What you need to know about annuities

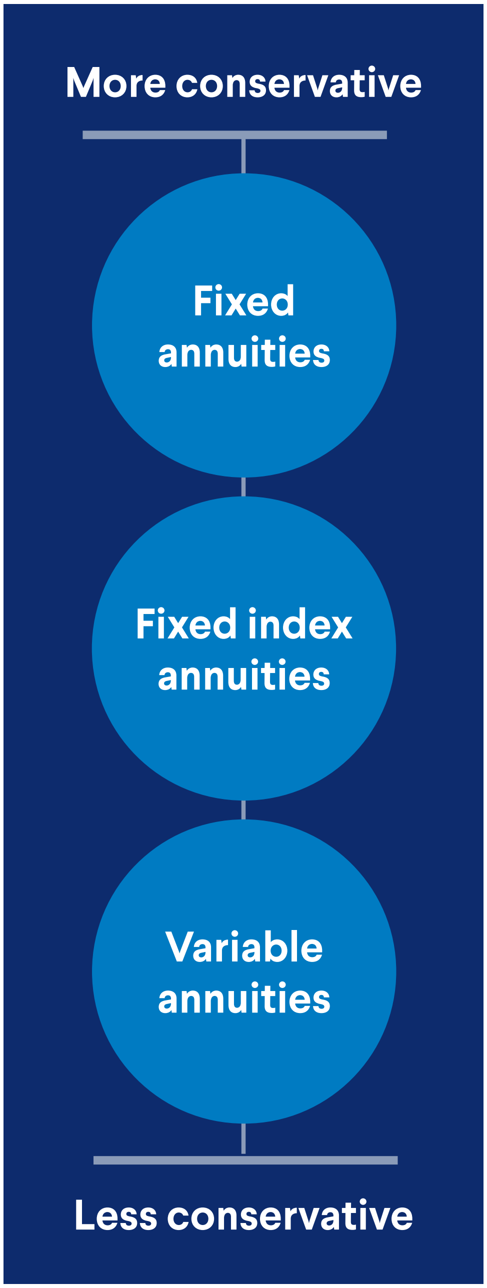
An annuity can help provide income in retirement, offer growth potential, and protect what you've saved.

You may laugh at the quip "90 is the new 70," but there's a lot of truth in it. Older Americans are living longer than ever. The Social Security Administration notes that a man who reaches age 65 can expect to live, on average, to age 84. A 65-year-old woman's life expectancy is age 86½. Also, about one out of every four 65-year-olds will live until at least age 90.[1] That's why it's important to ensure that your savings lasts a long time too.

Annuities are one way to help do that. An annuity is a long-term contract between you and an insurance company that's designed to help you achieve a range of financial goals. Depending on its type and features, an annuity may help you grow your savings with taxes deferred, protect your money from market swings, provide guaranteed income for a period of years or the rest of your life—or all three and more.

Types of annuities

The three primary categories of annuities used to accumulate money for retirement are fixed, fixed index, and variable. They can be purchased with a lump sum as a single premium or with periodic flexible premium payments. A single-premium annuity doesn't allow additional contributions, while a flexible-premium annuity enables you to contribute additional funds over time.



[1] Social Security Administration: https://www.ssa.gov/planners/lifeexpectancy.html.

Three types of annuities

1 Fixed annuity

A fixed annuity is a tax-deferred way to help grow savings at a predictable, guaranteed fixed rate. As its name implies, it provides a fixed interest rate, which is determined by the insurance company. This rate is guaranteed for a specific time period, such as one, three, or five years. After the rate period ends, you can renew your contract with another set time period and fixed interest rate.

A fixed annuity can be converted into regular income payments when you retire by choosing to annuitize into a series of guaranteed payments for life or a specified period.

A fixed annuity may be right for you if you're interested in safety and preserving money, and are not comfortable with stock market risk.

2 Fixed index annuity

A fixed index annuity (FIA) provides the security of principal protection, the opportunity to participate in market growth potential by tracking an index, tax-deferred growth, and predictable income. It provides an opportunity to earn interest based on the performance of an index such as the S&P 500®.

A fixed index annuity can be converted into regular income payments when you retire by choosing to annuitize into a series of payments or by choosing an optional rider, for a fee, that would provide guaranteed income payments for life.

A fixed index annuity may be right for you if you're looking for market-based growth with loss protection when you are saving for retirement, along with guaranteed income when you retire.*

3 Variable annuity

A variable annuity (VA) offers an array of investment options to help grow retirement savings and create steady income in retirement. You can choose from a range of market-based investment options. Your account value fluctuates depending on market performance. You need to be comfortable with taking a certain amount of market risk, as the market value can go up or down and you could lose money.

A variable annuity can be converted into regular income payments when you retire by choosing to annuitize into a series of guaranteed payments or choosing an optional rider, for a fee, that would provide guaranteed income payments for life.

Plus, you may be able to purchase an optional rider that would provide a guaranteed payout amount when you want to start taking income.

A variable annuity may be right for you if you're looking for higher growth potential and a broader range of investment options, along with the potential for higher income when you retire.

Comparing annuities: Which might be right for you?

	Fixed annuity	Fixed index annuity	Variable annuity
Guaranteed principal	Yes	Yes	No
Guaranteed growth	Yes, fixed interest rate for a set period	Interest tied to the performance of an index or fixed account	No, dependent on the performance of investment subaccount elections
Growth potential	Limited to the stated interest rate	Generally capped at a certain percentage of index growth	Dependent on the performance of investment subaccount elections
Protection from down markets	Yes	Yes	No, but generally some portion of money can be in a fixed subaccount with a guaranteed rate
Guaranteed lifetime income	Yes*	Yes*	Yes*

* When you annuitize at retirement or purchase a guaranteed lifetime withdrawal benefit (GLWB) for an additional fee. Guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company.

Generally, fixed and fixed index annuities have less investment risk than variable annuities. If you want growth potential coupled with loss protection, you might consider a fixed index annuity. If you're willing to take on more risk for greater growth potential, the ability to choose investments, and the potential to increase your income, you might consider a variable annuity.

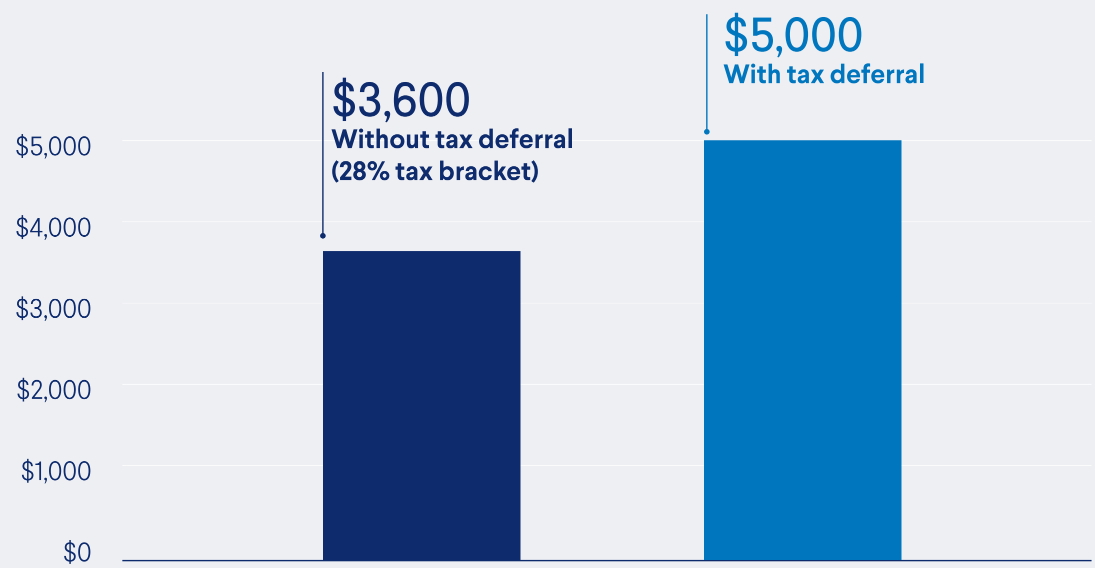
Five annuity benefits

1 Money can grow tax deferred

When you have many years until retirement—and the potential to live many years in retirement—you want to give your money a chance to grow. Because an annuity is a tax-deferred investment, you give your money a chance to grow faster. You don't pay taxes on any interest you earn until you withdraw it. This allows all of your interest or investment earnings to compound. It's important to understand that when you buy an annuity in an IRA or other tax-deferred account or plan, you get no additional tax advantage. The earnings and income in the account are already tax-deferred. You should only consider an annuity for its features and benefits other than tax deferral in these cases.

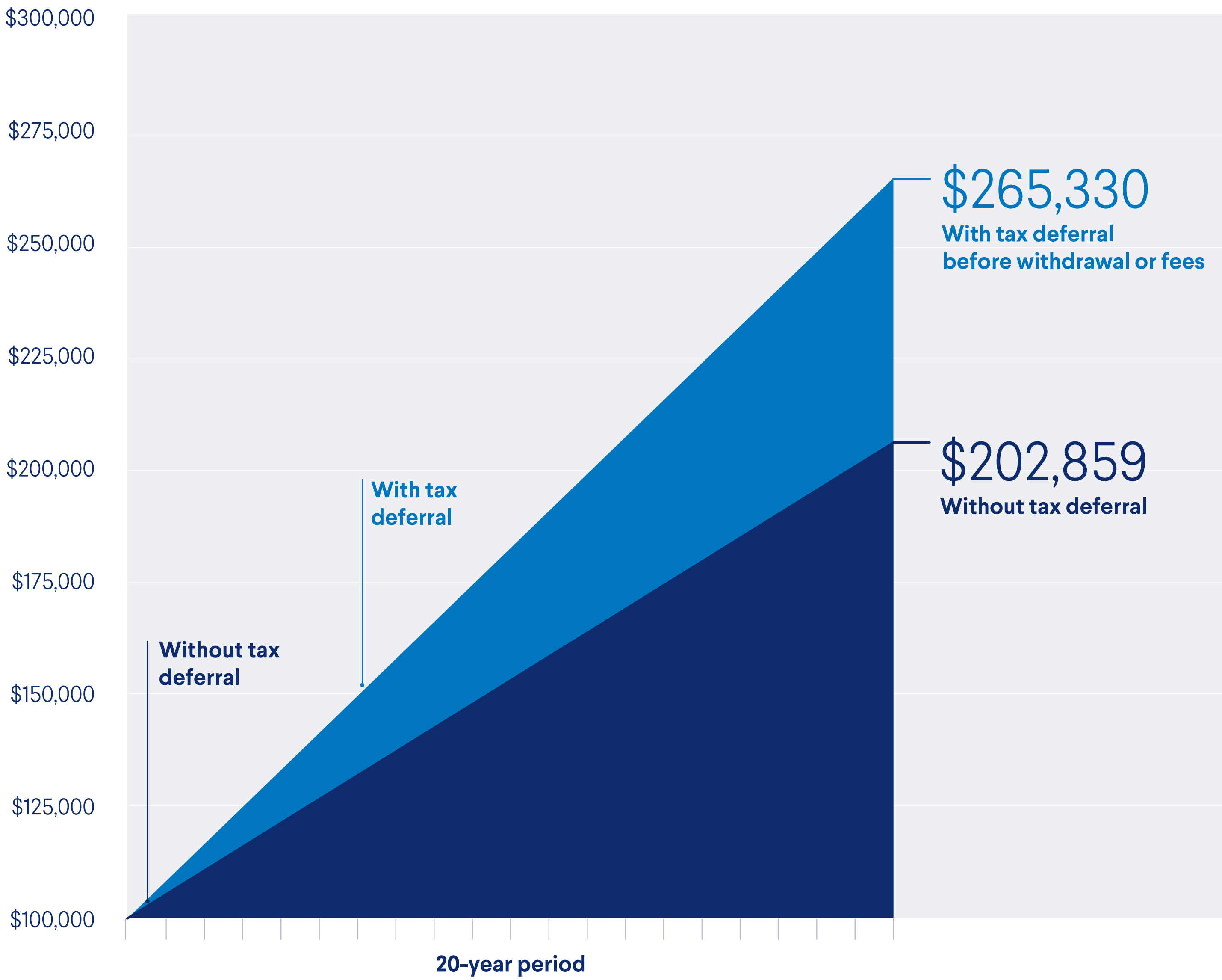
Consider this example: You contribute $100,000 to an investment account that generates 5% in annual interest. After the first year, your investment has earned $5,000. In a fully taxable account, the earnings would be potentially subject to ordinary income tax. If you were in a 28% tax bracket, the IRS would collect $1,400 of your increase, leaving the other $3,600 in your account. In a tax-deferred annuity, on the other hand, the full $5,000 would remain in your account to continue generating earnings until you withdraw it.

A $100,000 investment with a 5% interest rate would earn this in one year...



Now, let's look at what happens when this advantage is compounded over many years. Your $100,000 initial contribution to an investment account without tax deferral, still figuring a 5% annual interest and 28% tax rate, would grow to $202,859 over 20 years. In contrast, the same investment in a tax-deferred account would grow to $265,330, a $62,471 advantage. The tax-deferred earnings would be taxable as ordinary income when you withdraw them. Keep in mind that your tax bracket might be lower after you retire, plus you may be able to utilize a tax strategy that helps minimize your tax liability. (Be aware that there is a 10% federal tax penalty if money is withdrawn from a tax-deferred account before you reach age 59½.) This is not an example of an investment in an actual product.

The longer taxes are deferred, the more time your money has to grow



This hypothetical chart illustrates how tax deferral would affect a $100,000 initial investment, without withdrawals or fees, during a 20-year period. It assumes a 5% annual interest rate and a 28% federal income tax rate. Actual tax rates may vary for different taxpayers and assets from those shown. This is not an investment in an actual product. Actual performance of your investment will vary. For example, lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance between the examples shown. Consider your investment time horizon and income tax brackets, both current and anticipated, when making an investment decision. This example does not represent the past or future performance of any product. Actual results will vary. If annuity charges were included (such as rider or investment management fees), the tax-deferred performance would be significantly lower.

2 Contribute as much as you want—there are no contribution limits for an annuity

Nonqualified, tax-deferred annuities have no IRS-mandated contribution limits. Other tax-deferred retirement savings accounts, such as 401(k) plans and IRAs, have limits. This makes an annuity particularly helpful if you've contributed the maximum to a 401(k) or IRA and want to save more money in a tax-deferred vehicle. Here's another potential advantage: You can allow your annuity to grow as long as you like. Unlike a traditional IRA or 401(k), an annuity isn't subject to required minimum distributions (RMDs) when you turn age 72 (unless the annuity is held inside another tax-deferred retirement account subject to RMDs).

3 Protect your money from loss

Depending on the type of annuity you choose, you can protect your principal—and even your earnings—from loss during market downtowns. A **fixed annuity**, for example, offers a fixed rate of interest over the life of the contract and protects both your principal and interest from loss for the full term of the guarantee period you choose. A **fixed index annuity** tracks a market index and provides growth opportunities in line with the index's performance. Any gains are "locked in" annually, so if the index underperforms in a given year, your previous earnings are protected, guaranteeing that your annuity won't lose value in a market downturn.

4 Guaranteed income in retirement

Remember "90 is the new 70"? The ability of annuities to offer guaranteed income over the course of a long retirement can be an attractive feature. Social Security provides guaranteed income, but it may not be enough to cover all of your essential expenses. Pensions also provide guaranteed income, but few employers offer them.

With most annuities, you'll have choices that allow you to increase your guaranteed income. When you're ready to begin withdrawing from your annuity, rather than taking a lump sum or partial withdrawals, you could "annuitize" your contract into payments for life or for a specified period. You also may be able to purchase a guaranteed lifetime income rider for an additional fee when you buy the annuity. These options can help guarantee your long-term financial security.

5 Provide for your heirs

Most annuities have features that allow you to pass the value of your contract directly to your beneficiaries, usually without the proceeds going through probate. You may also be able to designate that a beneficiary receives guaranteed income payments for a certain period or a lump sum. Generally, your designated beneficiaries will receive the greater of two values: the account value when you die or the amount you contributed to the annuity (adjusted for any prior withdrawals). Another feature of some annuities is a guaranteed death benefit, which ensures that your beneficiaries receive the full account value (including any interest you've earned) should you die before you begin receiving annuity income payments.

Sound like you?

If any of these financial goals describe your situation, an annuity might help.

- "I want to receive regular income in retirement for as long as I live."
- "I'm ready to retire but want my money to keep growing while it provides regular income."
- "I'd like to lock in value so I can leave money to my heirs."
- "I've maxed out my 401(k) and my IRA and want to save even more with tax deferral."

Talk to a financial professional

As you can see, annuities provide a range of benefits and features that may help you achieve a variety of goals and address your needs and preferences. Before you decide whether an annuity is right for you, discuss your situation with a trusted financial professional who can help you determine the types and features that might best address your needs.