

## ANNUITIES - DO THEY FIT INTO YOUR RETIREMENT PLANNING PICTURE?

As many individuals begin to focus on the “retirement crisis in America”, they are starting to look for additional ways to meet their retirement goals. Putting \$9,000 into their 401(k) plan each year may not be enough to reach their own personal retirement goals. Annuities have become a popular vehicle for retirement savings due to their tax deferred advantages. It seems that they are often misunderstood and not carefully analyzed.

The basic concept of an annuity is that you give an insurance company or investment manager a lump sum or periodic investments in exchange for the promise that it will be invested and payouts will begin at some point in the future. If you die, you receive at least the amount you contributed due to a death benefit. Even though the annuity funds are separate funds, it is a good idea to check the solvency and ratings of the insurance company.

There are three basic types of annuities: 1. FIXED- The underlying investment is generally in long term bonds or similar investments. The rates may often be higher than the current bank rates of return. Many will offer a “teaser” rate for a period of several years before it drops to a lower rate. 2. VARIABLE - Invests in a mix of stocks, bonds, cash, etc. It is like choosing a mutual fund portfolio in a tax-deferred wrapper. 3. IMMEDIATE - You give a lump sum to an insurance company in exchange for a stream of payments which begin immediately. The payments you will receive include principal payments as well as interest. These purchases are often irrevocable.

INVESTMENT PERFORMANCE - Variable annuities may have several sub accounts which have different investment objectives. You need to review the performance of each account and compare them to other annuities’ track records.

FEES - these include investment management charges, administrative fees, mortality costs, and other charges. It is not unusual for fees to exceed 2-3% per year. There are also generally surrender charges for the first 5-10 years which can make it very expensive to change contracts. These fees can be a significant drain on performance and can wipe out the benefits of tax deferred growth.

Annuities are not for everyone. Understand what you are buying and make sure you have looked at the track record and you are aware of all the fees that are part of the contract.