they have a properly named beneficiary, meaning that the person receives their benefit directly without having to go through probate.



Because the payments are spread out and smaller, the beneficiary may be able to avoid a higher tax bracket while the remaining funds in the annuity have the potential to continue to grow tax deferred.

Annuities—And Financial Professionals—Are Not Created Equally

Annuities are long-term products issued by insurance companies that come with a wide array of contract terms, plan lengths, interest rates, or addendums that impact how the product functions in your financial plan. The right one for you depends on your financial situation, how you would like to live your retirement, and what specific challenges you face. Also realize that the guarantee of your annuity is only as good as the company holding your contract. That's why it's important to consult with a qualified insurance professional to help you understand your options and choose the right one for your unique needs. If you're not already working with a financial professional who specializes in retirement income planning, connect with our office to schedule an appointment. We can help you look into your options and determine if an annuity vehicle might be right for you, and if so, which one might best meet your needs.

Contact our office at 720.599.7277
to schedule a complimentary annuity discovery appointment.

SC#2205-5121

5280 RETIREMENT GROUP

26 W. Dry Creek Circle, Suite #250
Littleton, CO. 80120

720.599.7277

www.5280RG.com
info@5280rg.com