



**Select Portfolio  
Management, Inc.**

David M. Jones, MBA  
Wealth Advisor  
120 Vantis, Suite 430  
Aliso Viejo, CA 92656  
949-975-7900  
dave.jones@selectportfolio.com  
www.selectportfolio.com

## Strategies for Annuities

If you find this article useful, please feel free to contact me or go to our website to find even more articles and information on how to grow, protect, preserve, utilize and transfer your wealth.

Wealth Management is more than just investments. It encompasses a disciplined professional approach, using a broad range of services and an experienced team of advisers.

I can help you put together your specialized team of investment, tax, legal and insurance advisers and then lead the development and implementation of your integrated wealth management plan.

If you are within 10 years of retirement, let me help you understand how the retirement landscape has changed and how these changes can impact your current and future financial decisions.



## Table of Contents

Strategies for Annuities .....	3
What is it? .....	3
Using annuities for retirement planning .....	3
Strengths .....	3
Placing an annuity inside an IRA .....	4

## Strategies for Annuities

### What is it?

An annuity is a contract between you (the purchaser, or owner) and an insurance company. In its simplest form, you pay money to an annuity issuer and allocate your money to either fixed or variable investment options. The issuer then pays out the principal and earnings back to you or to a named beneficiary. These payments may be in a lump sum, or they can be received over time. Annuities are most commonly used for retirement savings. However, they can also be used for other long-term savings purposes, such as business planning. Although annuities can be useful in all of these endeavors, they are not always the most appropriate financial product to meet your needs. It is important to understand both the advantages and disadvantages of using an annuity in various situations.

### Using annuities for retirement planning

Saving for retirement is the most common use of annuities. Tax deferral benefits will allow your dollars to grow faster than a comparable taxable investment. An annuity can be an excellent tool for this purpose.

### Strengths

Here are some reasons why you might want to consider an annuity for retirement savings:

- The earnings are tax deferred. You will typically not begin paying taxes on the earnings until your distributions begin. By this time, you may be in a lower tax bracket.
- If chosen, annuitized payouts continue until death.
- If you work for a small company or are self-employed, you may not have access to a qualified plan. Annuities can be a way to supplement your Social Security income during retirement.
- Annuities do not place a limit on how much you can invest. Other retirement savings vehicles, such as IRAs, place a limit on contribution amounts.
- Annuities do not have minimum distribution requirements. Other retirement savings vehicles, such as IRAs, require the holder to begin receiving minimum distributions by age 70½.

### *Tradeoffs*

Annuities also have certain disadvantages when used for retirement planning. It is important to note that payments into an annuity aren't tax deductible. For this reason, most experts recommend maxing out your contributions to other available retirement plans before you think about an annuity. In addition, annuity withdrawals made prior to age 59½ are typically subject to a 10 percent early withdrawal penalty. If you plan to retire early, or if you think you might need to access your money before age 59½, you should probably explore other options.

### *Deciding whether an annuity is an appropriate retirement savings vehicle*

Annuities can be a valuable tool for retirement savings, but they are not appropriate for everyone. To help you decide whether an annuity is right for you, think about each of these questions. If you can answer "yes" to all of them, an annuity may be a good choice.

- Are you making the maximum allowable contribution to other qualified plans (e.g., a 401(k) or 403(b) through your employer, or a Keogh or SEP-IRA if you are self-employed)? These are better tax

shelters than an annuity, because they are funded with pretax dollars.

- Are you making the maximum allowable contribution to an IRA? Even a nondeductible IRA provides the same tax advantages as an annuity, without the added costs.
- Will you need more retirement income than your current retirement plan(s) will provide? If you begin making the maximum allowable contributions to both a qualified plan and an IRA in your 30s or early 40s, you may have enough retirement income without an annuity.
- Are you sure you won't need the money until at least age 59½? Withdrawals made before this age are usually subject to a 10 percent early withdrawal penalty levied by the IRS.
- Do you expect to stay in the same tax bracket, or even be shifted to a lower one, when you retire? The earnings on an annuity are tax deferred, which means you'll pay income tax on them when you start to take distributions. If your tax bracket will be higher in retirement, it may make sense to choose another investment vehicle that will allow you to pay capital gains taxes as gains are realized.
- Will you take distributions from your annuity on an ongoing basis throughout your retirement? You typically have the option of making a lump-sum withdrawal from an annuity, but this is almost always a bad idea. When you take a lump-sum withdrawal, you'll have to pay taxes on all of the earnings that have built up over the years. If you take gradual distributions, you pay taxes a little at a time, allowing the rest of the money to continue growing tax deferred.

## Placing an annuity inside an IRA

One unique way of using an annuity for retirement savings is to put your annuity funds into an IRA. If your IRA administrator allows this, you would simply choose an annuity as your investment vehicle (rather than a mutual fund, certificate of deposit, etc.) when you open your IRA.

### Strengths

Annuities provide certain advantages that other IRA investments may not. First of all, an annuity provides an income stream for life, something you won't find with mutual funds and other investments. In addition, many annuities guarantee a death benefit that is no less than the total premiums you have paid into the annuity. Investing your IRA dollars in an annuity may also provide a higher rate of return than other investments, like CDs.

Investing your IRA funds in an annuity also provides one unique advantage over investing directly in an annuity. When you place an annuity within an IRA, your contributions to the IRA/annuity will be tax deductible to the extent allowed by law. Normally, money you invest directly in an annuity is not deductible. However, if you are not eligible to make deductible IRA contributions, adding the annuity component will not change that fact.

### Tradeoffs

There are several important arguments against putting your IRA money into an annuity. First, both IRAs and annuities are tax-deferred investment vehicles. If you are already deferring income taxes by setting up an IRA, you gain no further tax advantages by investing the IRA funds in an annuity. Second, most annuities charge a number of fees for maintenance, among other things. When added to the custodial fees you pay for the IRA itself, these fees can eat up a portion of the return you might earn on the investment. Third, by putting an annuity within an IRA, you are actually giving up some of the flexibility that annuities can provide. For example, when you purchase an annuity directly, you are typically not required to begin taking distributions at any particular time. You can allow funds to continue growing indefinitely. However, when you put an annuity inside an IRA, you must begin taking distributions no later than age 70½. Also, IRAs place a limit on contribution amounts. Non-IRA annuities do not limit the amount of money you can invest.

***The bottom line***

Most experts agree that you should first fund your deductible IRA and other available retirement plans, such as 401(k)s. When you have to decide how your IRA or 401(k) funds will be invested, choose an investment mix that makes you comfortable. You can typically find a mutual fund that provides an appropriate level of risk and return. But in most cases, don't choose an annuity as an investment vehicle for your IRA. Once you have made the maximum allowable contribution to these plans, you might want to consider purchasing an annuity directly if you want additional retirement savings.



**Select Portfolio  
Management, Inc.**

David M. Jones, MBA  
Wealth Advisor  
120 Vantis, Suite 430  
Aliso Viejo, CA 92656  
949-975-7900  
dave.jones@selectportfolio.com  
www.selectportfolio.com

This material does not constitute the rendering of investment, legal, tax or insurance advice or services. It is intended for informational use only and is not a substitute for investment, legal, tax, and insurance advice.

State, national and international laws vary, as do individual circumstances; so always consult a qualified investment advisor, attorney, CPA, or insurance agent on all investment, legal, tax, or insurance matters.

The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors. After reviewing your personal situation, we may recommend that you not use any strategy in this document but instead consider various other strategies available through our practice.

Please feel free to contact me to discuss your particular situation.

Securities offered through Securities Equity Group, Member FINRA, SIPC & MSRB

David M. Jones is a Registered Representative. CA Insurance # 0E65326



**SELECT PORTFOLIO  
MANAGEMENT, INC.**  
Integrated Wealth Management

A Registered Investment Advisor