

Riders to Add to Your Annuity

In the annuity world, a rider is an optional enhancement to the benefits, protections and guarantees in your annuity contract.

They can help you customize your annuity to meet your individual needs or solve financial problems involving retirement income.

Here are some of the most popular riders for your annuity:

Guaranteed Lifetime Withdrawal Benefits (GLWB) – This rider, available on variable and fixed-index annuities, guarantees you the right to withdraw a certain percentage of the investment amount each year for as long as you live – even if the annuity contract value goes to zero.

If you select the joint and survivor payout option, the GLWB rider enables that income stream to continue if either you or your spouse/partner is alive. The annual guaranteed payout will be lower with a joint and survivor option than it is for a single individual.

If you are considering a variable annuity, but you want the guarantee of a lifetime income you cannot outlive, this may help you achieve that.

The minimum guaranteed withdrawal gets bigger with age. But something between 3% and 5% of your initial premium contribution/investment amount is common.

There are other similar-sounding riders, including the Guaranteed Minimum Withdrawal Benefit and the Guaranteed Minimum Income Benefit. However, the GLWB rider is usually preferable for most people.

Long-term care protection – This benefit allows you the right to withdraw money from your annuity to pay long-term care (LTC) costs without paying surrender charges or other penalties.

This is important in case you become incapacitated and need nursing home, assisted living, hospice or other forms of long-term care.

With this rider, your annuity could serve as a source of emergency funds you can use if you don't qualify for LTC insurance, or during your LTC policy's exclusionary period.

Enhanced death benefits – This rider increases or guarantees a minimum death benefit for beneficiaries' heirs if the annuitant dies.

If you need reliable retirement income but you've been hesitant to buy an annuity because you want to leave more money to your heirs, an annuity with an enhanced death benefit rider may be worth a look.

You don't need to take a medical exam to qualify. If you've been turned down for life insurance, you can still get an enhanced death benefit rider on an annuity.

Remember: most carriers require a waiting period before the benefit becomes effective.

Inflation protection ВЂ” Inflation can ravage the purchasing power of a fixed retirement income over time.

A cost-of-living rider guarantees that the income stream from your annuity will increase along with inflation. You will have to start with a lower income stream in the early years of retirement.

But with this rider, your income stream will increase automatically, according to the terms in the contract.

A final word

Annuity riders aren't free: There is usually a cost in the form of a lower initial retirement income. But for many individuals, the additional protection and risk reduction is more than worth the cost.

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Withdrawals and death benefits are subject to income tax. If withdrawals and other distributions are received prior to age 59 1/2, a 10% penalty may apply. Annuities typically carry surrender charges for several years that may be assessed against withdrawals. Certain annuity product features, offered by some Annuity companies, such as stepped-up death benefit, a bonus credit and a guaranteed minimum income benefit, carry added fees. If you are investing in an Annuity through a tax-advantaged plan such as an IRA, you will get no added tax advantage. Under these circumstances you should only consider buying an Annuity if it makes sense because of the Annuities other features, such as lifetime income payments and death benefit protection. All guarantees of an Annuity are backed by the claims paying ability of the issuing insurer.

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