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4 Ways Annuities *(Yes, Those!)* Could Help You Get More Out of Your Retirement

By 2030, all Baby Boomers will be 65 or older, making up an increasingly large portion of the retiree population.[1] While Boomers hold 51.8% of the nation's wealth, a significant portion—40% of older Americans—rely solely on Social Security for income in retirement.[2] With rising healthcare costs and inflation, many are questioning whether their savings will be enough to sustain them throughout their later years.[3] In fact, 79% of Americans agree that the country is in the midst of a retirement crisis while 55% are concerned they won't be able to achieve financial security in retirement.[4]

For this discussion, "annuities" refers specifically to fixed annuities—not variable annuities. Annuities are long-term contracts issued by insurance carriers that canconvert a lump sum of retirement savings or a series of payments into a guaranteed stream of income in your remaining years. The guarantees offered by the insurance contracts are backed by the claims paying ability of the issuing insurance carriers.

As the retirement crisis rises to the forefront of the public eye, annuities could become more of a retirement cornerstone, supplying at least a portion of the income needed to help address healthcare costs, inflation, and market turbulence. Read on to learn how annuities can offer benefits that could help make a difference in the quality of your retirement.

[1 2 3] Senior Living, The Baby Boomer Generation, February 21, 2025 www.seniorliving.org/life/baby-boomers/

[4] National Institute on Retirement Security, February 2024 www.nirsonline.org/wp-content/uploads/2024/02/FINAL-2024-Public-Opinion-Research.pdf

#1 Annuities Can Help You Prepare for Longevity (And the Unexpected)

Thanks to medical advancements and a better quality of living, a retiree who turns 65 today is likely to have another 20 years in retirement.[5] With people living longer and requiring more healthcare, the possibility of outliving your savings becomes an all too real concern. The National Institute on Retirement Security reports that 66% of retiring Americans are concerned about increasing medical costs, in addition to the 80% worried about the costs of long-term nursing care.[6]

The latest estimates suggest that 70% of people turning 65 will need some form of long-term care in their remaining years.[7] And it could come with quite a price tag. On average, a private room in a nursing home rings in at over $100,000 a year while a home health aide averages more than $60,000.[8] Even more unsettling is that the average 55 year old women's 401(k) balance totals about $50,000, whereas men's average 401(k) balance is $89,000.[9] The risk of outliving retirement savings is compounded by the ever-present increasing healthcare costs and inflation.

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Since Medicare doesn't cover long-term-care expenses, many Americans have to fund their long-term care using some combination of traditional long-term-care insurance from the private market or an employee benefit, a combination life insurance/LTC policy, an annuity with a long-term-care component, or self-funding care from your savings. Those who deplete their assets may qualify for Medicaid. For people who are approaching retirement or fearful of losing a portion of their nest egg during retirement, annuities can offer the opportunity for interest growth without the risk of losing money due to downward market fluctuations.

[5] CDC, NCHS Data Brief, December 2024 www.cdc.gov/nchs/data/databriefs/db521.pdf

[6] National Institute on Retirement Security, February 2024 www.nirsonline.org/wp-content/uploads/2024/02/FINAL-2024-Public-Opinion-Research.pdf

[7 8] Kiplinger, March 10, 2024 www.kiplinger.com/retirement/long-term-care/how-to-pay-for-long-term-care

[9] Annuity Org, 50+ Essential Retirement Statistics for 2024, January 10, 2024 www.annuity.org/retirement/retirement-statistics/

How interest is earned and the underlying guarantee will vary based on the nature of the policy and the insurance company. As an example, some annuities may credit interest based on a stated rate declared by the issuing company, whereas other annuities, called fixed indexed annuities, may provide an opportunity for interest growth based on the performance of an external index. In the latter case, it's important to note that the funds are not actually participating in the index or the market, which means that the annuity's interest earning potential is capped or limited, but with that comes protection from losses due to market downturns.

While no one can accurately predict the market, it's likely that sometime over the next 30 years or so, you will experience multiple market downturns while still having to pay for everyday living expenses. On a fixed income, how will you cope if your fixed sources of income (e.g., Social Security or pensions) are not enough to cover your basic living expenses, especially when markets are down? One option is to continue to pull money out of your savings meaning you may have to liquidate assets at a loss and further deplete your retirement savings. Another potential option might be an annuity, which offers the opportunity for guaranteed income that can help cover at least a portion of living expenses, helping you better weather market turbulence without increasing your risk of running out of money.

#2

Tax Deferral Within Annuities Can Provide an Effective Retirement Savings Tool

You should always purchase an annuity based on its primary features, one of which is tax deferral that could help reduce your tax liability and potentially enhance your retirement savings. Annuities purchased with after-tax funds can offer additional opportunities to defer taxes after maxing out contributions to traditional retirement plans like 401(k)s or 403(b)s, IRAs, and HSAs. The total annual contribution limits for workers below age 50 in 2025 are $23,500 for 401(k)s and 403(b)s, $7,000 for IRAs,[10] and $4,300 (individuals) and $8,550 (families) for HSA accounts respectively.[11] Workers age 50 or older can add an extra $7,500 per year in "catch-up" contributions to their 401(k)s.[12] That being the case, the question becomes what to do with any excess funds you might want to save.

In tax-deferred vehicles like annuities, the funds and any interest earned can compound year after year without taxation. That means your money has a greater opportunity to accrue a higher overall balance for your retirement. The funds within an annuity are taxed only when you withdraw them. And because there's no IRS annual contribution limit (assuming the annuity is not held within a qualified retirement plan), annuities can be especially helpful for those behind in their retirement savings.

Keep in mind that purchasing an annuity can get complicated, which is part of the reason they may be underutilized by retirees. There are nuanced rules that, without the help of a licensed insurance professional, can seem confusing. For instance, withdrawals are subject to ordinary income taxes, but if you take income before age 59-½, you may incur an additional 10% federal penalty. Furthermore, tax deferral is only a potential tool to use within a viable tax strategy; annuities within a retirement plan that provide tax deferral under sections of the Internal Revenue Code result in no additional tax benefit. Typically, an annuity should be used for retirement savings and income based upon features other than tax deferral. A financial professional who specializes in retirement income planning and annuity features can help identify risks, limitations, and costs that should be considered before purchasing an annuity within a tax-qualified retirement plan.

[10] Fidelity, "IRA contribution limits for 2024 and 2025," March 13, 2025 www.fidelity.com/learning-center/smart-money/ira-contribution-limits

[11] Fidelity, "HSA contribution limits and eligibility rules for 2024 and 2025," January 23, 2025 www.fidelity.com/learning-center/smart-money/hsa-contribution-limits#:~:text=2025%20HSA%20contribution%20limits,as%20a%20catch%2Dup%20contribution.

[12] IRS, "401(k) limit increases to $23,500 for 2025, IRA limit remains $7,000" accessed March 17, 2025 www.irs.gov/newsroom/401k-limit-increases-to-23500-for-2025-ira-limit-remains-7000#:~:text=The%20catch%2Dup%20contribution%20limit%20that%20generally%20applies,Thrift%20Savings%20Plan%20remains%20$7%2C500%20for%202025.

#3 Annuities Can Offer Flexible Income Options

One common approach to saving for retirement involves what is called the “bucket approach.” The concept is simple: allocate funds between diverse financial “buckets” to help your finances stay economically agile. And using this concept, we can see why annuities could be a cornerstone of a sound retirement plan.

It's a common misconception that annuities can only offer cookie-cutter options for retirement income, but in reality, part of the benefit of this product is that they come in all shapes and sizes. Contract riders—addendums that add features to existing contracts—can alter widely from one annuity to another. This means, you can have a bit more flexibility and diversification with your financial “buckets.”

Moreover, annuities can involve a variety of withdrawal options, depending on the company issuing your contract. For instance, a surrender charge is a common fee that results when you withdraw or cancel the annuity before a designated “surrender period.” A retirement income planning professional can help you determine the right way to access your annuity funds. These options are part of the broader structure of annuities, but a few common withdrawals include:

- Surrender penalty-free withdrawals.
- Lump-sum withdrawals.
- Income riders that allow you to start and stop income as needed.
- Guaranteed income stream for life.
- Guaranteed income stream for a specific span of time.

Again, annuity contracts are often as unique as you are. These are possible withdrawal options that could be available to you, contingent upon the parameters of your annuity contract. Knowing which ones you should engage with will depend on your personal situation. Be sure to sit down with a financial professional who specializes in the nuances of retirement income planning before coming to a decision.

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Annuities Can Offer Additional Protections for Your Family #4

Married couples may want to consider either a joint and survivor annuity, or a single annuity with a spousal beneficiary for additional income protections. Though they may sound similar, they are not the same thing and offer different benefits. A joint and survivor annuity is an annuity that guarantees the income will be paid out for the remainder of each of their lives. If one spouse dies, the income will continue until the death of the second spouse.

Surviving spouses who are beneficiaries of their partner's single annuity can simply keep the annuity intact and continue to defer taxes by making themselves the new beneficiary and owner of the annuity. This can help them avoid getting kicked into a higher tax bracket and owing more in taxes due to a lump-sum death benefit payment. With this option, the beneficiary can receive monthly, quarterly, or annual payouts based on their life expectancy, or other payout options that the issuing company may offer. Because the payments are spread out and smaller, the beneficiary may be able to avoid a higher tax bracket while the remaining funds in the annuity have the potential to continue to grow tax deferred.

The beneficiary also has the right to cancel the annuity and take a lump sum payment of the surrender value at any time, subject to rules and limits under the contract, including potential surrender penalties. And there's no waiting for the assets—in general, annuities bypass the probate process if they have a properly named beneficiary, meaning that the person receives their benefit directly without having to go through probate.

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Annuities—And Financial Professionals—Are Not Created Equally

Annuities are long-term products issued by insurance companies that come with a wide array of contract terms, plan lengths, interest rates, costs, terms and conditions and or addendums that impact how the product functions in your financial plan. The right one for you depends on your financial situation, how you would like to live your retirement, and what specific challenges you face.

Realize that the guarantee of your annuity is only as good as the company holding your contract. That's why it's important to consult with a qualified insurance professional to help you understand your options and choose the right one for your unique needs. If you're not already working with a financial professional who specializes in retirement income planning, connect with our office to schedule an appointment. We can help you look into your options and determine if an annuity vehicle might be right for you, and if so, which one might best meet your needs.

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