ANNUITY MYTHS PART 2

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ACCESS AND COMPLEXITY

Discover the truth about annuities.

DEBUNKING ANNUITY MYTHS

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 critical 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.

It's not true that your money is locked up immediately when you invest in an annuity. Nearly all annuities allow you to withdraw money — usually up to 10% of the amount 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 financial professional for specifics. There may also be tax implications for early withdrawal, so be sure to check with your tax advisor.

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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 Typically, the surrender charge is a percentage of the amount withdrawn that decreases over time.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. A base model will certainly get you from A to B and could be exactly what you're looking for. However, you might decide to upgrade by adding optional features if those things are important to you.

In some instances, annuities need to be robust and multi-layered because they offer advantages 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: There's no reason to be overwhelmed by the different levels of features because you only need to consider those that apply to your circumstances and that can benefit you.