

Hot Buttons to Sell Annuities

by Melissa Steven

A guaranteed steady stream of income is what many Americans want as they enter retirement. Defined benefit plans used to be a safety net that workers could rely on, but there are fewer defined benefit plans being offered every year by employers. An analysis by Watson Wyatt found that at Fortune 100 companies only 37 percent offered a pension to new employees, down 50 percent from 2003. 15 percent of companies who do have pension plans say they are likely to close participation to new employees and 6 percent said they will freeze accruals, according to a study done by Hewitt Associates. Annuities may help to fill this void.

Annuities can give current and future retirees peace of mind knowing they can count on a continuous stream of income when they retire. Annuities provide series of periodic payments that begin at a specific date and continue throughout a fixed period for the duration of an individual's life. Their goal is to pay financial benefits to the person or persons who receive the annuity payments during their lifetimes. They do not pay an income-tax-free death benefit, unlike life insurance. People buy annuities to accumulate money for retirement and during retirement to manage distributions of those funds.

There are a variety of annuities each designed to suit the specific needs of different clients.

IMMEDIATE ANNUITIES

Since American's average life expectancy has risen over the past years, from 69.7 in 1960 to 77, many retirees are concerned they will run out of money. That's why for Americans who are about to retire, immediate annuities look very attractive because they can protect a client against the risk of running out of income by ensuring a series of payments for a fixed period of time or until they die.

Selling Points:

- Great for investors nearing retirement or those already retired looking to reduce the income tax he or she pays on their savings.
- They make sense for individuals who want maximum income from part of their assets and do not want to exhaust his or her savings as long as he or she lives.
- There is a single deposit and income payments begin within one year.
- There are seven different types of immediate annuities that can suit all different types of clients to best meet their needs.

VARIABLE DEFERRED ANNUITIES

These are similar to fixed-interest deferred annuities. The big difference is the underlying investment vehicles. Variable deferred annuities are divided into a general account and a separate account. The general account guarantees principal and some minimum fixed amount of interest, usually 3 to 4 percent. The separate account is composed of various subaccounts from which the contract owner can select investment options that match his or her investment objectives and risk tolerance. Transfers can be

made between the subaccounts tax free. Variable deferred annuities can also provide clients with guaranteed benefits, but only if the clients are willing to pay extra. Guaranteed living benefits provide a client with protection if the market is underperforming. A guaranteed death benefit will pay the larger of either the account value or the premiums paid minus partial withdraw also. Although these guarantees come at an extra cost, the security that they provide is valuable depending on the client. These annuities are better suited for long-term investors, not people nearing retirement.

Selling Points:

- Great for an aggressive investor looking for diversification, flexibility, tax deferral and a guaranteed death benefit.
- They offer guaranteed living and death benefits.
- They provide an investor with professional money management.
- Tax-free transfer between accounts.

FIXED-INTEREST DEFERRED ANNUITIES

The annuities are very attractive because they provide a minimum guaranteed interest rate as well as a fluctuating current interest rate. The tax deferral is probably the most attractive part. The money accumulated in the annuity is tax free until the funds are withdrawn, but income taxes eventually need to be paid on the accumulations.

Selling Points:

- Great for a conservative investor looking for tax deferral, competitive fixed interest rates and has access to his or her money.
- They offer a minimum guaranteed interest rate.
- Accumulated money is tax deferred.

EQUITY-INDEXED ANNUITIES

This annuity is a fusion between a fixed-interest deferred annuity and a variable deferred annuity. It pays interest based on what the outside index actually does and provides a minimum guaranteed return.

Selling Points:

- Great for a conservative investor looking for safety of principal who does not want to pay taxes on the growth of his or her retirement money.
- Provides a minimum guaranteed return.

These are just a few features that can be spotlighted when selling some of these annuity products. Annuities can be a great retirement vehicle that can be tailored to an individual's risk tolerance who wants to have a steady stream of income provided to them when they retire.

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