



Why variable annuities are the key to a secure and prosperous retirement

Description

Variable annuities offer a unique investment opportunity to significantly enhance your retirement savings. These financial instruments provide a flexible and potentially high-yielding solution by combining the benefits of both stocks and bonds.

In this article, we will explore the key advantages of variable annuities and explain how they can help you achieve a prosperous retirement.

Flexibility in investment options

Variable annuities offer a flexible and adaptable approach to retirement savings. They allow you to choose from various investment options that suit your needs and risk-bearing capacity. When evaluating [variable annuity pros and cons](#), flexibility often stands out as a major benefit. With a variable annuity, investors have access to a broad selection of sub-accounts akin to mutual funds.

This versatility allows them to customize their investments to their comfort level with risk and their retirement aspirations.

This adaptability empowers investors to refine their approach as the market shifts or their life evolves. However, with such flexibility comes complexity, and the costs associated with managing these sub-accounts can reduce overall returns. Understanding the balance between opportunity and cost is crucial for maximizing the benefits of a variable annuity.

AnnuityAdvantage reports that variable annuities, like other deferred annuities, benefit from tax-deferred growth until withdrawal. It means that the growth of your investment will be tax-sheltered. However, the funds in your variable annuity are subject to market risk and volatility, and there are no guarantees against losses.

This flexibility lets investors customize their portfolios to align with specific goals and risk tolerance, making variable annuities versatile. However, it's crucial to consider the potential

benefits and risks, including market volatility, when making investment decisions within a variable annuity.

How do I assess my risk tolerance when selecting investment options in a variable annuity?

To determine your risk tolerance when investing in a variable annuity, consider factors like your age, time horizon, and financial goals. Knowing your comfort level with financial threats will guide you in choosing the right investments for your variable annuity. For many young people, understanding components like compound interest, risk diversification, and products such as high-yield savings accounts is crucial.

Potential for higher returns

With variable annuities, your investment can rise and fall in line with stock market fluctuations. Unlike fixed annuities with a set rate of return, variable annuities adjust based on the performance of chosen sub-accounts. When the market performs well, your annuity's value can grow significantly, helping to hedge against inflation and accumulate wealth for retirement.

The S&P 500 index, a benchmark for the US stock market, has historically produced an average [annual return of around 10%](#), as per Forbes. This figure can serve as a reference for the growth potential of market-tied sub-accounts in a variable annuity. However, it's important to note that past performance does not guarantee future results.

The potential for higher returns with variable annuities is offset by the increased risk of market volatility. This means the value of your investment may fluctuate more significantly. However, for those with a long-term horizon, the growth potential of variable annuities makes them an appealing option for boosting retirement income.

Can I lose my initial investment in a variable annuity due to poor market performance?

Yes, poor market performance in a variable annuity can lower the value of sub-accounts, potentially resulting in a loss. Many variable annuities offer death benefit guarantees that protect your principal investment. This safeguards your original investment, protecting your beneficiaries from potential losses.

Tax-deferred growth

One of the key benefits of variable annuities is tax-deferred growth. In other words, you won't pay taxes on the profits or interest your annuity earns until you start taking money out.

Deferring taxes allows your investments to compound more effectively over time, as you avoid losing returns to annual taxation. Individuals facing higher tax rates or seeking to optimize their retirement savings will find this tax advantage particularly helpful.

However, it's important to note that once you begin withdrawing funds, they will be taxed as

ordinary income. Also, withdrawing from a variable annuity before retirement age (before the age of 59½) can attract a penalty.

According to the IRS, withdrawals from an IRA or retirement plan before age 59½ are classified as “early” or “premature” distributions. Individuals are generally subject to an additional 10% early withdrawal tax on these amounts. However, exceptions to this penalty may apply depending on specific circumstances.

Is there a penalty for early withdrawal from a variable annuity?

Yes, there are typically penalties for withdrawing from a variable annuity before reaching retirement age. These penalties can vary depending on the specific annuity contract and your age at the time of withdrawal. In general, early withdrawals may result in surrender charges or loss of certain benefits, such as death benefit guarantees.

Guaranteed income for life

A key feature of variable annuities is the option for guaranteed income for life, which offers financial security throughout retirement. This guarantees a consistent income for the rest of your life, even if the market experiences downturns. Such a feature ensures you can cover essential expenses and provides peace of mind that you won't outlive your savings.

To fortify your guaranteed income from a variable annuity, you may choose to add optional riders, but this typically involves an extra expense.

Protection against inflation

Investment News reported that inflation is increasingly affecting retirees both financially and mentally. The Schroders 2024 US Retirement Survey found that nearly [70% are concerned](#) about outliving their savings. Variable annuities offer protection against inflation by allowing your investment to grow over time based on market performance.

Unlike fixed annuities, which offer a set payment, variable annuities adjust with the market, potentially increasing income as living costs rise. This feature allows retirees to benefit from market gains, making them appealing to those worried about inflation eroding their purchasing power. Additionally, some variable annuities provide optional riders for inflation-adjusted payouts, helping income keep pace with rising prices.

A strategic path to a stable retirement

Variable annuities provide a dynamic solution for those seeking both growth and security in retirement. Despite risks and costs, variable annuities offer inflation protection and long-term financial stability, making them a valuable retirement planning tool. By assessing your risk tolerance and understanding the pros and cons, you can use variable annuities to ensure a secure retirement.

Category

1. Legal / Administrative

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