Understanding Annuities

A key objective for many people is to have consistent income, especially during their retirement years. To meet this need, life insurance companies have long provided what are known as annuities.

What Is an Annuity?

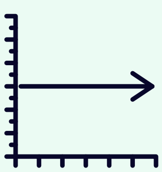
An annuity is a contract between an investor and an insurance company that requires the insurer to make payments to the investor, either immediately or in the future. Annuities are designed to provide a steady cash flow for people during their retirement years and to alleviate the fears of outliving their assets.

How Do Annuities Work?

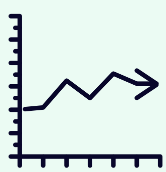
Annuities typically are purchased with a lump sum, although the payments can be spread out. Many annuities will pay a fixed amount from the time an individual is retired until they pass away. Payments can be received monthly, quarterly, or yearly. An annuity owner (known as an **annuitant**) may elect to receive their payments at the interval that best aligns with their cash flow requirements.

Annuities Come in Different Shapes and Sizes

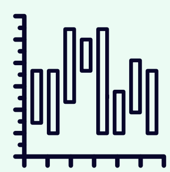
There's lots of different types of annuities that exist, each designed to meet the specific needs and goals of investors. The most common types of annuities that are available for investors to purchase and participate in include:



Fixed Annuities generally provide a consistent rate of return over a specified period of time. Most offer a fixed interest rate that is determined by the insurance company, and the earnings on the annuity grow tax-deferred until withdrawals are made. Fixed annuities are considered low-risk investments as they provide a steady income stream and protection of principal.



Index Annuities, allow investors to earn returns based on the performance of a specific stock market index, such as the Nasdaq-100® or S&P 500. These annuities typically offer a minimum guaranteed interest protecting the principal investment, while also providing the potential for higher returns based on the performance of the chosen index. Indexed annuities combine elements of both fixed and variable annuities.



Variable Annuity offer investors the opportunity to invest in a range of investment options, such as stocks, bonds, and mutual funds. The returns on variable annuities are dependent on the performance of these underlying investment options. Unlike fixed and indexed annuities, the returns on variable annuities are not guaranteed, and they carry more investment risk. However, variable annuities also offer the potential for higher returns compared to other types of annuities.

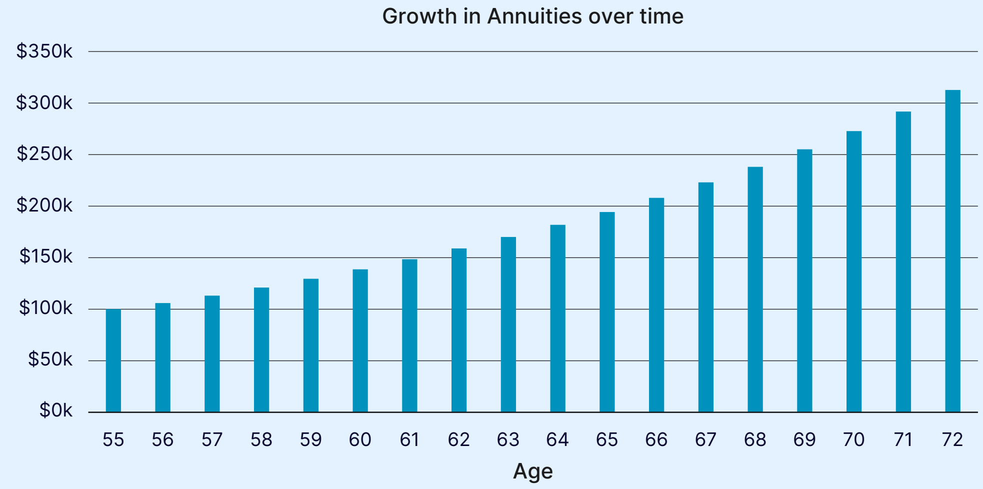
Annuity Phases

Variable annuities have two defining life stages: the Accumulation phase and the Distribution phase.

Accumulation Phase	Distribution Phase
LASTS 35-40 YEARS	LASTS 25-30 YEARS

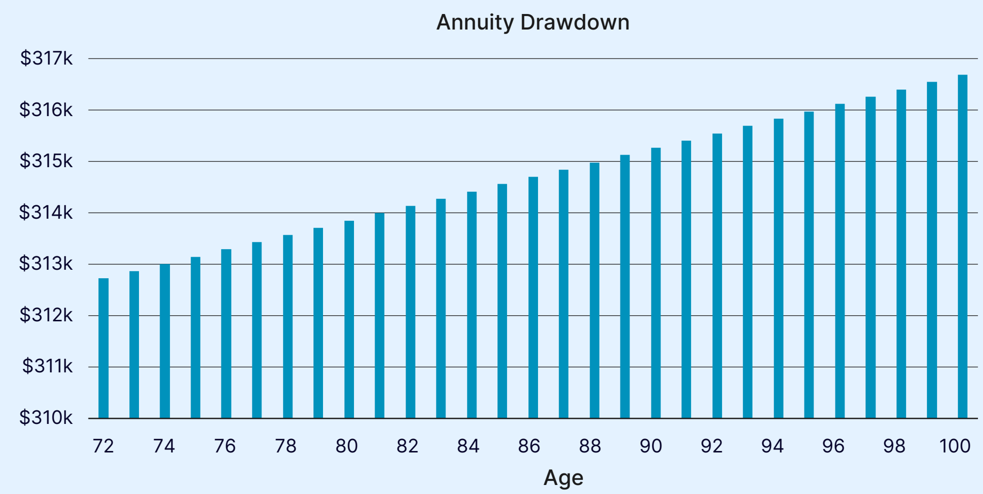
The Accumulation Phase: During this stage, contributions are made to the annuity, either as a one-time lump sum or through regular payments. These funds are typically invested, creating potential for growth. The significance of this phase lies in its role as a mechanism for augmenting savings on a tax-deferred basis, facilitating the building of a robust financial reserve.

Starting age	55
AVERAGE ANNUAL RETURN	7%
INVESTMENT	$100,000
# YEARS INVESTED	18
FEES	1% of assets



The Distribution Phase: This is when payouts from the annuity start, either for a defined period or for the remainder of the contract holder's life. The importance of this phase comes from its purpose of ensuring a steady income stream during retirement, providing essential financial stability.

Starting age	72
AVERAGE ANNUAL RETURN	7%
ANNUAL WITHDRAWAL	5%
FINISH DRAWDOWN AGE	100
FEES	1.5% of assets



These distinct stages of an annuity's lifecycle align with different phases of the contract holder's financial journey—wealth accumulation during earning years and reliable income during retirement years.

Immediate vs. Deferred Annuities

Most annuities are '**Deferred**', which means the buyer selects a date in the future when they want to start receiving payments. For example, an individual might purchase an annuity when they're 55 years old but elect to start receiving payments when they're 72.

Immediate annuities provide payments right after they are purchased, making them suitable for individuals who require a predictable cash flow in the near term. Immediate annuities can be fixed or variable, offering flexibility based on the annuitant's needs.

Single or Joint Annuities

Single Annuities are purchased for one individual. They can protect an individual's standard of living by guaranteeing a regular stream of payments so long as the person is living.

Joint Annuities provide a fixed income stream for two individuals, typically a married couple or partners. These annuities ensure both individuals receive regular payments for the rest of their lives, even after one person passes away.

Implications of Annuities

It's important to note that annuities are long-term financial products designed for retirement savings and income generation. They often come with surrender charges, fees, and tax implications, so it's essential for investors to carefully consider their financial goals and consult with a financial professional before investing in any type of annuity.

Conclusion

Annuities can offer individuals the opportunity to secure a steady stream of income. Understanding the intricacies of annuities is essential for making informed decisions about incorporating them into investor's financial strategies. By carefully evaluating their benefits and drawbacks, investors can determine whether annuities align with their long-term financial goals.

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