7 ANNUITY BASICS

Over the past several decades, as the responsibility for providing retirement income has shifted from employers and government–sponsored Social Security benefits to individuals, many people have turned to fixed annuities to provide both protection from market volatility and a guaranteed income stream for a portion of their retirement income.

Below are 7 annuity basics that can give you a better understanding of annuities, and whether they might be a good fit for your retirement income plan. If you're considering an annuity as part of your overall financial strategy, it's a good idea to work with a financial professional who is knowledgeable about annuities and retirement income strategies.

1 ANNUITY DEFINED:

An annuity is a contract you purchase from an insurance company. For the purchase payments (premium) you give to the insurance company, you receive a guarantee in return, either in the form of a guaranteed interest rate or guaranteed income in retirement. When you're ready to receive income, an annuity offers a variety of guaranteed payout options.

2 DIFFERENT TYPES OF ANNUITIES:

Immediate Annuity: With an immediate annuity, you provide a lump sum purchase payment to the insurance company and begin receiving regular income payments almost immediately.

Deferred Annuity: With a deferred annuity, you make one or multiple purchase payments over a long period of time. Subject to the terms of your contract, you can begin drawing regular income payments after a number of years — like after you retire when you may need the supplemental income. With a deferred annuity, taxes on your interest are deferred until you receive money from the contract.

Fixed Annuity: A fixed annuity earns a steady or "fixed" interest rate for a specified period of time and, depending on the payout option you select, can provide steady income payments over a period of time, including your lifetime.

Fixed annuities can provide stability, protecting you from market fluctuations; however, they do not typically offer substantial growth potential. If you are looking for the protections afforded by a fixed annuity with the opportunity for better long-term interest credits, you may be interested in a fixed index annuity. Fixed index annuities provide interest credits based on positive changes in an external market index, without actually participating in the market.

Variable Annuity: A variable annuity will have fluctuating interest rates and will offer varied income payments. Variable annuities offer the potential for growth, or loss, based on market fluctuations. Comprised of professionally managed investment portfolios, some variable annuities allow you to choose from multiple investment options, while others have a predetermined mix of investments. Like fixed annuities, taxes are deferred on your interest until you begin receiving money from the contract, but unlike fixed annuities, variable annuities are invested in the market and have the potential to lose money as a result of market declines.

3 FEES AND COST ASSOCIATED WITH AN ANNUITY:

Each type of annuity has a different fee structure. All annuities contain certain insurance-related fees and charges, and because they are long-term contracts, there may also be charges or penalties for taking money out early, and, if you're under the age of 59 ½, a 10 percent federal additional tax. Fees and charges for annuities may include, but are not limited to:

• Mortality and expense fees – these are generally priced into the product, and not an explicit charge to the consumer, to pay for the management, sales commissions, administrative expenses and insurance guarantees.

• Sub account fees – cover the expense to manage the assets in a variable annuity portfolio.

• Rider fees and early withdrawal fee – there are typically additional costs associated with the various riders that may be available with an annuity, though these riders are generally optional. Most annuities have a penalty or surrender charge for withdrawing funds early.

There can be additional fees tied to the annuity, so consider consulting with a financial professional to help ensure you understand all of the fees associated with the annuity you are considering, including any one-time fees or charges.

4 DEATH BEFORE OR SOON AFTER RECEIVING INCOME PAYMENTS:

If you pass away before you begin to receive scheduled income payments, your beneficiary(ies) will receive a death benefit. Even if you pass away after income payouts have begun, it's still possible your beneficiary will receive a death benefit. The value and the manner in which your beneficiaries can receive the death benefit may vary based on the product selected and insurance company that issues it.

5 ACCESSING THE PRINCIPAL OF AN ANNUITY:

While annuities are designed to be long-term income products for retirement, most offer options that allow you to withdraw a percentage of your contract value each year up to a certain limit, without annuitizing the contract. However, withdrawals can reduce the value of the death benefit and excess withdrawals above the restricted limit may incur surrender charges. A financial professional can help you understand your options with regard to early withdrawals.

6 LENGTH OF INCOME RECEIVED FROM AN ANNUITY:

Annuities pay income in a variety of ways. Sometimes the income payment is guaranteed for life, and can even cover a spouse's life. Others pay only until the contract value is depleted, or through a specific time period. A financial professional can help you understand the payment schedule for the annuity you are considering, and can help ensure you get the payment option suitable to your needs.

7 STABILITY OF THE INSURANCE COMPANY ISSUING THE ANNUITY:

All annuity guarantees are backed by the financial strength and claims-paying ability of the issuing insurer. Factors such as the size of the company, the length of time it has been in business and its investment profile are all considerations that you should carefully discuss and research with your financial professional.

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