BUILDING BLOCKS FOR RETIREMENT

Distribution Planning

Annuities-Retirement Security For Life

There was a time not long ago when many retirees didn't give a second thought to taking their pension benefit in a lump sum payment and investing it on their own. It seemed a surefire move, given stock market gains over the last decade. But in the last few years the performance of the stock market has exposed their risks—and the advantages of guaranteed annuity payments. During the biggest stock market downturn in a generation, the pension annuity has become the unexpected winner.

Some pension plans offer you the opportunity of taking your benefit as a lump sum as opposed to an annuity. While there is often a natural inclination to take the cash, for many people, it's not the best decision. Here's why: it's tough to predict investment returns, not to mention how long you're going to live, which means there is a chance you could outlive your money.

Choosing how to have your retirement benefit paid is one of the most important financial decisions you'll have to make. What's the best option for you? It depends on your sources of retirement income, how they are invested, your health, and the health of your beneficiary. Whatever your aspirations for retirement, deciding on the best option for you begins with becoming more familiar with the options available through your pension plan. Your pension benefits can help make your dreams of a financially secure future a reality.

How Does An Annuity Work?

Annuities provide a way to maximize your pension benefit to provide comfort and security throughout retirement. An annuity provides monthly payments based on your accumulated retirement benefit. These payments continue for as long as you live and, if you choose, for as long as your beneficiary lives. Annuities help you take full advantage of your pension benefit by making certain that you don't outlive your retirement income.

Annuities may be an ideal choice for retirement income because they relieve you of the worry of spending too much or too little. Annuities let you make long-range plans by providing basic financial security—so you can use personal savings and other income sources for whatever you like, without worrying about using all your retirement income.

Can Annuities Pay For A Spouse Or Other Beneficiary?

Yes. Pentegra offers a wide range of Joint & Survivor annuity options that provide lifetime payments to you and your beneficiary. For example, you can continue the full monthly payment for the life of your beneficiary if he or she outlives you, or you can choose to leave a reduced payment. Naturally, the initial monthly income will depend both on how much you choose to leave your beneficiary as well as his or her age. Some people prefer to receive the higher income paid by a single life annuity, using other resources to provide benefits to a beneficiary.

Can Annuities Provide A Guaranteed Minimum Number Of Payments?

Yes. When you begin receiving your benefit, you can elect to receive that benefit for a guaranteed period. This option assures that if you die within the period elected, the retirement income will continue to your beneficiary for the remainder of that period. Suppose, for example, you choose a life annuity with a ten-year certain option. You could name your child as secondary beneficiary. If you and your spouse both die after receiving benefits for two years, your child will continue to receive the same annuity payments for the remaining eight years.

How Much Income Will An Annuity Pay?

Different types of annuities pay different levels of income because they take different factors into consideration. How much an annuity pays depends on:

- The size of your pension benefit
- Your age at retirement and your life expectancy
- Whether you choose a payment option that includes another person (and the age of that person)
- The time period over which your benefit will be paid

How Do Different Types Of Annuities Compare?

Single Life (Straight Life) Annuity

A straight life annuity provides retirement income for the life of the employee. It is essentially a series of monthly payments that continue for as long as you live. Although no one knows how many years of payments will be needed, your retirement benefit is divided into payments that are based on the average life span of someone your age. The advantage to you, however, is that this monthly benefit will be paid for your lifetime, no matter how long you live. When you elect a straight life annuity, payments end upon your death, with no remaining payments to your beneficiary. While this type of annuity provides the highest level of monthly benefit for the life of the employee, it offers no death benefit protection. In exchange for a higher level of retirement income, you give up a continuing benefit for your beneficiary.

Life Annuity With Period Certain

A life annuity may also be structured to provide retirement income for life with a "period certain", or a guaranteed benefit for a certain period of time. For example, a life annuity with 10 years certain means that the benefit would be paid over the life of the employee, with a minimum of ten annual payments guaranteed. If the employee were to die after two years, his or her beneficiary would receive the remainder of the payments, or the equivalent of eight years worth of payment, because the annuity guarantees that the payments will be made for ten years. The "guaranteed" portion of the benefit under this option is also referred to as a death benefit, or death benefit protection. "Period certain" can range anywhere from five to twenty or more years, depending on your age and life expectancy.

Joint & Survivor Annuity

Under a joint and survivor annuity, payments are made over a lifetime of the employee and his or her beneficiary. A typical joint and survivor annuity provides the employee with a monthly retirement income, with a portion of that income continuing to his or her beneficiary upon his or her death. A 100% joint and survivor annuity will provide 100% of the retiree's benefit to the beneficiary, while a 50% joint and survivor annuity will provide 50% of the retiree's benefit to the beneficiary. Joint and survivor annuities may also be structured to guarantee a minimum number of payments (e.g., 10 to 20 years). Because the benefit is guaranteed for the life of the employee and his or her spouse, the initial amount of benefit will be lower under this option when compared to a straight life annuity because of the death benefit protection provided to the beneficiary.

Customized Options

You can also create a customized benefit payment arrangement based on your individual needs and circumstances. Some of these include a 75% joint and survivor annuity, a life annuity with a 15-year period certain, or an annuity with a fixed death benefit. In addition, if you have a Pentegra 401(k)/Savings account, you can combine these assets with your benefit under the pension program to purchase a larger annuity. For more information on these options, contact a Pentegra Retirement Specialist at 1-800-872-3473, extension 437.

Benefit Payable	10-Year Certain	12 Times Initial Death Benefit	Straight Life Annuity
Normal Form of Payment	$10,000	$10,000	$10,000
Straight Life Annuity	$10,500	$11,000	$10,000
50% Joint & Survivor Annuity*	$9,800	$10,200	$9,300
100% Joint & Survivor	$9,000	$9,500	$8,600
Annuity with 10-Year Certain* Initial Death Benefit	$72,000	$120,000	None

Assumes retiree and contingent annuitant are age 65

Comparing Annuities to Lump Sum Distributions

When compared to a lump sum cash distribution, annuities offer key tax advantages. The tax code specifically protects money in retirement plans, deferring taxes until you receive the income. When you choose an annuity, each payment is generally subject to income tax. While your tax is spread out over the payment period, you pay at ordinary income tax rates. Lump sums are taxable immediately unless rolled over into a tax-deferred vehicle such as an IRA. Lump sum cash settlements also leave you open to greater investment risk. You will have to decide where to invest your retirement benefit. With investing, there is always some risk involved. Stock and bond prices are affected by market volatility—factors such as changing world events, economic cycles, and changes in interest rates. If you take a more conservative approach, for example, investing in money market instruments, you run the equally important threat of inflation risk, because over time, these types of investments may not produce enough of a return to out-pace the effects of inflation.

How Do I Know Which Option Is Best?

Consider your health, the health of your beneficiary, and current income needs. If, for example, you are uninsurable, but your spouse is healthy, a straight life annuity probably doesn't make much sense. A 100% joint and survivor annuity might be more appropriate. On the other hand, if you retire early, you might want to take a straight life annuity to maximize your retirement income. You should also consider any other sources of retirement income and how they are invested (i.e., personal savings, 401(k) plan, Social Security).

The "best" option for any individual is a very personal decision, and one that should be based on your total financial situation. We always recommend that you consult with a professional advisor, such as an accountant, attorney, or investment counselor, prior to electing a benefit payment option because once payments begin, your election is irrevocable.

PENTEGRA

701 Westchester Ave, Suite 320E, White Plains, New York, 10604