A “Recipe” for Retirement Savings

Do you ever dream of the day when you can retire and pursue your interests, travel, or simply relax from the pressure of the daily grind? In the past, retirement planning was a simpler process. Many retirees could count on employer-provided pension plans coupled with Social Security to furnish an adequate post-retirement income. Unfortunately, these two sources may no longer provide sufficient funds for most people to maintain their pre-retirement standard of living.

What’s the best way to save for retirement? When cooking up a savings plan, one recipe combines annuities and mutual funds with life insurance. How you mix these ingredients may vary, depending on: 1) the number of years remaining until retirement; 2) how much you expect to receive from your employer, the government, and other sources; 3) your current savings; and 4) your individual risk/reward profile. It’s important to keep in mind that what works for a neighbor or co-worker may not be right for you.

**Annuities**

Annuities offer the benefits of favorable tax treatment without the contribution limits of other types of retirement plans, such as Individual Retirement Accounts (IRAs) and 401(k)s. Although contributions to an annuity are made with after-tax dollars, the earnings grow tax deferred until you withdraw the funds. This means you accumulate more funds in an annuity than you would in a comparable taxable investment. One drawback, however, is that you may be subject to a 10% penalty if you withdraw the funds before age 59½.

Generally, annuities come in two forms—**fixed** and **variable.** A fixed annuity usually guarantees a given return for a set period, usually one, three, five, or more years. With a variable annuity, the risk and return varies. Underlying investments in variable annuities are tied to market performance and therefore may rise and fall with market fluctuations. Upon redemption, you may potentially receive less than you originally invested. Although the upside potential may be greater, the return is not guaranteed in a variable annuity.

A variety of payout options allows you to choose the one that best matches your income needs. For instance, if you, like many retirees, are concerned about outliving your savings, a life annuity is an option worth considering. It provides guaranteed income for your life, or the joint lives of both you and your spouse.

**Mutual Funds**

Mutual funds offer the advantage of a professionally managed, diversified portfolio. Fund choices range from conservative to aggressive. A conservative choice, such as a money market fund, offers maximum liquidity and safety of principal. Bond funds—both taxable and tax-exempt—provide income with low risk to principal. Stock funds offer growth potential, although with a higher risk. One possible disadvantage with mutual funds is that, since a specific fund’s principal and return fluctuate according to market conditions, your shares may ultimately be worth more or less than you originally paid for them.

**Life Insurance**

Life insurance supports the other elements in a retirement savings plan. If an untimely death should prevent you from completing your savings program, the proceeds from a life insurance policy can provide your family with the security of a continuing source of income. If you purchase a whole life policy, the cash value component grows tax deferred. During your lifetime, you can borrow against the accumulated cash value, which is generally free of current income tax.

**Start Soon, Save More**

It’s never too soon to begin a retirement savings program. The longer your planning horizon, the more choices you’ll have in selecting the appropriate investments for your needs, and the more time you’ll have for your money to grow.

Another advantage of the annuities + mutual funds + life insurance = successful “recipe,” is that it requires only one-stop shopping. A financial professional can help you put these ingredients together to develop and manage your long-term financial security.

Important Disclosures

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

Fixed and Variable annuities are suitable for long-term investing, such as retirement investing. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. Guarantees are based on the claims paying ability of the issuing company. Withdrawals made prior to age 59 ½ are subject to a 10% IRS penalty tax and surrender charges may apply. Variable annuities are subject to market risk and may lose value.

Investing in mutual funds involves risk, including possible loss of principal. The funds value will fluctuate with market conditions and may not achieve its investment objective. Upon redemption, the value of fund shares may be worth more or less than their original cost.

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