

## When Is A Fixed Annuity Better Than A Municipal Bond

It's common for investors to seek tax savings with their investments. Is it better to go for the tax deferral of a fixed annuity or the tax free benefits of a municipal bond? Although these alternatives are different in several ways, they share similarities attractive to conservative investors:

- Guarantee of principal (guaranteed by the municipality in the case of the bond and by the issuing insurance company in the case of the annuity)
- Fixed term
- Ability to liquidate at any time (annuities may be subject to surrender charges for early withdrawal and municipal bonds sold prior to maturity may result in a gain or loss)
- Tax savings

The chart below compares a municipal bond at hypothetical rates of 5% to a fixed annuity at 6%. The ending value after 20 years is better for the municipal bond if the investor is in a higher tax bracket (35% combined) but the annuity grows larger better if the investor is in a lower tax bracket (18% combined).

	<b>Bond</b>	<b>Annuity</b> 35% tax	<b>Annuity</b> 18% tax
<b>Value After 20 years</b>	268506	326203	326203
<b>Income tax</b>	0	79171	40716
<b>After Tax</b>	268506	247031	285486

Hypothetical chart assumptions: all interest reinvested and compounded at initial rate, municipal bond at 5%, annuity at 6%.

Therefore, your future tax bracket is a major factor in this decision including yet not limited to these factors:

- If you need periodic income, the bond may be more appropriate as bonds pay interest semiannually
- Interest cannot be reinvested in municipal bonds which could favor the annuity, if you do not desire current income
- Annuities provide an annuitization feature which provides income for a fixed period of years or life and municipal bonds do not have this feature

For assistance in choosing the more appropriate option for your circumstances, please check the reply coupon.

(Note that municipal bonds have a fixed return for their entire term and some annuities do not. Bonds are guaranteed by the issuing municipality and annuities are guaranteed by the issuing insurer. Bonds may be callable, annuities are not. Bond usually require purchase through a broker dealer requiring a commission while annuities do not typically have commissions paid by the investor but have surrender charges for early surrender. Interest on municipal bonds is free of federal tax and possibly state tax while annuity interest is deferred and later taxed as ordinary income. Municipal bonds sold prior to maturity are subject to gains or loss and annuities redeemed prior to term incur a surrender charge. Annuity withdrawals prior to age 59½ may incur a penalty).