

Retirement income you can't outlive? It's not too good to be true.

The last thing anybody wants is to find out he or she could run out of money in retirement ... after it's too late to do anything about it. So ensuring an income for life is an important goal when planning for the future. And an annuity can provide a lifetime income stream. There are many types of annuities and an array of payout options. But if you choose one of several lifetime annuity payout options, you will receive an income stream for life—no matter how long you live.

On its most basic level, an annuity is a contract with an insurance company — you pay a premium or premiums to an insurance company in order to receive income payments at regular intervals in the future. Annuities are designed to be long-term contracts and are not appropriate for short-term investment goals. Annuities can be funded with pretax or post-tax dollars, and the federal government allows annuities to earn interest tax deferred. So, an annuity might help regulate when you pay income tax on your income. Of course, income tax must be paid at withdrawal, and withdrawals before age 59½ are restricted and might incur a 10% federal income tax penalty.

How would you like your payout?

Annuities offer a number of ways for you or another designated payee to receive income. For example, consider these lifetime retirement payout options. The “Life only” option generally offers the highest payout, as payments by the insurance company will cease upon your death. That's why some people choose a lifetime stream with a “period certain” of 10 or 20 years. This option makes payments as long as you live, but pays your beneficiary through the designated period if you should die sooner. The “Joint and Survivor” makes payments as long as either you or your co-annuitant (a person who is entitled to receive benefits from an annuity) or beneficiary lives. Before you make a choice, think carefully about your future income needs and which payment option best suits you. Generally, once payments begin, the payout cannot be changed.

Consider making an annuity a conservative part of your financial strategy

For near-retirees, one possibility is to create a guaranteed income stream to help cover essential expenses such as housing, insurance payments, and utilities. Of course, guarantees are backed by the claims-paying ability of the offering insurance company. And you should bear in mind that annuity contracts may include limitations, exclusions, expense charges and, possibly, early withdrawal (surrender) charges. What do these charges cover? In part, they cover the guarantees that annuities offer, in addition to the insurance company's cost of doing business.