Social Security Disability and Medicaid Law Newsletter

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A FREE LEGAL UPDATE FOR ELDERS AND OTHERS WHO SEEK ASSET PROTECTION ♦ FEBRUARY 1, 2014 EDITION

DO ANNUITIES FIT IN A RETIREMENT PLAN?

Annuities are somewhat controversial because some come with high fees and they may not pay off as much as other investments. But some retirement specialists believe annuities have their place because they offer peace of mind: They act as insurance policies that protect retirees from outliving their income.

Annuities offer a measure of protection against market downturns and may provide a guaranteed investment return and grow tax-sheltered until you withdraw the money. They also usually have surrender charges if you withdraw your money from the account in the first six to eight years. Some annuity providers offer bonuses as an incentive to get you to transfer to their variable annuity product.

To be sure, the variable annuity landscape has been changing. In fact, there have been recent changes that insurance companies have made that affect existing policyholders.

Some financial professionals say they have seen more changes in the industry in the last year than in the previous five combined; many contract owners do not understand what they own or how these changes affect them.

It is all obviously quite complicated. So the question that needs to be asked is: Is an annuity a good investment in a retirement plan?

Q: Can an annuity be used to qualify for Medicaid?

A: Even though the spouse of a Medicaid applicant is limited in countable assets she can own, she can invest the excess in certain annuities to permit her husband to qualify for Medicaid for a nursing home.

Q: What are the different types of annuities that are available to investors?

A: There are immediate annuities, deferred annuities and deferred immediate annuities. Within deferred annuities, there are a number of categories including fixed, equity indexed and variable.

Q: What are the tax benefits to using annuities in a financial plan?

A: Investors sometimes receive tax deferrals, so if someone has inefficient assets like high-yield bonds or portfolios that have a lot of turnover, they can gain some tax advantage in the annuity, as well if they are changing allocations. If the investor is moving from emerging markets to U.S. stocks and they have had a significant gain, they don't pay taxes on that gain. As incurred, the investor only pays taxes when they are actually taking distributions from the annuity.

Q: What investment options do annuities offer?

A: The spectrum is enormous. It's almost as extensive as the mutual fund universe. There are exchange-traded-fund-based investments within variable annuities now. They are sector-specific funds, active managers, passive managers, so any type of pooled investment, broad-based category is pretty much available within the annuities, even some sector-specific investments.

Q: How does an investor know if they are buying an annuity that is right for them? (In other words, what should be the vetting process?)

A: This is complex. . The annuity piece is typically effective for risk transfer in a portfolio. It is usually a part of a multipronged approach to building a solution that is goal-oriented and it is typically there to satisfy the income need.

Annuities are an insurance-based product and it's nice that there's tax deferral. However, the majority of investors purchasing them are looking to provide some type of protection. Either protection for their beneficiaries in the form of a death benefit, or protection for themselves with some type of income guarantee.

Q: Should investors hold an annuity inside their individual retirement account?

A: Conventional wisdom would say no, but this is not necessarily the case with the advent of these hybrid products and very strong lifetime income guarantees.

For most investors the primary purpose of their IRA is to provide them a lifetime guaranteed income when they're done working. The supplemental riders that are available and have that as a primary objective dovetail very nicely within an IRA account. OPTION TO CONVERT ANNUITY TO PAY FOR LONG TERM NURSING CARE IS ONE EXAMPLE.

If someone needs to draw a lump sum, say $300,000, he would typically go to his nonqualified accounts because drawing a $300,000 lump from an IRA would be devastating from a tax perspective.

An IRA is not an efficient place to draw big chunks of principal. It's typically more suited for income. That's where annuities tend to be strongest. You're not getting incremental value for the tax deferral, but the primary objective is the income protection that you're getting from the annuity, whether you bought it inside an IRA or outside of the IRA. There's no difference in cost.

Only an insurance company can guarantee a lifetime income. Since an IRA is typically the largest pool of money that most people have and it is the one that is there to provide a lifetime guaranteed income, it's a very natural place to own the annuity even though it may seem counterintuitive.

News You Can Use

2014 FLORIDA MEDICAID LIMITS

Gross Monthly Income Limit for Medicaid Applicant:	**$2,163.00**
Personal Needs Allowance:	**$35.00**
Asset Limit (Individual):	**$2,000.00**
Asset Limit (Couple):	**$3,000.00**
Medicare Part B Premium:	**$104.90**
Community Spouse Resource Allowance**:**	**$117,240.00**
Mimimum Monthly Maintenance Income Allowance:	**$1,938.75**
Maximum Monthly Maintenance Income Allowance:	**$2,931.00**
Monthly Personal Needs Allowance:	**$35.00**
Home Equity Interest Max.:	**$543,000.00**