 Colorado Club Office Building 4155 E. Jewell Avenue Suite 704 Denver, CO 80222 Phone (303) 778-1900 Voice & Fax (303) 647-5653

**10 Reasons Annuities Make Sense for a Portion of a Retirement Plan**



With life expectancies greater than ever, retirement could very likely be the longest phase of our clients’ lives. Therefore, it is absolutely imperative for retirees to have a plan in place that:

1. Provides the ability to spend and enjoy their

money in retirement.

2. Protects them from “living too long” and

outliving their Income.

Since retirement income planning is an extremely important and complicated process, this is something retirees should *not* attempt to do on their own. In addition to the risk of large investment “losses” and “outliving” their assets, there are other major challenges and considerations, such as taxes, inflation, stock market and interest rate volatility, rising health care costs, taxes and much more.

**Why consider an annuity?**

Below are **10** reasons why annuities make sense for a portion of a retirement plan:

1. **Growth Potential** – Clearly every retiree wants their money to grow over time. The reason growth is so important is not only to accumulate more wealth, but also to fight against the aforementioned many “money predators,” such as inflation, taxes, planned obsolescence, technology changes, rising health care costs, long-term care, unexpected losses or expenses, etc.

Most retirees will tell you they prefer not to spend their principal and would rather live off the income generated from their principal. Therefore, in order for their income to keep pace with things like inflation, most annuities offer a well-diversified array of investment options to choose from that offer the potential to keep pace with one’s changing lifestyle and income needs over the long-term.

1. **Safety Provisions** – By far, the two biggest financial fears for most retirees are:

* Losing money
* Running out of money

The fear of losing money and/or running out of money is not only understandable, but also extremely critical. In fact, I firmly believe that 90% of a financial professional’s job is to avoid large losses.

If you are taking income from your retirement assets and suffer significant losses, particularly in the early years of ir retirement and income distribution, this can be extremely devastating and sometimes irreparable. In other words, the combination of large losses and withdrawing income can dramatically increase the probability of running out of money.

Therefore, annuities provide an alternative and a solution since most contain contractual guarantees that can insulate you against outliving your income, even if you suffer large investment losses.

**3. Tax Efficiencies** – I always jokingly say that my least favorite uncle is “Uncle Sam.” I have yet to meet someone who truly enjoys paying taxes. And, of course, taxes come in all flavors: ordinary income tax, capital gains tax, taxes on dividends and interest, state taxes, estate taxes and more.

John D. Rockefeller once said, “The fastest way to accumulate wealth is to make sure you never pay tax on income you don’t use.” That may be one of the most brilliant statements I’ve heard—aside from Einstein’s theory on compound numbers.

Annuities can offer two unique advantages with regards to taxes. First, while non-qualified monies are accumulating inside an annuity, they are growing tax-deferred. Put another way, a client’s monies are not subject to tax consequences, such as capital gains, dividends and interest. Second, many annuities offer clients with non-qualified monies the ability to provide tax-advantaged income when they are in the distribution stage.

Since we can’t beat the unbeatable opponent—the IRS—annuities provide our clients with options to minimize or avoid many forms of unnecessary taxation for non-qualified monies (where applicable and appropriate).

1. **Income You Cannot Outlive** – Given the exponential growth of the baby boomer generation and the advancements made in modern medicine, life expectancies today are greater than ever.

For example, when Social Security was first enacted in 1933, the average life expectancy for a male was approximately 59 years old…and yet Social Security didn’t start paying benefits until age 62!

Since males today have an average life expectancy of approximately 85 years old, it is easy to see why we are having such a tremendous battle with Social Security benefits. Many studies show that by the year 2030, more than two-thirds of the U.S. population will be above the age of 60.

So the message here is clear: Given the fact that today’s retirement plans are demanding a much longer period of income distribution, annuities are becoming increasingly popular alternatives.

**5. Income Growth Potential** – If a retiree needs their income to grow, their assets obviously need to grow at a rate that exceeds their withdrawal rate. Since many retirees have little to zero risk tolerance, annuities can provide a greater peace of mind to invest a portion of their monies in the stock market.

Back when interest rates were much higher, many retirees thought they could accomplish an adequate amount of retirement income by simply investing in bonds and CDs. However, most retirees found that these vehicles alone were simply not enough. After factoring in things like investment fees, inflation and taxes, utilizing income-producing investments is usually solely capable of accomplishing income growth potential. Of course, this is especially true considering today’s historically low interest rates.

Given the many features, benefits, riders and guarantees of an annuity, they can sometimes increase the willingness for a retiree to invest their retirement monies more aggressively than other investment options. Of course, this varies on a case-by-case basis.

**6. Maintain Control** – As mentioned earlier, one of the essential ingredients of a successful retirement plan is not only providing the income needed, but ensuring that income never runs out.

In the old days, annuities were not very popular because one of the requirements was that a retiree was forced to sacrifice something they hold very dear—complete and full control of their monies. In other words, although annuities did offer the promise of a fixed amount of income for life, clients no longer had the ability to choose how these monies were invested, nor did they have access to anything other than their income. Many of today’s annuities offer clients the ability to maintain total control over their assets, both during the accumulation and the distribution phases of their retirement, so they can still choose how and where to invest their hard-earned monies.

**7. Maintain Access** – Something also very important to most retirees is having access to their monies in the event that they need it. Although every retirement plan should include setting some monies aside for unexpected events or emergencies, sometimes life brings about severe changes that no retirement plan is fully prepared for.

Given the many moving parts and unexpected events in a retirement plan, most retirees do not want their hard-earned monies to be locked up.

Today’s annuities can also allow retirees the opportunity to access their monies during retirement, above and beyond just their income. It is important to note that, depending on how each annuity is structured, there can be penalties if larger amounts of monies are taken out in the earlier years.

**8. Full Transfer** – Another common request among retirees is helping them to create a legacy. Therefore, it is very important for retirees to ensure that whatever monies are not spent will pass on to their spouse, heirs and/or charities as efficiently as possible.

Annuities can offer several benefits to help with legacy planning. First, they offer a “guarantee of principal” feature. This means that, assuming no withdrawals are taken, the full amount of what you put into an annuity is guaranteed to pass to your heirs, regardless of the investment performance of the monies. In addition, many of today’s annuities offer the ability to purchase an additional rider that offers the ability for a client to lock in and leave behind their highest annual value. Again, this example assumes no withdrawals.

**9. Professional Support** – One could argue that retirement is one long and wonderful vacation—a time when someone gets to spend and enjoy all of the wealth they have accumulated over their working years.

Some of the most popular retirement activities include traveling, dining out, buying nice things, gifting, spending more money and time with their families, donating, etc.

Having said that, one of the last things many retirees should be focusing on in their retirement years is worrying about their money, their retirement plan, the stock market and their income. When you consider just about every important aspect of our lives, we have professionals out there to help.

Annuities are largely purchased through financial professionals. Although most annuities are owned on a non-discretionary basis (meaning no changes or investment decisions can be made by a financial professional without a client’s prior approval and consent), financial professionals can serve as a valuable resource by making themselves available for their investment opinions and recommendations.

**10. Consolidation** – Upon retirement, most clients’ preference is not to have lots of different accounts, nor do they wish to receive multiple statements from various companies. Having a consolidated financial life in retirement can not only lead to less stress and worries, but also greater success.

Most annuities have a large variety of investment options and mutual funds, which are referred to as “sub-accounts,” such as growth, growth and income, international, small-cap, mid-cap, large-cap, bonds, government securities, money market, etc.

Given this wide variety of investment options most annuities offer, annuities can serve as an excellent option for consolidating one’s retirement nest egg. This helps retirees to minimize the number of statements they receive, have the large majority of assets in a limited number of places, as well as have their income generated from a smaller number of sources.

**Annuities are NOT for everyone.**

Yes, annuities offer multiple features, benefits and advantages—most of which other investment options simply cannot offer. However, we have all heard the statement, “Anything good in life usually does not come free or easy.”

[www.scholesinsurance.com](http://www.scholesinsurance.com) [terryscholes@comcast.net](mailto:terryscholes@comcast.net) [karen@scholesinsurance.com](mailto:karen@scholesinsurance.com) [jenny@scholesinsurance.com](mailto:jenny@scholesinsurance.com)

Terry’s cell-303-521-7708 Karen’s cell-720-272-2371 Jenny’s cell-303-725-0771