

Building a Pension: Using Annuities as an Income Tool

In the first two parts of this series, we have reviewed the modern challenges of the 4% rule and traditional retirement investments potentially falling short for the income needs of a retiree today. Today, we want to explore the idea of introducing a non-market asset as a portion of a comprehensive plan to fill the role of providing consistent income: fixed indexed annuities.

Annuities come in all shapes and sizes, and are far from being a one-size-fits-all solution. Ranging from fixed annuities that produce a set interest rate return for a fixed length of time (similar to a CD) to variable annuities that are invested directly in the market, a fixed indexed annuity falls somewhere in the middle, where it tracks the growth of various market indices on the upside, but is not invested directly in the market, so it cannot experience market losses.

Fixed indexed annuities have become a popular choice for retirees today who are seeking market-protected growth and lifetime income. For those seeking income, think of fixed income annuities as building your own pension. Fewer companies are offering pensions today, so you may choose to build your own for peace of mind that consistent income can provide without the uncertainties and volatility the market provides. One great way of using this vehicle for lifetime income is to add what is known as an income rider to set up contractual, lifetime income payments from an insurance company, while still maintaining some flexibility and access to your principle that traditional annuitization cannot provide.

As these vehicles have continued to improve and evolve in recent years, some added benefits you may also look for in a fixed indexed annuity include access to long-term care or healthcare crisis controls. Some vehicles provide double or triple income payments during these times of qualifying needs for facility care, home healthcare, and similar scenarios. This can make a great supplement to healthcare costs, as well as serving as a strategy to provide additional long-term care coverage for those with medical conditions that may preclude them from traditional long-term care insurance, as there are no underwriting or health requirements for annuities. Additional features may also include inflating income payments over time or increased death benefits for those with legacy planning goals.

With all of the options available on the market today, it is important to find an independent advisor who can shop the market for the best rates and features, based on your unique goals. Additionally, while an insurance producer is legally able to sell annuities, consider an advisor who is securities-licensed and can help you understand and select an annuity as part of a comprehensive financial with a fiduciary level of care. While there are great benefits to consider, there are also liquidity and time commitments to weigh that should be factored in as a piece of your total investment plan. As a long-term investment vehicle, early withdrawals or cancellations of contracts can result in considerable fees and penalties. In addition to standard income taxes on distributions, access to withdrawals prior to age 59.5 will also face an additional 10% penalty tax (similar to the penalties in place for many retirement accounts.) For these reasons, using a fixed indexed annuity as described in this section as a lifetime income vehicle in retirement can help maximize the benefits while avoiding unnecessary fees and penalties.

The financial environment of today offers unique challenges, necessitating a more proactive plan to meet your retirement needs. Fortunately, taking a comprehensive approach to your retirement and financial planning can help you gain confidence and prepare you to meet your retirement goals and dreams. By focusing on a structured approach and a mix of income sources such as those discussed in this series, you may find a balance of safety and growth that will work for your retirement needs and help you make the plans you have always wanted to make. To discuss your investment challenges and retirement goals, schedule a complimentary consultation today. Give us a call at (256) 715-0094!

DISCLOSURE:

Investor principal may be lost during the period when withdrawals are subject to surrender charges and/or federal tax penalty. Not all fixed indexed annuities offer a minimum guaranteed return. Fixed index annuities are insurance products and not considered a security or investment. Guarantees are based on the claims-paying ability of the issuing insurance company. Investors should consider the investment objectives, risks, charges, and expenses of an annuity carefully before investing. Prospectuses containing this and other information about the annuity are available by contacting your registered representative. Please read the prospectus carefully before investing to ensure the annuity is appropriate for your goals and risk tolerance.

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