

Immediate Annuities Offer a Source of Lifetime Income

The good news is we're living longer. But the prospect of a longer life expectancy means we risk outliving our retirement savings. If the thought of receiving a steady stream of income that lasts for the rest of your life appeals to you, a single premium immediate annuity (SPIA) might be worth considering.

How does it work?

Unlike a deferred annuity, which is designed for long-term savings, a SPIA begins to make payments to you immediately. In exchange for a lump sum of money you pay to an insurance company, you'll receive an income that can last for the rest of your life. The amount of income you receive is based on a number of factors, including your age at the time payments begin, your gender, whether payments will be made to only you or jointly to you and another person, and whether payments will be made for a fixed period of time or for the rest of your life or joint lives.

You have options

Most immediate annuities include a number of payment options. The more common payment options are:

- *Life only.* Payments continue during your lifetime, but stop at your death.
- *Period certain.* Payments are made for a fixed period of time (e.g., 5, 10, 15, 20 years). If you die prior to the end of the chosen period, your beneficiary will continue to receive payments for the remainder of the fixed period.
- *Life with a period certain.* Payments are made for the rest of your life or a minimum period of time. If you die prior to the end of the minimum payment period, the beneficiary you name in the annuity will receive the payments for the remainder of the period certain, but no longer. If you outlive the period certain, payments will end at your death.
- *Joint and survivor.* Payments are based on the lives of two people, typically you and your spouse. When either of you dies, payments continue to be made to the survivor. This option can also be combined with a period certain option, in which case payments will continue until both of you have died or for the minimum period of time you select, whichever is longer.

- *Installment refund/cash refund.* If you die prior to receiving at least the return of your investment in the immediate annuity, your beneficiary will receive an amount equal to the difference between what you invested and what you received. Your beneficiary will receive this amount in either a lump sum (cash refund) or periodic payments (installment refund).

The amount of each SPIA payment you get can be affected by the payment option you select. For example, a 60-year-old man who invests \$100,000 in an immediate annuity may receive annual payments of \$7,260 for the life only option, \$6,696 for life with a period certain of 20 years, or \$7,920 for a fixed period of 20 years. (This example is for illustration purposes only and does not reflect actual insurance products or performance, nor is it intended to promote a specific company or product.)

Are there taxes to pay?

Generally, you pay income taxes on that portion of each payment that represents earnings or interest credited to the immediate annuity. The remaining portion of each payment is considered a return of your investment and is tax free.

Other factors to consider

While a SPIA can offer a measure of relief from retirement income concerns, as with most investments, there are other factors to consider. Generally, once you invest in a SPIA, your payments are "locked in" with little flexibility, although there may be some exceptions. Normally, you don't have access to the principal unless the annuity provides for it, so be sure the payment option you select will meet your income needs. Also, consider whether there are other investment choices available that may better suit your retirement income goals. Your financial professional may be able to present different options, including a SPIA, for you to consider when deciding how to best meet your retirement income needs.

Exceptions to the Early Distribution Penalty

Generally, taxable amounts you withdraw from an IRA, 403(b), or qualified retirement plan before age 59½ are subject to a federal 10% penalty tax (and possibly a state penalty tax, too) in addition to any federal (and possibly state) income tax due. SIMPLE



IRAs are subject to a 25% penalty for premature distributions made during the first two years of participation. Fortunately, Section 72(t) of the Internal Revenue Code lists several exceptions to this premature distribution penalty tax.

Exceptions applicable to all plans

A qualified transfer or rollover from one retirement plan to another generally isn't subject to the penalty tax. Also, distributions made to your beneficiary or your estate after your death aren't subject to the early withdrawal penalty. Other exceptions include:

- Distributions not exceeding the amount of your tax-deductible unreimbursed medical expenses.
- Distributions made because of a qualifying disability.
- Amounts levied by the IRS directly from your qualified retirement plan. This exception doesn't apply if you withdraw funds from a plan to pay the IRS.
- Qualified reservist distributions pursuant to the Pension Protection Act of 2006.

Exceptions applicable only to IRAs

The 10% penalty doesn't apply if the distribution is made for you, your spouse, or your child or grandchild to pay qualified postsecondary education expenses, such as tuition, and room and board. If you're a first-time homebuyer, you can take pre-59½ IRA withdrawals if they're used to pay the costs of acquiring, constructing, or reconstructing your principal residence up to a \$10,000 lifetime limit. You also can take penalty-free IRA distributions up to the cost of health insurance premiums you pay during a qualifying period of unemployment.

Exceptions for non-IRA retirement plans

Distributions made pursuant to a qualified domestic relations order (QDRO) are not subject to the penalty. Also, you can take penalty-free withdrawals from a qualified plan after separating from service with the employer maintaining the plan if your employment ends during or after the year you reach age 55. You may also be able to take qualifying distributions of dividends from your employer's employee stock option plan without penalty.

Substantially equal payments exception

An important exception that applies to all IRA and qualified retirement plans is the substantially equal periodic payments exception. To comply with this exception, you must withdraw funds from your retirement plan at least annually based on an IRS-approved distribution method. For qualified plans (but not IRAs), you also must have separated from service with the employer maintaining the plan.

There are three IRS-approved methods for calculating payments, but regardless of the method you choose, you generally can't change or alter the payments for five years or until you reach age 59½, whichever occurs later (although the IRS has held that owners can make a limited one-time switch between certain methods without incurring the penalty tax). Otherwise, if you modify the payments (e.g., by taking amounts smaller or larger than required distributions or none at all), you will be subject to the 10% premature distribution tax on the taxable portion of all pre-59½ distributions (unless another exception applies).

Retirement Plan and IRA Limits for 2009



An increasing number of retirement plan and IRA limits are indexed for inflation each year. Some of the key numbers for 2009 are discussed below.

Elective deferrals

If you're lucky enough to be eligible to participate in a 401(k), 403(b), 457(b), or SAR-SEP plan, you can make elective deferrals of up to \$16,500 in 2009, up from \$15,500 in 2008. If you're age 50 or older, you also can make a catch-up contribution of up to \$5,500 to these plans in 2009, up from \$5,000 in 2008.

If your 401(k) or 403(b) plan allows Roth contributions, your total elective contributions, pretax and Roth, can't exceed \$16,500 (\$22,000 with catch-up contributions). You can split your contribution any way you wish. For example, you can make \$9,500 of Roth contributions and \$7,000 of pretax 401(k) contributions. It's up to you.

If you participate in a SIMPLE IRA or SIMPLE 401(k) plan, you can contribute up to \$11,500 in 2009 (up from \$10,500 in 2008). If you're age 50 or older, the maximum catch-up contribution to a SIMPLE IRA or SIMPLE 401(k) plan in 2009 is \$2,500, unchanged from 2008.

IRA limits remain the same for 2009

The amount you can contribute to a traditional or Roth IRA remains at \$5,000 for 2009, and the maximum catch-up contribution for those age 50 or older remains at \$1,000.

You can contribute to an IRA in addition to an employer-sponsored retirement plan. But if you (or your spouse) participate in an employer-sponsored plan, your ability to deduct traditional IRA contributions may be limited, depending on your income. Roth contributions are also subject to income limits.

Contribution limits: 2009 tax year* (2008 limits in parentheses)		
Plan type	Annual dollar limit	Catch-up limit
401(k), 403(b), and 457(b)**	\$16,500 (\$15,500)	\$5,500 (\$5,000)
SIMPLE plans	\$11,500 (\$10,500)	\$2,500 (\$2,500)
Traditional and Roth IRAs	\$5,000 (\$5,000)	\$1,000 (\$1,000)

Contributions can't exceed 100% of your pay. If you participate in a 403(b) or 457(b) plan, special rules may allow an even greater catch-up contribution.

**\$5,500 catch-up applies only to governmental 457(b) plans.

Some other key numbers for 2009

For 2009, the maximum amount of compensation your employer can take into account when calculating SEP and qualified plan contributions and benefits is \$245,000 (up from \$230,000 in 2008).

The maximum annual benefit you can receive from a defined benefit pension plan is limited to \$195,000 in 2009 (up from \$185,000 in 2008).

And the maximum amount that can be allocated to your account in a defined contribution plan (for example, a 401(k) plan or profit sharing plan) in 2009 is \$49,000 (up from \$46,000 in 2008), plus age-50 catch-up contributions. (This includes both your contributions and your employer's contributions. Special rules apply if your employer sponsors more than one retirement plan.)

Income phaseout range for determining deductibility of traditional IRA contributions in 2009

1. Covered by an employer plan	
Single/Head of household	\$55,000 - \$65,000 (\$53,000 - \$63,000 in 2008)
Married filing jointly	\$89,000 - \$109,000 (\$85,000 - \$105,000 in 2008)
Married filing separately	\$0 - \$10,000 (same for 2008)
2. Not covered by an employer plan, but filing joint return with a spouse who is covered	\$166,000 - \$176,000 (\$159,000 - \$169,000 in 2008)

- Retirement Plan and IRA Limits for 2009

- Penalty

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- Lifetime Income

- Immediate Annuities Offer a Source of

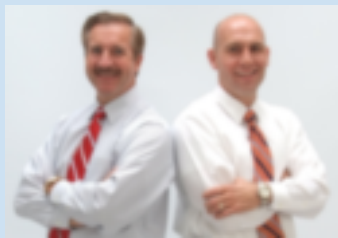
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Pete and Jon have worked in the financial industry for many years and are approved members of the National Ethics Bureau. Their retirement presentations have been widely attended by retirees of Ford Motor Co., BellSouth, Wal-Mart, the music and entertainment industry, TVA, DuPont, and many others. Their sound, conservative guidance and tax-saving strategies have helped many clients increase their income, save on taxes, and protect their assets. Pete and Jon are passionate about Safer Money Solutions. Ultimately their 3 main objectives are to provide their clients with safer money options, while keeping it simple and achieving a very reasonable rate of return.



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