

Back to Annuity Basics: What is it and do you need one?

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What is an Annuity?

Issuer invests your money in fixed account or investor selects investments in sub-accounts



*Guarantees are subject to the claims-paying ability of the issuer. The earnings portion of annuity withdrawals is subject to income tax at ordinary income tax rates. Pretax or tax-deductible contributions and pretax earnings are subject to income tax at ordinary tax rates when withdrawn. Annuities, particularly variable annuities, may impose higher fees, charges, and expenses than the other plans.

Parties to an Annuity



- Issues the annuity
- Accepts the premiums
- Pays the annuity benefits*

The Insurer

- Is named by the owner
- Receives the remaining benefits, if any, at the owner's death
- Benefits may be effected by early withdrawals or other terms of the contract



The Beneficiary

The Owner

- Purchases the annuity
- May make withdrawals
- Receives annuitization payments if elected

The Annuitant

- Provides the measuring life for determining annuity payouts
- Typically, the annuitant is also the owner

* Guarantees are subject to the claims-paying ability of the annuity issuer.

Why Buy an Annuity?

- To receive potential **tax-deferred** growth on investment
- To **invest** for a specific purpose
- To **supplement** other sources of retirement **income** such as Social Security, pension plans, or other employer-sponsored retirement plans like 401(k)s



Assumptions:

- 1) \$10,000 initial investment
- 2) Tax rate 28%
- 3) Growth rate 7% (after-tax growth rate 5.04%)
- 4) Annual end of period compounding

This hypothetical example is for illustrative purposes only, and its results are not representative of any specific investment or mix of investments. Actual results will vary. Taxable investment assumes earnings are taxed as ordinary income and is not reflective of possible lower maximum tax rates on capital gains and dividends which would make the taxable investment return more favorable thereby reducing the difference in performance between the accounts shown. Applicable annuity charges are not reflected in this illustration. Had they been included, the return of the annuity would be lower. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison.

Annuities vs. 401(k)s and IRAs

Feature	Annuities (Nonqualified)	401(k)s and Traditional IRAs	Roth IRAs
Potential tax-deferred earnings	✓	✓	✓
Tax-deductible or pretax contributions		✓	
Unlimited contributions	✓		
*Guaranteed minimum death benefit	✓		
RMDs		✓	
*Tax on withdrawals	✓	✓	
*Guaranteed lifetime income	✓		
*Fees and charges	✓**	✓	✓

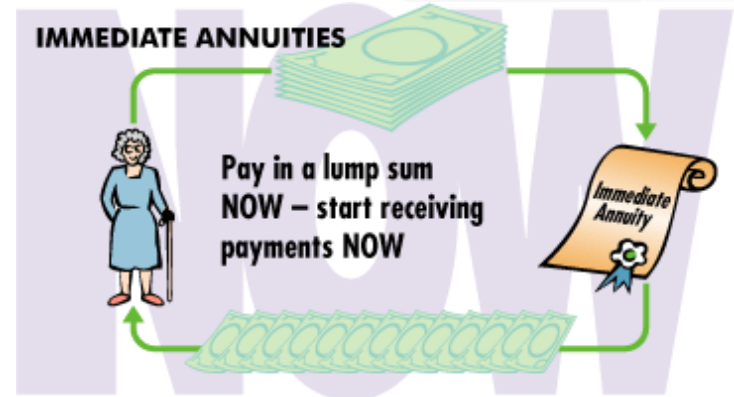
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**Annuities, particularly variable annuities, may impose considerably higher and additional fees, charges, and expenses than the other plans.

Immediate vs. Deferred Annuities

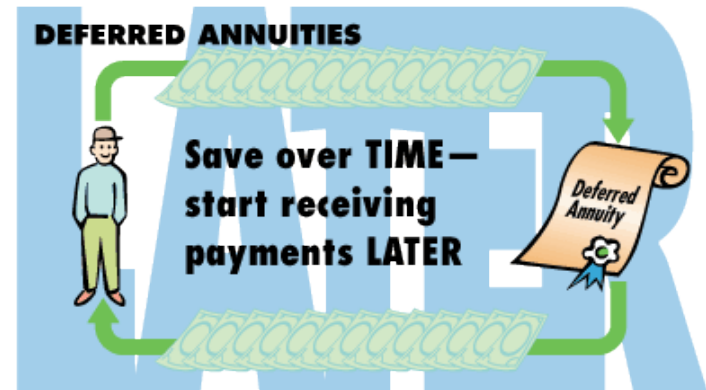
Immediate Annuities

- Typically purchased with a single lump-sum premium
- Distributions begin immediately after purchase



Deferred Annuities

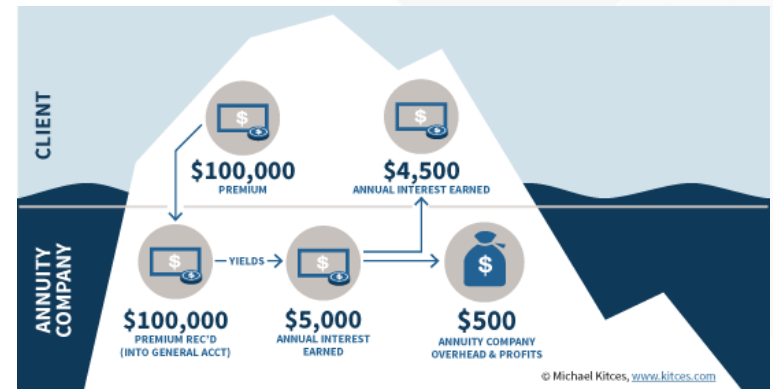
- Typically purchased with periodic payments
- Distributions begins at some future date, allowing time for potential tax-deferred growth



Fixed and Variable Annuities

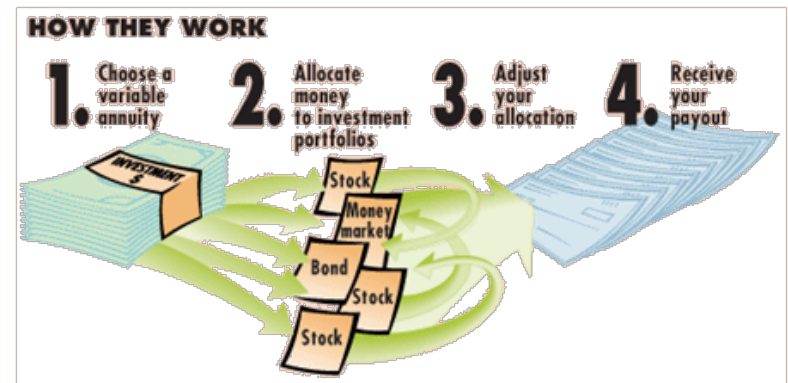
Fixed Annuities

- Guaranteed return of principal and interest*
- Fixed interest earnings



Variable Annuities

- Owner selects investment choices in subaccounts
- Subaccount performance is based on market conditions during the investment period



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**Charts are hypothetical and do not include any or all fees associated.

Annuity Fees and Expenses



Fixed Annuities may charge an annual contract fee



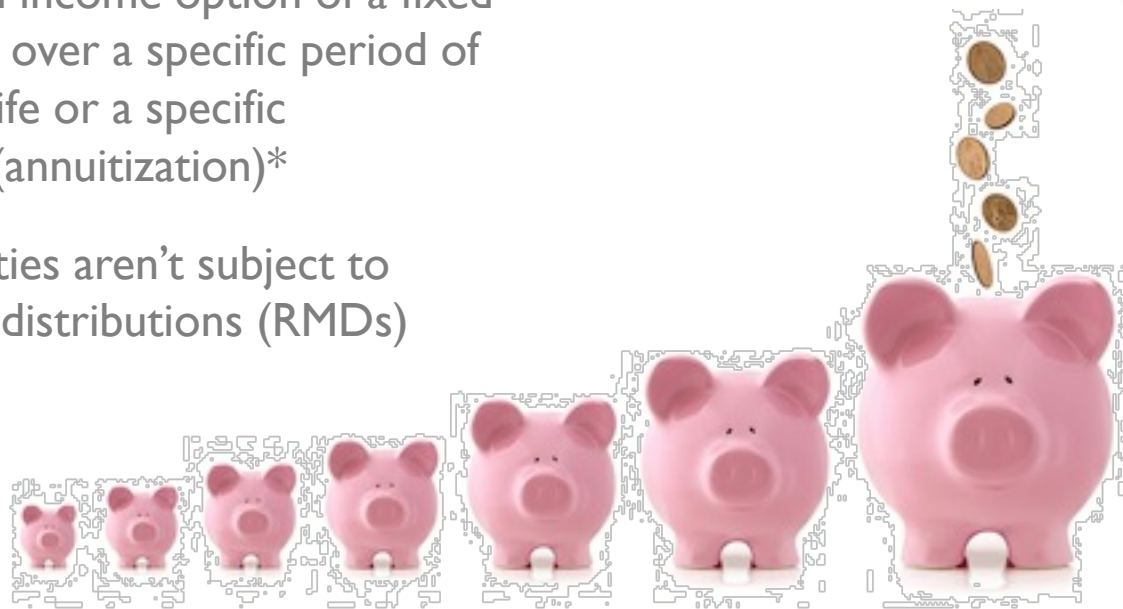
Variable Annuities

- ✓ Annual contract fee
- ✓ Mortality and expense risk charge
- ✓ Subaccount costs may include investment fees and operational costs



Taking Money Out of an Annuity

- Withdraw principal and/or earnings (withdrawal of earnings prior to age 59 ½ may be subject to 10% additional tax)
- Select a guaranteed income option of a fixed or variable amount over a specific period of time generally for life or a specific distribution phase (annuitization)*
- Nonqualified annuities aren't subject to required minimum distributions (RMDs)



*Guarantees are subject to the claims-paying ability of the annuity issuer.

Annuitizing an Annuity

- Fixed annuities convert to a stream of guaranteed fixed payments*
- Variable annuity options:
 - Convert to guaranteed fixed payments*
 - Receive variable payments
 - Combination fixed and variable payments
- Once annuitized, there are limited investment or withdrawal options
- Factors:
 - The cash value of your account (fixed annuities)
 - The performance of your underlying investments (variable annuities)
 - The age and gender of the annuitant
 - The payout option you choose

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Annuity Payout Options

- Payments for life
- Payments for life with term certain
- Joint and survivor life
- Payments for a specified period
- For variable annuities, the amounts of your payments may vary with the performance of your underlying investments



Tax Consequences

- Income tax imposed at ordinary income tax rates on earnings portion of benefit payments
- Withdrawals are considered to be made from earnings first; annuitization payments are part return of principal and part earnings
- With certain exceptions, an additional 10% premature distribution tax imposed on distributions of earnings made prior to age 59 ½



Common Annuity Riders

Fixed Annuities

- ✓ Living needs/ long-term care
- ✓ Disability/ unemployment
- ✓ Terminal illness



Variable Annuities

- ✓ Guaranteed withdrawal benefit
- ✓ Guaranteed accumulation benefit
- ✓ Guaranteed minimum income benefit

Immediate Annuities

- ✓ Commuted payout benefit
- ✓ Cost-of-living benefit
- ✓ Cash/ installment refund

Riders will add an additional fee or expense to your annuity contract

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Important Information about Variable Annuities

- Variable annuities are long-term investments suitable for retirement funding, and are subject to market fluctuations and investment risk, including the possibility of loss of principal. Variable annuities contain fees and charges including, but not limited to, mortality and expense risk charges, sales and surrender (early withdrawal) charges, administrative fees, and charges for optional benefits and riders.
- Variable annuities are sold by prospectus. You should consider the investment objectives, risk, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity, can be obtained from the insurance company issuing the variable annuity, or from your financial professional. You should read the prospectus carefully before you invest.

Conclusion

- Annuities can offer potential tax-deferred earnings and an income stream for life.*
- Annuities may be fixed or variable
- Annuities may include various riders**
- Annuities may charge substantially higher fees than other retirement savings vehicles
- Coming soon!

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**Riders will add additional fee or expense

Thank you!



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