

# Annuities Can Meet More than Just One Retirement Planning Need

Annuities have long been a money management tool used for retirement planning. They can provide a steady source of retirement income with minimal risk, thereby alleviating the fear of outliving one's savings. Annuities can also be complex, but knowing a few simple facts can help you add these planning vehicles to your client conversations, including presenting them as an option for covering the high costs of long-term care.



## Annuity Basics

At its core, an annuity allows an individual to deposit a large sum of money with an insurance carrier who will invest it on their behalf and then return it through a series of regular payments.

- Annuities can begin to pay out immediately upon deposit of a lump sum, or they can be structured for deferred benefits.
- An annuity can be categorized as fixed, variable, or indexed.
- **Fixed annuities** provide a guaranteed minimum interest rate and fixed periodic payments to the annuitant. They guarantee the principal will not be reduced, even in market downturns.
- **Indexed annuities are fixed annuities** that provide a return based on the performance of an equity index such as the S&P 500 index.
- **Variable annuities** allow the owner to receive larger future payments if investments held in the annuity fund (which are invested in the stock market) do well, or smaller payments if investments do poorly. They provide less stable cash flow than a fixed annuity, but they allow the annuitant to reap the benefits of strong returns from their fund's investments.

Earnings are tax-deferred until the owner begins receiving income from the annuity. However, distributions paid for long-term care benefits, via an LTC rider, will be paid income tax-free.

Fixed annuities aren't securities, so they're regulated by state insurance commissioners rather than the SEC. Indexed annuities are normally regulated by a state insurance commissioner as well as the SEC if they're registered as securities.

Access to a reliable source of income is important in retirement years and annuities are a popular means for achieving that goal. Total US annuity sales reached a record high of \$385.4 billion in 2023! Recent rising interest rates drove some of the renewed interest in this planning tool.

### ANNUITY FACT BOX

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A guaranteed steady stream of income is also important in planning for long-term care. After all, it is income that pays for LTC expenses; nobody wants to spend down income-generating assets to pay for care. As a result, over the past several years some annuity carriers have developed hybrid products that marry an annuity with a long-term care benefit.