

## An Option: Immediate Annuities

Sometimes, you want the security of regularly scheduled payments for a specified period or the rest of your life.

By Kathy M. Kristof, Times Staff Writer

Retirees should suppress the urge to run when a salesperson says the word "annuity." The sale of so-called deferred variable annuities to senior citizens has been a source of controversy in recent years, sparking lawsuits and drawing the attention of regulators. But another type of annuity, known as an immediate annuity, can provide significant benefits to risk-averse retirees who want to be sure they don't outlive their savings. "Immediate annuities are intriguing," said **Brent Kessel**, a fee-only financial planner with Abacus Wealth Management in Los Angeles. "I have a client who is very panicked about the stock market, so we're taking some money and buying one. It doesn't matter what happens to the market. He will get a set amount of money every month for the rest of his life."

Immediate annuities are sold by insurance companies, mutual fund distributors and other financial services firms. Like other types of annuities, they're a hybrid of an insurance contract and an investment product.

They provide regularly scheduled payments for a specified period. For instance, state lotteries often purchase them to pay off big winners. Retirees who need a reliable source of income can deposit a lump sum in a fixed-rate immediate annuity and receive a regular check for life.

For example, a husband and wife, both 65, want to receive a monthly check throughout both their lives. They could deposit \$100,000 in a fixed-rate immediate annuity with a joint-survivor option and get a \$650 monthly payment, guaranteed for life, said Farrell Dolan, senior vice president of marketing for Fidelity Investments' life insurance division in Boston.

It's important to note that, unlike a deferred annuity, immediate annuities are not intended to help people save for retirement. In fact, immediate annuities generally aren't even purchased until the buyer reaches retirement, and purchasers often use savings from a 401(k) plan, an individual retirement account or a deferred annuity to buy the immediate annuity.

What an immediate annuity does is provide reliable income--an important consideration when interest rates are plunging and retirees are seeing monthly income checks from money market funds and other fixed-income investments shrink. For instance, the average yield on tax-free money market funds has fallen to 1.87%, according to IMoneyNet.com, the lowest level in seven years.

A Matter of Security, Not Maximum Return. What are the disadvantages of an immediate annuity?

For one thing, the guaranteed returns are modest--usually 3% to 6% a year. Savvy investors often can earn more investing on their own in a variety of fixed-income investments such as bonds or certificates of deposit, albeit with considerably more risk.

"Rarely can you make the case for the immediate annuity on the basis of getting more income from it based on a normal life expectancy," said Steve Norwitz, a spokesman for T. Rowe Price Associates Inc. "You do it for the security."

Then, too, lifetime payments are a double-edged sword. Those who live beyond the average life expectancy will get more out of the annuity than they paid in. But if the owner of an immediate annuity dies earlier than expected, heirs don't get any residual value from the account.

In the example used above, if both spouses died at age 70--five years after they bought the \$100,000 immediate annuity--they would have received only \$39,000 in payments and the annuity provider would pocket the rest.

With joint-survivor annuities, payments continue as long as one spouse is alive. But the payments stop at the death of the surviving spouse, whether it follows 30 years of payments or three.

Another problem is that inflation gradually will erode the purchasing power of fixed monthly payments. The industry has introduced variable-rate immediate annuities in which the monthly payment rises or falls based on the market performance of the investment packaged within the annuity. But that takes away part of the main selling point--the guarantee of a fixed amount every month for life.

T. Rowe Price offers a hybrid variable-rate immediate annuity guaranteed never to pay less than 80% of the original monthly payment. The downside: The monthly payments generally start much smaller than would be the case if the same amount of money was used to purchase a regular fixed-rate immediate annuity.

"In a good market, you are likely to get rising payments each year," said John McGuigan, assistant vice president of insurance products at T. Rowe Price in Baltimore. "In a bad market, the worst you can do is hit the floor at 80% of your first-year payments."

In the example above, if the hypothetical couple bought a variable-rate immediate annuity, their monthly payment would start at \$361.49. Based on actual returns during a bull market, the monthly payment would increase to about \$419 in the second year. It would rise gradually thereafter--assuming the stock market continued to rise--hitting \$793 a month in the fifth year. In a bear market, however, the payment could fall as low

as \$289 a month.

#### A Solution for Those Without Pensions

Even with their drawbacks, immediate annuities can offer definite rewards to certain investors, Kessel said. Investors get peace of mind knowing a check for a certain amount will arrive every month, regardless of what happens to stock prices or the yield on fixed-income investments.

Those who don't have regular pensions should consider buying an immediate annuity with at least a portion of their savings when they reach retirement age, Kessel said. That would provide secure monthly income while other assets could provide inflation protection and the ability to leave money to heirs, he said.

"Whether [immediate annuities] make sense is a function of your other fixed sources of income," Kessel said. "I have clients whose pensions and Social Security provide more than enough to pay their monthly expenses. They don't need an annuity.

"But if you don't have those regular sources of income, this is a nice longevity protector."