



Harmony Wealth Strategies

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BUILDING AND SAFEGUARDING
YOUR FINANCIAL WORLD

Immediate Annuities Can Provide Lifetime Income



An immediate annuity can offer a measure of relief from retirement income concerns by providing a dependable payment for the rest of your life.

Running out of income is a primary concern for most retirees. Immediate annuities offer a financial alternative to help meet retirement income needs by providing a steady stream of income designed to last through retirement.

What is an immediate annuity?

An immediate annuity is a contract between you and an annuity issuer (an insurance company) to which you pay a single lump sum of money in exchange for the issuer's promise to make payments to you for a fixed period of time or for the rest of your life. Immediate annuities may appeal to you if you are looking for an income you cannot outlive.

Characteristics of immediate annuities

- A steady stream of payments for either a fixed period of time (such as 10 years) or for the rest of your life.
- The issuer assumes all investment risk.
- Generally, you pay ordinary income taxes on the part of each payment that represents earnings or interest credited to your account. The remaining portion is considered a return of your investment and is not subject to taxation.
- You relinquish control over the money you invest in the immediate annuity. While there are some exceptions, usually you receive fixed payments with little or no variation in the amount or timing of each payment.
- If you chose a life only payment option, you may not live long enough to receive the return of all of your investment, since payments cease at your death with this option.

How does an immediate annuity work?

As the name implies, an immediate annuity begins to pay you a stream of income immediately. The amount of income you receive is based on a number of

factors, including your age at the time of purchase, your gender, whether payments will be made to only you or to you and another person, and whether payments will be made for a fixed period of time or for the rest of your life.

What are your payment options?

Most immediate annuities include a number of payment options that can affect the amount of the payment you receive. The more common payment choices are:

- *Life only.* Payments are based on your age. Payments continue until you die, at which time they cease.
- *Installment refund/cash refund.* If you die prior to receiving at least the return of your investment in the immediate annuity, the beneficiary you name in the policy will receive an amount equal to the difference between what you invested and what you received. The beneficiary will receive this amount in either a lump sum (cash refund) or payments (installment refund).
- *Life with a period certain.* With this option, the issuer does not guarantee the return of your investment; rather, it guarantees a minimum period of time during which payments will be made. Payments are made for the rest of your life, but if you die prior to the end of a minimum payment period (usually between 5 and 25 years), the payments will continue to be made to your beneficiary for the remainder of the period, but no longer.
- *Joint and survivor.* This option provides payments for the lives of two people, typically you and your spouse. When either of you dies, payments continue to be made for the life of the survivor. You can elect to have these "survivor" payments remain the same, or be reduced to a percentage of the original payment, such as two-thirds. The joint and survivor option can also be added to the life with period certain option. In this case, the issuer will make payments until both of you have died or



Guarantees are based on the claims-paying ability and financial strength of the annuity issuer. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty.

for the period of time you selected, whichever is longer.

- **Period certain.** This option provides a guaranteed payment for the fixed period of time you specify (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.

The payment option selected affects the amount of each payment. For example, life only payments will be larger than payments for life with a period certain. But life with a period certain payments will be less than payments for a fixed period certain.

Example: A 60-year-old man who invests \$100,000 in an immediate annuity may receive annual payments of \$7,260 for the rest of his life, or \$6,696 per year for life with a minimum of 20 years, or \$7,920 per year if he chooses payments 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.)

Other factors to consider

An immediate annuity can offer a measure of relief from retirement income concerns by providing a dependable payment for the rest of your life. However, as with most investments, there are other factors to consider before deciding if investing in an immediate annuity is the right choice for you.

First, be sure that the payment option you select will address your income needs. For instance, if you are in poor health and have others who depend on you for financial support, selecting a life only payment option may not be appropriate because payments stop at your death, removing a valuable source of income from your survivors.

Second, if you are considering a life only payment option, be aware that it may take many years before you receive at least the return of your investment from the immediate annuity. A 70-year-old man who invests \$100,000 and selects a life only option (generating annual payments of \$7,260) will have to live about 14 years to receive the return of his \$100,000.

Third, consider whether there are better alternatives for providing income. For example, it's possible that the interest or dividend from investments such as bonds and dividend-producing stock could produce more income than you could get from an immediate annuity over the same period of time based on the same investment amount. In addition, these types of investments usually are more liquid than immediate annuities, giving you the opportunity to increase your withdrawals if you need more money. On the other hand, an immediate annuity provides a guaranteed stream of income regardless of changing interest rates or investment returns. Of course, guarantees are subject to the claims-paying ability of the annuity issuer.

Should you consider an immediate annuity?

An immediate annuity can be a useful financial tool. You may want to consider the purchase of an immediate annuity if:

- You want a stream of income you cannot outlive.
- You have a sum of money that you would like to turn into a regular source of income and you aren't interested in leaving the money to your heirs. If you want to leave a portion of the money as a legacy, an immediate annuity may not be a good choice.
- You are uncomfortable with investments that have a significant risk of loss. If subjecting your money to the risk of loss associated with investing in securities does not appeal to you, an immediate annuity may provide a way to transfer that risk to an insurance company. While the income guaranteed by the immediate annuity is subject to the claims-paying ability of the annuity issuer, the immediate annuity payments are not subject to stock market risk.
- You expect to live for a long time. If you're healthy and have longevity in your family, an immediate annuity may be an investment to consider.

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