

ANNUITY BASICS | THE POSSIBILITIES OF ANNUITIES

By Steven W. Shirley

Annuities are flexible investment plans that you can use to help you achieve your long-term financial goals and provide a source of retirement income.

You can choose among different ways to buy an annuity, and you can set up a schedule for receiving income that suits your needs. With variable annuities, you can decide the level of investment risk you want to take, and select among a number of portfolios that match your income objectives

When you've identified what you want an annuity to do for you, you can select a contract that's designed to do it.

Putting it Together

Buying the right annuity may seem intimidating because you have so many choices. But you can simplify the process by focusing on four decisions:

- **How the plan is offered**
You may be able to choose an annuity as part of a qualified retirement plan such as a 401(k), 403(b) or IRA or for a non-qualified retirement plan as part of your own retirement planning.
- **When you want to receive income**
Immediate annuities let you start receiving income right away while deferred annuities let you build your account (tax deferred) until you need retirement income.
- **The type of income you want**
Annuities can provide you with a guaranteed income that never changes as well as options that provide variable income payments based upon the investment experience of the portfolios that you choose.
- **How you want to invest**
You can buy an annuity with a single payment, or make multiple contributions on a periodic basis, whether systematic or discretionary.

The Place to Start

Here are some guidelines to help you begin to sort out what you want your annuity to do for you.

- Analyze whether money you have in investments, CDs or money market accounts could be working harder for your future.
- Anticipate when you may want your retirement savings to begin providing income.
- Decide how much you should be committing regularly to long-term retirement savings.
- Compare the advantages of investments that have historically outpaced inflation with the security of a guaranteed rate of return.

Comparing Annuities

Earnings in all types of annuities compound tax-deferred until you begin to take money out. That means you can build a larger retirement savings account than you would be able to if some of your earnings went to pay income tax every year.

When you are ready to draw on your retirement savings, all annuities offer you a number of options for receiving income. You can elect guaranteed lifetime income if you choose to *annuitize*, which means converting your retirement savings into a stream of regular payments.

Most variable annuities guarantee your principal if you die before you begin taking annuity payments. This is referred to as the *guaranteed death benefit*. Many contracts let you choose an *'enhanced' death benefit* that locks in your investment gains every few years or even every year.

Qualified vs. Non-qualified

A *non-qualified annuity* is a contract you buy individually rather than as a part of an employer-sponsored *qualified* retirement plan. You pay the premium with post-tax dollars, whereas qualified annuities are funded with pre-tax dollars. If your annuity has been purchased through an employer-sponsored plan, you will usually have to start withdrawing your money by age 70½. But with a non-qualified annuity, you can postpone withdrawing past age 70½. The later you begin to withdraw, the larger your annuity income could be. Also, non-qualified annuities have no annual contribution limits, whereas qualified annuities do.

Immediate vs. Deferred

An *immediate annuity* is one that you buy with a lump sum of money and income payments begin within a short period. A *deferred annuity* is purchased either with a single payment or with periodic payments, and income payments do not begin until you want them to. Of course, a 10% IRS penalty may apply if you withdraw from your deferred annuity prior to age 59½.

Fixed vs. Variable

Fixed deferred annuities guarantee you earn a set interest rate during the savings period, and that you will receive a fixed amount for each income payment on a regular schedule if you decide to annuitize. With a variable deferred annuity, your premium is allocated among different investment portfolios whose performance determines your contract value. Unlike fixed annuities, variable income payments may go up or down depending on the market, which may allow your investments to keep pace with inflation if you annuitize. Some contracts allow income payments that are fixed, variable or a combination of the two.

Mr. Steven Shirley is a Registered Representative of IMS Securities, Inc. Member FINRA/SIPC and Investment Advisor Representative of IMS Financial Advisors, Inc. 10205 Westheimer, Suite 500, Houston, TX 77042 *713 266 2993. IMS Securities, Inc., IMS Financial Advisors, Inc., and Steven Shirley are not engaged in rendering legal, accounting or tax advice. If these services are required, utilize the services of a CPA, attorney, accountant, or other consultant as may be required. Mr. Shirley can be reached at 713 751-3163 or sshirley@ims-securities.com