Published based on Are Annuities An Important Part Of Retirement Planning For Seniors?

Are Annuities An Important Part Of Retirement Planning For Seniors?

If you are a senior and you haven't had the frequent sales pitches for retirement annuities, you must be living on some deserted island. On the surface, annuities seem to be the perfect retirement tool for aging seniors. So what aspects of an annuity should you scrutinize very carefully if you are considering a purchase? Annuities

Simple: Taxes and expenses.

Just because you have heard the term "annuity", don't assume you fully understand it.
What Is an Annuity?

An annuity is a retirement plan product usually offered by insurance or brokerage firms. There are two basic types with some variations and sold under different names:
• Fixed annuities pay a set rate of interest for a set number of years, and
• Variable annuities allow for investment into an array of accounts that resemble mutual funds.

You have the option to buy an annuity with a lump sum payment today or make premium payments over time. Annuities are purchased with after tax dollars but all growth is tax deferred until the time of withdrawal.

You will face a 10% penalty plus the taxes due if you begin to withdraw money before the age of 59 ½ but you are not compelled to begin withdrawing funds at age 70 ½ like other investment options.

Now for the tricky part.

People that sell annuities get paid for all of kinds of income and death benefit guarantees built into the offering. These guarantees or payments force the cost or expenses of the annuity to be extreme when compared to traditional investments such as mutual funds. For example, in 2005, Morningstar pegged the average annuity's annual expense rate at 2.35%, well above the average mutual fund rate of 1.44%.

This expense differential alone destroys almost any tax advantage that most investors might gain by owning an annuity instead of simply investing in taxable mutual funds.

Additional expenses, in the form of extraordinary surrender charges must also be considered in the overall evaluation. If there is a potential that you may change your mind and want out in the early years of the agreement, you could face a fairly common charge of 5% to 7%.

What are the Advantages of an Annuity? Estate Plans

If you have maxed out your contributions to other types of retirement plans, an annuity may be a good consideration.

An annuity can be a shelter for investments during a bankruptcy or a tool to avoid probate in some circumstances. And it is a wonderful investment for anyone that simply wants a lifetime income guarantee without any further thought.

Now What? Retirement Trends

The ultimate goal for a successful retirement is to have the funds needed to sustain your lifestyle. Some investment strategies have the potential for higher returns but can't assure you that your funds will last throughout your life. If this threat stands at the top of the list of your retirement concerns, then an annuity may be the perfect product for your retirement plan.

Talk to an advisor that is not biased by the personal financial awards associated with any retirement product.

For more than 20 years, Karl Edmunds has been a noted author within the business and management consulting arena. As a senior, he now engages his curiosity and observations about life to write about key issues of

importance to the growing community of seniors (Boomers), and the value of living life to the fullest every single day. Give me your comments and suggests at http://SeniorRetirementTrends.org