

Consider the Income Taxes When You Purchase a Fixed Immediate Annuity

Fixed Immediate annuities can provide a steady income for a specified period of time that may even surpass your natural life. And how long you choose to take these payments can depend on your present and future income needs as well as your survivors' requirements. But there is one more point that you may want to look at when reviewing the various payout options available. And that is the tax implications to you and your beneficiaries.

A portion of the money you would receive each year is a tax-free return of your investment. The balance is taxable. And those amounts can vary among the different payment periods. For instance, suppose that you are a 65-year old male, the IRS gives you a life expectancy of 20 years, and you are offered the following choices for a \$250,000 investment:

- A life only payout ceases when you die and will give you approximately \$20,000 per year. Of this amount, \$12,500 (1/20th of \$250,000) would be tax-free and the balance (\$7,500) taxable. If you live longer than 20 years, all \$20,000 will be taxable.
- A life with 20-year certain pays for 20 years or your lifetime, whichever is longer. You would receive approximately \$17,500 each year, \$12,500 tax-free and \$5,000 taxable. If you die before the 20 years has passed, your beneficiary will collect the remainder of the payments with the same tax treatment as you had.
- A 10-year certain annuity will pay you approximately \$28,500 per year for 10 years with \$25,000 (1/10th of \$250,000) tax-free and \$3,500 taxable. If you die before the 10 years has passed, your beneficiary will receive the income for the balance of the term in a like manner.

The above numbers are strictly estimates and for illustrative purposes only. They do not imply any return on a specific investment and do not include the impact of fees and charges on the growth or the payout. In addition, other payout options are available. However, they do show how your investment decisions could affect your taxes.