# Annuities Revisited

By Evelyn Preston

**The best investment advice I ever gave was to my newly retired friend who planned to move all her money—including an old annuity —into mutual funds.**

Although I agreed that she needed to earn more on her investments, I worried about future shock when stock/bond markets would eventually and inevitably see-saw. "Keep this small annuity," I suggested; "it's a good idea to have some guaranteed income in retirement."


Happily, Jane Bryant Quinn, the long respected, pragmatic guru of investment advice, agrees. In a recent article, she suggested an immediate annuity as a buffer for retirees—immediate fixed income from a lump sum investment—on-going, guaranteed and definitely tax advantaged (due to some of your own dollars returned in the early years).

It's worth considering annuities due to the recent roller coaster returns in U.S. and global markets. The guarantees appeal to seniors, and like an IRA, money grows tax deferred until withdrawal (after 59 ½).

Seniors, however, need to be extra cautious when purchasing this ever-changing insurance contract. Modern annuities offer complicated options, from proceeds made available for nursing home costs without strings (a positive), to long surrender charges that can erode benefits (a decided negative). Confusing terminology and higher costs come with the territory.

Fixed annuities offer the basics; a lump sum or monthly premiums return a stable, predictable, guaranteed income stream based on the company's earnings. Often with an enhanced first year bonus, there's no real downside but due to low interest rates, not much upside either.

To remain competitive, along came variable choices, premiums invested in mutual funds under the annuity umbrella and the possibility of making much higher returns if the stock market soared. Increasingly sophisticated bells and whistles have been added over time from indexed annuities—earning a certain percentage of the stock market's success in a market index—to split cash-plus/investment accounts.

It's impossible to shorthand all the new-fangled hedges planted in the annuity universe. A retirement specialist or trusted advisor must lead the way through the maze of options.

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**A Few "Must Understand" Terms Will Help Smooth the Ride:**

**Surrender charge**—(what undid unwary seniors) A hefty charge for accessing one's money in the "early" (5 to 12 even 20 years) unless selecting a fixed payment.

**Free money**—usually 10% yearly of principal amount available without any surrender charge.

**Annuitization**—a signed contract to withdraw proceeds at a specified rate set by the insurance company for life or a certain period of time; until then (even with a surrender charge), the money still belongs to the owner.

**M&E charges**—costs for insurance company mortality guarantees, administration and expenses.

**Riders**—Extra added attractions with extra added costs.

Shop carefully when considering an annuity. Or mirror Jane Bryant Quinn's example of an immediate annuity and for at least a portion of retirement funds, keep it safe, steady and simple.