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Defer Taxes with Nonqualified Annuities

Too little attention paid *to* taxes may mean too much money paid *in* taxes

Tamping down taxes. Better managing brackets. Does discussion of opportunities for such prompt consideration of where to position potential savings? And how well do various options also address risks related to retirement – ones such as longevity, market volatility, inflation and long-term care?

Annuities of all sorts provide protected lifetime income. Their benefits can help mitigate retirement risks. And as for their insured income stream? It can't be outlived … regardless of market conditions.

Tax Diversification May Mean More Money for Retirement

Consider the types of instruments and accounts in which your client presently holds funds.

- Is earned income being currently taxed at ordinary rates as it compounds?
- Are taxes being paid now on interest accumulating on money intended for needs later?

Work to understand a client's reasons behind choosing (if applicable) low-risk, low-return taxable investments. Then help them consider how fixed or fixed indexed annuities may provide ample protection against market volatility while offering higher, **tax-deferred** returns.

For Example: Lisa Looks to Lower Her Taxes

Meet Lisa Jones, your new client. She is single and works as an administrative specialist. Her annual salary is $35,000. Financially conservative by nature, she is wary of the stock market. She contributes to a traditional IRA. She did inherit $300,000 from her mother two years ago, but has spent very little and has the balance sitting in various fixed accounts at a local institution. Having just turned 51, she does sometimes worry about having enough income in retirement … but hasn't yet done any planning.

If Lisa invests $190,000 in a tax-deferred annuity and reduces her taxable interest from $5,600 to $2,000, she potentially saves over $1,100 at tax time. Some of the savings represents the reduced amount of currently taxed interest she earns. The balance comes from her lower adjusted gross income (AGI), which puts her under the threshold for a 10% retirement savings credit.

One Move, Multiple Benefits

	Without Annuity	With Annuity
Wages	$35,000	$35,000
Taxable Interest	$5,600	$2,000
Gross Income	$40,600	$37,000
IRA Deduction	($7,000)	($7,000)
AGI	**$33,600**	**$30,000**
Standard Deduction	($12,200)	($12,200)
Taxable Income	$21,400	$17,800
Taxes	$2,374	$1,942
Retirement Savings Credit	$0	($700)
Taxes	$2,374	$1,242
Savings		**$1,132**

Issuers: Integrity Life Insurance Company | National Integrity Life Insurance Company | Western-Southern Life Assurance Company

Know More: Tax Implications and Annuity Advantages

While advisors need not be tax experts (and may not offer tax advice), they should understand these points:

- Lower AGI may qualify clients for certain tax breaks
- Higher AGI can phase clients out of certain tax breaks
- For retirees, higher AGI can result in increased taxes on Social Security benefits and potentially higher Medicare premiums

Tax treatment aside, many reasons merit consideration of a nonqualified annuity. They include:

- Annuities can offer a competitive return versus other instruments of a similar risk profile
- Fixed annuities may offer a guaranteed interest rate
- Indexed annuities may offer an opportunity to participate in the market with no downside risk
- Annuities may offer creditor protection (depending upon state law)
- Annuities can also provide a protected retirement income stream that cannot be outlived

It's important to note that annuities are backed by the financial strength of the issuing insurance company, not the federal government.

Considering tax efficiency may help clients avoid higher tax brackets and reduce unintended taxes. For more information, contact your regional representative.

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