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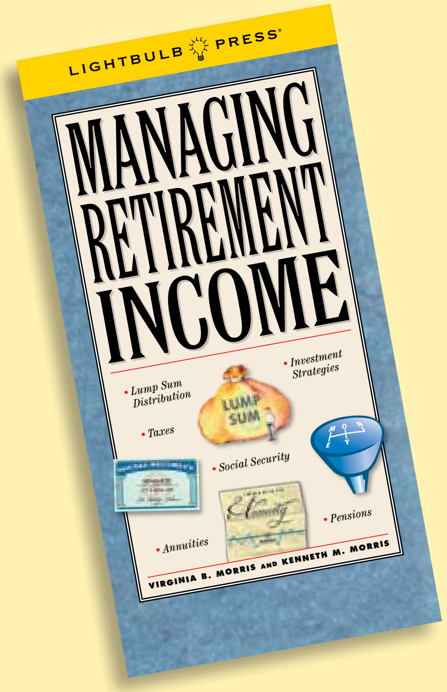


This content was excerpted from the booklet *Managing Retirement Income.* To learn more about this and other Lightbulb Press titles, visit our Bookstore, or buy now:

LIGHTBULB PRESS™

Choosing an Annuity

You can control the flow of retirement income.

Deciding on a pension annuity is just the first step in converting your pension or retirement savings to a stream of income. Next is choosing how to take the income. One question is whether you want to provide income for one person or two. Another is whether it pays to reduce your income slightly to guarantee income will be paid for at least a minimum period. A third is whether you want income for life.

INFLUENCING FACTORS

There are several key factors when you weigh the various payout options. It makes sense to review them with your financial adviser before making up your mind.

Who will get the money?

JOINT AND SURVIVOR OR **SINGLE LIFE**

Should the payout be life only or joint and survivor? For many people, wanting to provide lifelong income for a spouse or other beneficiary is the driving force in choosing a joint and survivor payout. Each individual payment amount is less than with a single life annuity, but the total over two lifetimes can be more, sometimes much more.

In most cases, if you're married and you decide against a joint and survivor payout, you'll have to provide your employer with a signed, notarized document from your spouse that gives his or her consent.

When isn't a joint and survivor policy the wiser decision? Among the factors to consider are how much income each of you has from other sources and how healthy you are. For example, if both you and your spouse have a good defined benefit plan, taking a single life annuity might make sense. It would provide more income than a joint and survivor payout, and your spouse is already guaranteed lifetime income. Similarly, if your spouse is ill, and unlikely to outlive you, a single life annuity might be the wiser choice.

What percentage should the survivor get?

50% OR **100%**

How much income should the survivor receive? The follow-up decision to choosing a joint and survivor payout is what percentage of the income that you receive while you're both alive should be paid to the surviving partner. There are usually several choices, with the least being 50% and the most 100%.

The decision involves trade-offs, as so many things do. If the surviving partner gets 100% of the income, the amount you get while you are both alive will be less. But the goal in choosing this alternative is that the survivor will have as much income as he or she needs.

On the other hand, an annuity paying the survivor 75% may provide sufficient income, since the living expenses of one person may be less than for two.

Whichever percentage, it will almost always be a better solution than an approach called pension maximization, or pension max for short. Here's how it works. You select a single life annuity and use some of the additional income to buy a life insurance policy to cover your surviving spouse's needs. But the death benefit will have to be invested, adding a level of responsibility that your survivor may not be comfortable with. What's more, the commission you pay to purchase the policy is likely to be substantial.

MANAGING RETIREMENT INCOME

INCOME ALTERNATIVES

Some pension annuities may provide a variable rather than fixed return, or a combination of fixed and variable. In either case, the income you receive each month will move up or down based on the performance of the investments underlying the variable portion. The advantage is that your income can increase, typically if the markets in which the variable portion is invested are strong. Conversely, the income may drop in periods when those markets stall or underperform as they tend to do periodically.

There are circumstances when knowing exactly what you can count on each month is more appealing than the potential for added income. But if you have a choice, it's something you may want to discuss with an independent financial professional.

How long will you get the money?

PERIOD CERTAIN OR **FIXED TERM**

Should you choose a life annuity that guarantees a certain number of payments? One reason people give for not choosing a pension annuity is that they're afraid if they die shortly after they begin receiving payments, they will forfeit a large portion of the amount they spent to purchase the annuity. To avoid that situation, some people choose a period certain payout guaranteeing that they or their beneficiaries will receive income for at least a minimum period, typically 5, 10, or 20 years.

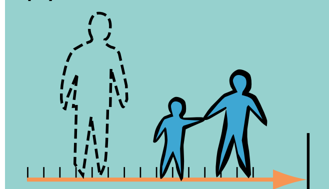
You can choose a period certain payout whether you take a single life or joint and survivor option. Although the guarantee reduces the amount you get somewhat, it provides added peace of mind and can be a wise choice.

Should you take a payout that doesn't guarantee life income? If the reason you're choosing an annuity is being able to count on income for as long as you live, you should choose the lifetime guarantee. But there are situations when getting a larger amount of money each month or ensuring payments will last a specific amount of time may be a better decision.

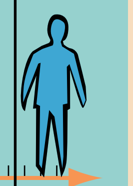
Some appealing features are that these payout models can produce the largest income payments in the short term. Also, when you select this option, you typically have the opportunity to **commute**, or cash in, your annuity for a lump sum rather than continue to receive income payments in the future.

PERIOD CERTAIN PAYOUT

If you die before the term is up your beneficiaries continue to receive payments



If you live beyond the term, you continue to receive payments for as long as you live



PROTECTING YOUR ASSETS

If you're in debt when you retire, leaving your retirement assets with your employer and selecting a pension annuity probably makes more sense than a lump sum withdrawal. That's because federal ERISA law protects plan assets from most personal and professional claims but doesn't protect cash you withdraw.

In most cases, you can't be forced to withdraw, nor can your account be frozen until you pay your debts. There are exceptions. If you owe child support, alimony, or federal income taxes, you may be ordered to withdraw. So it always pays to seek legal advice from an attorney who specializes in ERISA matters.

You'll also want to confirm that assets you roll over to an IRA will be shielded by federal law in the same way as assets that