Planning for Retirement Using Annuities and 401(k)s

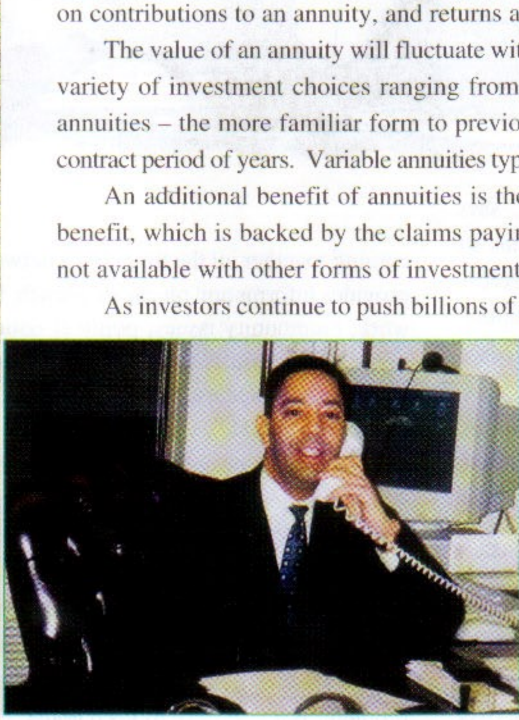
The leading edge of the baby boomer generation (born during the decade after World War II) is now within sight of retirement, and rushing to catch up with savings programs they will rely on to supplement — or supplant, depending on whom you believe – Social Security benefits.

Those who are stymied by the limitations of tax-advantaged investment programs such as Individual Retirement Accounts (IRAs), 401(k) plans and other qualified pension plans are turning towards a new version of a tax advantaged friend: variable annuities. Unlike most qualified plans, there is no limit on contributions to an annuity, and returns are sheltered from income taxes until they are withdrawn.

The value of an annuity will fluctuate with that of the underlying investment funds. There is a wide variety of investment choices ranging from conservative to aggressive funds. By contrast, "fixed" annuities – the more familiar form to previous generations – offer a stated interest rate for a specific contract period of years. Variable annuities typically offer a fixed account as one of the investment options.

An additional benefit of annuities is the level of protection they provide in the form of a death benefit, which is backed by the claims paying ability of the insurance company – a guarantee that is not available with other forms of investments subject to market risk.

As investors continue to push billions of dollars into mutual funds through IRAs, 401(k)s and other qualified pension plans, they are finding that variable annuities can be an attractive additional investment channel. With no limit on annual contributions, annuities take over where other tax-advantaged programs leave off.



Annuities are a team effort of the financial services industry, often involving a securities firm that introduces the concept to their clients along with an insurance company that creates and administers the contact. Clients may select from a broad range of money managers that correspond to their individual investment objectives, strategies and risk tolerance.

Because of their tax-deferral feature, annuities can help to act as a defense against any future financial uncertainties as baby boomers absorb a disproportionate share of the national wealth to fund their retirement incomes and health care.

Those who start or accelerate savings programs well in advance of retirement can enjoy the benefits of tax deferred compounding on funds sheltered by IRAs, 401(k)s or variable annuities. In just one example, an investor within the 31 percent federal tax bracket who invests a lump sum of $25,000 at an 8 percent average annual return will be worth $73,221 after 20 years if taxes on the return are paid annually. With tax-deferred compounding, the same investment would be worth $16,524. Of course, income taxes are due on any interest earnings or investment gains when they are withdrawn from the annuity — just as they are due on IRA withdrawals. This example is for illustrative purposes only and is not representative of a specific investment. Applicable mortality, expense and administration charges, surrender charges, and an annual policy fee are not reflected in the illustration and could reduce performance. Withdrawals made prior to age 59 and a half may be subject to a 10 percent tax penalty.

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