

# The Immediate Annuity: Instant Retirement Income and Peace of Mind

Buying an immediate annuity is kind of like buying yourself a dependable pension. Pair its income with Social Security benefits and you can be looking at an easier, more comfortable retirement.

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As we approach the end of our working lives, it's natural to look forward to having more free time and perhaps finally getting around to doing some things we've always wanted to do. It's also natural to worry about whether we will have enough money throughout our retirement. One solution for

many people is the immediate annuity, which can provide guaranteed income for the rest of our lives.

## **Annuity overview**

There are many kinds of annuities -- immediate vs. deferred (paying you immediately vs. starting at some point when you're older), fixed vs. variable (certain payouts vs. payouts tied to the performance of the market or part of the market), lifetime vs. fixed period (paying until death or paying for a certain span of time), and so on.

Immediate or deferred fixed annuities are smart options for many retirees or those approaching retirement. (Other kinds of annuities, such as variable or indexed annuities, are more problematic and less suited to many people, charging steep fees and/or carrying hefty early withdrawal penalties.)

## **Meet the immediate annuity**

With an immediate annuity, you pay an insurance company a large sum of money in return for a monthly check... for the rest of your life! It can be a daunting option, due to its cost, but unlike many other alternatives, it offers guaranteed income -- as long as the insurance company remains in business.

Here's a sense of how much you might get from an immediate annuity: For \$100,000, a 65-year-old man could start receiving about \$563 per month for the rest of his life. That's about \$6,750 per year. It may not seem like much, but imagine that you have \$300,000 with which to buy an annuity. That could generate almost \$1,700 per month, or more than \$20,000 per year. Add that to Social Security, which recently paid average monthly benefits of \$1,337, or about \$16,000 per year, and it can be quite a powerful support in retirement. (Of course, depending on your earnings history, your monthly Social Security benefit may be significantly higher or lower.)

There's a lot more to immediate annuities. For example, you can customize them according to your needs or preferences. By paying more (or receiving less), you can have the payments increase along with inflation over time. You can also have the payments continue not only to the end of your life, but to the end of your spouse's, too. Women will usually receive smaller monthly payments for the same investment in an immediate annuity because they tend to live longer.

## **Details, details**

It's important to understand that annuities are not protected by an agency such as the Federal Deposit Insurance Corporation (FDIC), so a failed insurance company can wipe out that guaranteed income. That needn't be a big worry for you, though -- if you seek out the highest-rated companies and perhaps divide your annuity money between several companies.

The payments that you sign up for today are lower than others have received at other times due to our current environment of extremely low interest rates. If you can delay buying, interest rates are likely to rise and so will payouts. In this environment, you might "ladder" your purchases, buying a third of the annuity income you want now, and another third in a few years when rates are likely to be higher, and the last third even later.

Once you buy an immediate annuity, the money is gone and you can't spend it on anything else. You will likely end up leaving less to your heirs than if you'd kept the money in dividend-paying stocks -- though some immediate annuities can include provisions leaving money to heirs in certain circumstances.

Note that there can be fees and commissions associated with annuities you consider. So get the details and compare, seeking the best deal. You can avoid commission charges by buying your

annuities through companies that sell them directly, bypassing salespeople seeking commissions. Many major low-cost brokerages offer no-commission annuities, as do insurance companies and other financial institutions.

### **An annuity deferred**

Another good option for many people is the "deferred" annuity, also referred to as "longevity insurance." It's another fixed annuity, but one that begins payments not immediately, but when you're older, such as in 10 or 15 years. If you're pretty sure that your nest egg will last you from retirement at 65 until you're 80, you might buy longevity insurance now that begins paying you at age 80. Thus, you'll never run out of money and the annuity will cost far less because you're buying it early and it will cost the insurance company less, too. Or, if you're still many years from retirement, you can buy a policy now that begins paying when you expect to retire. With deferred annuities, the longer the time span between when you buy and when you begin collecting, the lower the price will likely be.

A fixed immediate annuity is well worth considering, as it can deliver a lot of peace of mind -- and dependable income -- in retirement. Paired with Social Security benefits, it can give you an easier, more comfortable retirement.