

Top 10 Questions to Ask About an Annuity



One of the key benefits of an [annuity](#) is peace of mind. But even if you have the right annuity, it will only be worry free if you understand why you purchased it and are sure you have made the choice that's right for you.

Answering these 10 questions will put you well on your way to selecting an annuity that best suits your needs:

1. What are my retirement goals?

Everyone is different, so this question is specific to you and your situation. What would you like to do in [retirement](#)? Some people dream of retiring in a cabin by the lake or moving to a warmer climate, like Florida or Texas. Others hope to travel, to begin a second career, or to leave money to their heirs. Still others are content to keep life simple.

Imagine your life into retirement; it will help to determine how much cash you should keep on hand and how much you can put into an annuity. Further, your goals will vary depending on your stage in life. A 60-year-old who is entering retirement might look at this question quite differently from someone who is 75 and already retired.

2. When do I expect to retire?

Gone are the days when 65 was the magic retirement number. For many, an early retirement is an attractive and attainable goal. For others, work will continue well past 65 – either because of finances or because they just love what they do. Estimating when you'd like to retire is a critical step in being able to calculate the right annuity to buy.

3. How long do I expect to live in retirement?

Today we're living longer and it's common to be in retirement for 25 years or more. Of course, no one can really predict the future. But projecting your life expectancy will help you estimate how much savings you'll need to sustain your retirement lifestyle. There are some factors you might consider. Do you have any [health conditions](#) or concerns? Did your mom and dad live well into their 90s? People are living longer than ever before, so there is cause for optimism, but it's equally important to be realistic.

4. Do I need supplemental retirement income?

You can use an annuity to supplement your other sources of retirement income by providing payments that cannot be outlived. These annuity payments can help cover expected living expenses. Calculating the "gap" between available retirement income (Social Security, a pension and savings) and your essential living expenses (housing, insurance, etc.) can help determine the value that an annuity can provide – and can also help you determine how much you will need in payouts from your annuity.

5. Do I want my retirement savings to continue to grow?

Many retirees are able to keep a portion of their assets invested in equity-based products, where the highest returns have traditionally been, rather than in more conservative investments, such as CDs and bonds. Index annuities provide a middle ground between those two choices, allowing assets to grow tax-deferred, with protection against downside market risk. Many also offer the option of guaranteed lifetime income payments at some point in the future.

6. How can an annuity help meet my retirement needs?

An [immediate annuity](#) is the only personal retirement product that provides guaranteed income that cannot be outlived. [Index annuities](#) give the advantage of tax-deferred investment growth, while providing protection against downside market risk with a variety of options to access your money. Optional annuity death benefits offer additional protection of your assets.

7. Does the annuity carry a surrender fee?

There may be charges to withdraw some or all of the funds in your annuity. While most annuity contracts allow limited access (Most allow up to 10% per year) to your account values, most have surrender charges. Check with the company about the products you are looking to work with.

8. What if I need to access the money in my annuity?

Many [deferred annuities](#) allow the withdrawal of a portion (e.g., 10-15 percent) of the initial investment each year without surrender charges. Some annuities also provide full access to your money, free of surrender charges, in the event of serious illness. Before you sign the contract, be sure to understand and feel comfortable with how your annuity will work should you need to withdraw money.

9. What should I know about annuity fees and the companies offering annuities?

While fee structures vary, fixed annuities have no upfront sales or annual maintenance charges. Before purchasing an annuity, be sure to evaluate the [insurance company's financial strength, ratings and reputation](#). Lesser-rated companies may have more attractive rates, but this is often a poor trade-off for selecting a company with a proven track record.

10. Does my annuity specialist understand my retirement goals?

Work with someone who is knowledgeable about retirement-related issues and current annuity features and benefits. Prepare a list of your goals before you speak with your agent to select the best annuity to meet your retirement goals.

Important Notice: This information is not intended to be a recommendation to purchase an annuity. You should consult with a financial planner to determine if an annuity is a suitable product in your situation. Also, be advised that tax information published at this site is written to support the promotion of annuities. It is based on limited facts and should not be relied upon. You should consult with your own tax and legal advisors for an opinion about what could or should be done in your particular situation