EDUCATIONAL COMMENTARY

For consumers

HOW A DEFERRED ANNUITY FITS INTO RETIREMENT INCOME PLANNING

When people's thoughts turn to worrying about retirement income late in life, the deferred annuity is a tool to know about.

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A key part of your retirement planning is having a strong income strategy that makes you feel secure. One major consideration is ensuring that you have enough money to last as long as you live.

In recent years, a new type of annuity was introduced that may fit into your long-term retirement income planning strategy: The "deferred annuity"—sometimes called a "longevity annuity."[1] This type of annuity also borrows a key feature found in an immediate annuity.

A deferred annuity is one that delays payments until the owner chooses to receive them, while providing an opportunity for growth of income during the deferral period. An immediate annuity usually begins paying out protected income within one year after the date of purchase, either for life or for a selected time period.

With a deferred annuity, you purchase the annuity well in advance of the annuity starting date. This is the date on which you receive the first payment from the annuity. Often, the purchase is many years in the future, so your payments won't begin for quite a while. Like an immediate annuity, you will know the amount of the income benefit at the time of your purchase.

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ADDRESSING THE UNCERTAINTY OF LONGEVITY

Because a deferred annuity protects a known income amount that normally starts later in life, it may provide assurance that you will not run out of money if you live to a very old age.

A deferred income annuity can provide a larger future income payment per dollar of premium paid than any other financial product because of the mortality credits used to determine the income. It's a real "bang for the buck." The longer the period from the purchase of the annuity to the owner's start date (known as the deferral period), the larger the future income payment is. That's because the older age of the owners means they will have a shorter life expectancy and fewer years to receive payments.

PRE-TAX OR POST-TAX

There are two basic types of deferred income annuities. A "non-qualified" deferred annuity is purchased outside of retirement plans. This type of annuity is funded with after-tax dollars, meaning the buyer already has paid taxes on the money before it goes into the annuity.

The other type, called a "qualified longevity annuity contract" (QLAC), is funded with pre-tax dollars and purchased with assets from an individual retirement account (IRA). See your financial professional for additional details on the features and differences between pre-tax and post-tax deferred annuities.[2]

THE ABILITY TO PLAN FOR AN UNKNOWN

When thinking about your overall retirement income plan, you'll want to consider: 1) Making sure you have enough money for as long as you live, and 2) Making sure you can maintain your lifestyle throughout retirement.

A deferred annuity amounts to a stream of income that "turns on" at the start date the owner chooses.[3] When the protections of this annuity are incorporated into a holistic retirement income plan, an important planning benefit can result.

The biggest problem with retirement income planning is that it involves several unknowns. For example, we cannot know:

- Future investment returns.
- The sequence in which those returns will occur, which has a profound effect on when an investor could simply run out of money.
- The length of time over which income payments must continue because we don't know how long we will live.

The interaction among these three unknowns makes projecting future income very challenging. When a deferred annuity is included in the planning mix, however, it addresses the risk of living longer than we expect.

More importantly, you may be willing to spend a little more money in retirement than you otherwise would knowing your income is protected for life. To some, it's this important benefit that is the key advantage to purchasing a deferred annuity. It allows you to have the confidence of financial security knowing you will have income late in life.

[1]This information is intended to be educational and is not tailored to the investment needs of any specific investor.

[2]Investments in annuity contracts may not be suitable for all investors. Deferred annuity contracts are irrevocable, have no cash surrender value and no withdrawals are permitted prior to the income start date.

[3]Guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company.