DEBUNKING ANNUITY MYTHS

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Plot a course for your dream retirement by learning the truth about annuities and the role they can play in your portfolio.

If you've searched the Internet for information about annuities, you know there's a lot of negative information out there. You may be told that your money will be locked up and you aren't allowed to access it, or that annuities are complicated and hard to understand. Many of those opinions are based on misinterpretations of how annuities work. Here's some information to help sort out the issues and shed some much-needed light on the topic. Remember that while an annuity can be a useful component to a retirement portfolio, you might decide they're not right for you. The best way to find out if an annuity can benefit you is to sit down with your financial professional.

MYTH 1: WHEN YOU INVEST IN AN ANNUITY, YOUR MONEY IS LOCKED UP AND CAN'T BE TOUCHED.

The ability to access the money inside your annuity is based on the details of the specific contract you select. Nearly all annuities allow you to withdraw money – usually up to 10% of the account value or the earnings on the contract (whichever is greater) – during the first few years of the contract, which is known as the surrender period. This surrender period varies per company and contract, so be sure to ask your professional for specifics. There may also be tax implications for early withdrawal, so be sure to check with your tax professional.

Some annuities even give you immediate access to your funds or allow you to choose the level of access for an additional cost. That includes providing for withdrawals without surrender charges if an unexpected event occurs such as a loved one needing long-term care.

Of course you can always access your money above the penalty-free withdrawal amount but there will be a fee, known as a surrender charge. Typically, the surrender charge is a percentage of the amount withdrawn that decreases over time.

Remember, annuities are designed as tax-deferred, long-term products for retirement. If you think it's likely you're going to need access to your money beyond the penalty-free withdrawal amount, an annuity may not be the right investment for you. And, it's generally not advisable to put all your retirement savings into an annuity; only the portion that helps you meet your overall objectives.

MYTH 2: ANNUITIES ARE TOO COMPLEX AND CONFUSING.

There are annuities to fit a variety of individual investor needs with different options and benefits. This allows you to tailor them to your specific needs – such as protecting your income from market downturns, providing lifetime income payments or leaving money to your family.

It's a little bit like buying a new car. While a base model will certainly get you from A to B, an upgraded model might offer features that alert you to risks and increase the likelihood arriving safely.

In some instances, annuities need to be robust and multi-layered because they offer features other investments don't provide, such as protected lifetime income. When you consider that you will depend on your annuity for lifetime income that could last as long as 20, 30 or even 40 years, it's important that it's structured correctly.

Just remember: to avoid feeling overwhelmed by the different levels of features, remember to consider only those that apply to your circumstances and that can benefit you.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company.

Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½.

Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

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