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## Immediate Annuities Offer a Source of Lifetime Income



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The good news is we're living longer. But the prospect of a longer life expectancy means we risk outliving our retirement savings. If the thought of receiving a steady stream of income that lasts for the rest of your life appeals to you, a single premium immediate annuity (SPIA) might be worth considering.

#### How does it work?

Unlike a deferred annuity, which is designed for long-term savings, a SPIA begins to make payments to you immediately. In exchange for a lump sum of money you pay to an insurance company, you'll receive an income that can last for the rest of your life. The amount of income you receive is based on a number of factors, including your age at the time payments begin, your gender, whether payments will be made to only you or jointly to you and another person, and whether payments will be made for a fixed period of time or for the rest of your life or joint lives.

#### You have options

Most immediate annuities include a number of payment options. The more common payment options are

**Life only** - Payments continue during your lifetime, but stop at your death.

**Period certain** - Payments are made for a fixed period of time (e.g., 5, 10, 15, 20 years). If you die prior to the end of the chosen period, your beneficiary will continue to receive payments for the remainder of the fixed period.

**Life with a period certain** - Payments are made for the rest of your life or a minimum period of time. If you die prior to the end of the minimum payment period, the beneficiary you name in the annuity will receive the payments for the remainder of the period certain, but no longer. If you outlive the period certain, payments will end at your death.

**Joint and survivor** - Payments are based on the lives of two people, typically you and your spouse. When either of you dies, payments continue to be made to the survivor. This option can also be combined with a period certain option, in which case payments will continue until both of you have died or for the minimum period of time you select, whichever is longer.

**Installment refund/cash refund** - If you die prior to receiving at least the return of your investment in the immediate annuity, your beneficiary will receive an amount equal to the difference between what you invested and what you received. Your beneficiary will

We believe that a successful wealth management relationship starts with clarity of purpose.

Before embarking on any plans or strategies with our Client, we first seek to develop a clear understanding of your personal and financial goals.

We then work with you to select and implement strategies that will help you move toward your goals.

receive this amount in either a lump sum (cash refund) or periodic payments (installment refund).

The amount of each SPIA payment you get can be affected by the payment option you select. For example, a 60-year-old man who invests \$100,000 in an immediate annuity may receive annual payments of \$7,260 for the life only option, \$6,696 for life with a period certain of 20 years, or \$7,920 for a fixed period of 20 years. (This example is for illustration purposes only and does not reflect actual insurance products or performance, nor is it intended to promote a specific company or product.)

### **Are there taxes to pay?**

Generally, you pay income taxes on that portion of each payment that represents earnings or interest credited to the immediate annuity. The remaining portion of each payment is considered a return of your investment and is tax free.

### **Other factors to consider**

While a SPIA can offer a measure of relief from retirement income concerns, as with most investments, there are other factors to consider. Generally, once you invest in a SPIA, your payments are "locked in" with little flexibility, although there may be some exceptions. Normally, you don't have access to the principal unless the annuity provides for it, so be sure the payment option you select will meet your income needs. Also, consider whether there are other investment choices available that may better suit your retirement income goals.

Your Stage 2 Advisor may be able to present different options, including a SPIA, for you to consider when deciding how to best meet your retirement income needs.

We at Stage 2 Planning would be happy to spend time explaining the different immediate annuity options. In some instances, especially in today's environment they can add stability to your retirement needs.

Warmest Regards,

Stage 2 Planning Partners

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