



By **STEVEN PODNOS, MD, CFP**

Are immediate annuities right for your retirement?

The proposed use of immediate annuities seems to be gaining popularity as a cure for battered retirement funds. The idea is to turn accumulated retirement savings into a guaranteed stream of income for life, much like the old-fashioned pension plans formerly favored by the government and many large corporations.

Most physicians have retirement plans, which have grown tax-deferred, as well as some after-tax savings. Both types of accounts may be used with annuities.

FUNDING METHODS

Immediate annuities, products offered by insurance companies, are characterized by an exchange of a lump sum of money for a stream of income. The lump sum can be after-tax or pre-tax (IRA or 401[k]) money.

If after-tax money is used, the stream of income is taxable only to the extent that it represents earnings on your deposit. The stream of income can be a fixed and guaranteed amount or can be invested in stock/bond markets and have a variable return.

The time in which the income stream lasts can be for the annuitant's life, for the length of the joint lives for married couples, or for a certain term (20 or fewer years in most contracts). The fact that some

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individuals choose the life expectancy option and then die earlier than expected increases the pool of funds to distribute to those who live longer.

ANNUITY DOWNSIDES

Investors should be aware of several potential drawbacks to immediate annuities, including:

■ **A risk of company default exists.** This risk is not to be taken lightly after the events of the last two years.

Some states guarantee the cash value of an annuity up to \$100,000, so it would be advisable to keep annuity purchases from any single company at no more than that amount.

■ **Liquidity is lost.** Once you purchase an annuity, there is no getting your money back. If you need the money on a faster schedule, then annuities are a poor choice.

■ **Interest rates currently are very low** and are being actively suppressed by the Federal Reserve in an attempt to stimulate the economy. An immediate fixed return annuity purchased now would “lock in” these artificially low long-term returns.

■ **Inflation is a factor.** Some rare “inflation-adjusted” annuities exist, but most of them are not yet “ready for prime time.” A fixed long-term return with low interest rates in the event of significant inflation will erode your purchasing power very rapidly. You won't be able to recoup the money to re-invest in another way.

SEEK COUNSEL

Seek counsel before you take the plunge into annuities. It's important to research the strength of the company involved and determine whether this form of investing is compatible with your goals and needs.

Gradually purchasing small annuities from different companies over several years is one way to decrease the aforementioned risks. Most research also suggests that you should allocate only a portion of your retirement dollars in such a way.

POWER POINTS

An immediate annuity is a lump sum of money exchanged for a stream of income.

Both pre-tax and after-tax savings can be used to fund annuities.

Risks of immediate annuities include the possibility of default, loss of liquidity, and inflation.

Use only part of your retirement savings to fund an annuity.

The author is the principal of Wealth Care LLC, based in Merritt Island, Florida. He practiced pulmonary/intensive care medicine for more than 20 years before becoming a financial planner. The ideas expressed in this column are his alone and do not represent the views of *Medical Economics*. If you have a comment or a topic you would like to see covered here, email medec@advanstar.com.

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