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Annuities for retirement

Annuities are designed to help you save for retirement and efficiently turn those savings into income when needed. An annuity is a contract or agreement in which you make payments to an insurance company, which in turn agrees to pay you an income stream or a lump sum amount in the future. Annuities offer a range of features that can be selected based on your individual needs and preferences, giving you flexibility in managing your retirement savings.

How can annuities play a role in your retirement portfolio?

Annuities can help you pursue several retirement goals, including generating lifetime income as well as growing and protecting retirement assets. Annuities can be a valuable tool to help you manage certain retirement risks, including:

- **Longevity risk:** The risk of outliving your assets.
- **Sequence of returns risk:** The risk that market losses early in retirement will deplete your portfolio and impact your ability to generate future income.
- **Withdrawal risk:** The risk of spending too quickly in retirement and running out of money.

Generating lifetime income

You can structure annuities to provide you with guaranteed income in retirement for as long as you live. This can add an element of predictability to your portfolio and help you better weather a variety of market conditions over a retirement that may last 30 years or more. Combined with other predictable income streams, like Social Security and pension income, an annuity can help give you the confidence that you will be able to meet your essential day-to-day expenses throughout your retirement.

Annuities can also provide married couples with an income stream that will continue after one spouse has passed away.

Protecting retirement assets

Some annuities also offer protection from market volatility by guaranteeing all or part of your original investment while still participating in market gains.

Tax-deferred savings for retirement

Earnings from investments held in an annuity grow on a tax-deferred basis, meaning you are taxed only when you make withdrawals or receive income. This can help reduce the impact of taxes on your portfolio while you are saving and put more of your money to work.

If you have maximized your contributions to retirement plans such as IRAs or 401(k)s, annuities may provide an additional way to increase tax-deferred savings for retirement.

Because IRAs and other retirement plans already offer tax-deferred savings, you should purchase an annuity in such a plan only if you want other benefits an annuity offers, such as income guarantees or death benefit guarantees.

The guarantees under an annuity contract are backed by the issuing insurance company.

What types of annuities are available?

There are different types of annuities, each offering a different approach to investing along with various liquidity and income options.

Fixed rate annuities: Offer a pre-established, guaranteed rate of return for a specified period. They offer a variety of timeframes, so you can select the guarantee period that is right for you and at the end of each period, you can withdraw your savings or elect a new guarantee period at the current rates being offered. A fixed annuity may be appropriate if you are seeking protection of retirement assets through guaranteed returns.

Variable annuities: Enable you to participate in the markets by offering a wide range of professionally managed investment options that can be aligned with your risk tolerance and time horizon. You can also change your investment options to rebalance or change your asset allocation strategy while continuing to defer taxes on any growth within the annuity. Variable annuities can offer you more growth potential than fixed rate annuities, but the value of your annuity is subject to market risk and will fluctuate based on the performance of the investment options chosen.

For an additional cost, you can add optional lifetime income benefits for a guaranteed minimum level of income regardless of how well your annuity performs, even if the value of your annuity falls to zero. The level of income also has the potential to increase over time based on investment performance. You can also elect death benefit options to protect assets for beneficiaries.

A variable annuity may be appropriate if you are seeking (1) lifetime income with potential for the income to grow through professionally managed investment options, (2) death benefit protection for beneficiaries or (3) tax-deferred growth potential.

Indexed annuities: While indexed annuities are not a direct investment in the stock market, they offer investment growth through returns tied to the performance of market indices, such as the S&P 500®, over a variety of time horizons.

- **Fixed indexed annuities** provide 100% principal protection from the insurance company. To offset this protection, gains tied to the annuity are capped, so growth may be less than the actual market gains achieved by the index. Similar to variable annuities, fixed indexed annuities may also offer optional lifetime income benefits for retirement income.

  A fixed indexed annuity may be appropriate if you are seeking (1) growth potential with full protection of retirement assets or (2) lifetime income.

- **Variable indexed annuities** provide limited downside protection primarily through the use of "buffers." Your principal is only at risk on any market losses during an index period that exceed the buffer, which is typically a loss of 10 to 30%. However, your upside growth opportunity is generally higher than the cap rates offered by fixed indexed annuities. A variable indexed annuity may be appropriate if you are seeking growth potential with partial protection of retirement assets.

Income annuities: Offer an income stream for life that will start on a future date chosen by you at purchase. These products are designed for income purposes only. Unlike the other types of annuities described previously, there is no savings component or liquidity with income annuities. Once purchased, you give up access to your principal in exchange for the income stream guaranteed by the insurance company. As a result, income annuities offer you the greatest amount of income per dollar invested when compared to other types of annuities. An income annuity may be appropriate if you are seeking maximum income and do not need to access your funds in the future.

Type of annuity	May be appropriate if you are seeking	What are the costs
Fixed annuity	protection of retirement assets through guaranteed returns	Fixed annuities do not have separate fees. The insurance company includes their costs when establishing their interest rates.
Variable annuity	lifetime income with potential for the income to grow through professionally managed investment options, death benefit protection for beneficiaries or tax-deferred growth potential	Variable annuities do have separate fees, which will vary depending on the terms of the contract, investment options and optional features you select.
Fixed indexed annuity	growth potential with full protection of retirement assets or lifetime income	Fixed indexed annuities do not have separate fees unless optional features are elected. The insurance company includes their costs when establishing their cap rates. Additional fees may apply if optional guarantees are selected.
Variable indexed annuity	growth potential with partial protection of retirement assets	The insurance company typically includes their costs when establishing their cap rates. However, some products may have distinct fees which result in higher cap rates.
Income annuity	maximum income and do not need to access your funds in the future	Income annuities do not have separate fees. The insurance company includes their costs when establishing their interest and income rates.

Things to understand before you invest

What are the costs?

Annuities typically have higher fees than other traditional investments because of the additional guarantees and protection they provide. These higher fees affect the annuity's performance over time. Variable annuity fees will vary depending on the investment options and optional features you select. For fixed, indexed and income annuities, you typically will not see specific fees because the insurance company includes their costs when calculating their interest and income rates.

Charges and fees may also apply to early withdrawals from an annuity, which can also affect your investment performance. The exact terms for all charges will vary by product and are explained in the prospectus, if available, or other product documents provided by the insurance company.

What if I need access to my funds?

There may be a surrender charge, or fee for accessing your money early. However, most annuities allow you to withdraw up to 10% of the annuity value without penalty (see potential tax implications below). Some fixed annuities will also make a market value adjustment, which may be either positive or negative and is typically based on the relationship of the market interest rates at the time of withdrawal and the interest rate guaranteed in the annuity. Annuities are long-term investments and you should plan to set aside other funds to help pay unforeseen expenses.

How are annuity earnings taxed?

Annuity earnings accumulate on a tax-deferred basis. Withdrawals of earnings are subject to ordinary income tax rates and a 10% additional federal tax may apply to withdrawals before you reach age 59½. You should consult with a tax advisor before making tax related investment decisions.

Concentration risk

Annuities should be a complement to a broader retirement income generation strategy — not a replacement for it. Merrill generally recommends a diversified portfolio to meet your investment objectives and will recommend the investment of account assets in a diversified manner across multiple asset classes, sectors, or industries in order to reduce the additional investment risk frequently associated with concentrated investments. Having a high percentage of your liquid net worth in annuity contracts may reduce your ability to meet unforeseen financial needs. You should discuss with your advisor how much to invest in an annuity based on your individual situation.

Time horizons

Younger clients should consider the cumulative impact of fees over a long time horizon. Older clients should carefully evaluate the annuity benefit period against their life expectancy, as well as take into account other legacy and wealth transfer goals.

Investment loss

The level of growth potential and market risk varies among the different types of annuities. Variable annuities offer more growth potential, but also have more market risk. Their value will fluctuate based on the performance of the investment options chosen. Fixed annuities offer less growth potential, but they also protect you from market risk and help preserve your retirement savings. Be sure to discuss these trade-offs and your risk tolerance with your financial advisor when considering an annuity for your retirement portfolio.

Other ways to generate retirement income

Multi-asset portfolio with systematic withdrawal rate: You initially draw down a percentage of a portfolio's assets to provide income. In each subsequent year, the withdrawal amount is increased in line with inflation and the portfolio rebalances the remaining assets to a target allocation. This helps combat inflation risk and provides a steady stream of income. However, your investments are vulnerable to market declines. Unfavorable market conditions may force you to reduce your withdrawal amount.

Bond ladder: The portfolio is invested equally in bonds maturing periodically, usually every year or every other year. As the bonds mature, money is reinvested on the long-end to maintain the maturity structure. It's a structure that can potentially create a steady income stream, while helping to reduce the risks associated with long-term interest rate exposure. A bond ladder can help protect against inflation while providing a steady stream of income, but your investments are subject to market fluctuations and do not have downside protection.

Brokered Certificates of Deposit: These are FDIC-insured interest-bearing deposits issued for a specified length of time by a bank or savings association and purchased through a brokerage account. Your principal is not subject to market risk. They can potentially create a steady income stream, but are subject to interest rate risk and income can vary over time.

Annuities available through Merrill

At Merrill, you can choose how you would like to invest based on your investment style, advice preferences and which type of annuity best fits your needs.

Selecting the appropriate annuity depends on your personal situation, including other sources of retirement income, your expense expectations and priorities, your risk tolerance and time horizon. Your advisor can help you better understand and evaluate your options and choose an annuity that is most appropriate for your situation.

All annuity products offered through your advisor have undergone a strict due diligence process. Moreover, before a product is purchased, you can be confident that it has undergone an additional screening to ensure it is in your best interest given your needs and personal situation.

Talk to a Merrill Lynch Wealth Management Advisor today

Whether you are still saving for retirement or shifting your focus from building wealth to generating retirement income, it's important to think about how much your chosen retirement lifestyle will cost and ultimately how you will fund that lifestyle.

At Merrill, we believe it all starts with a disciplined retirement income plan built around your goals and life priorities. To learn more about how we can help you pursue your retirement goals, contact your Merrill Lynch Wealth Management Advisor or visit ml.com to find an advisor near you.

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