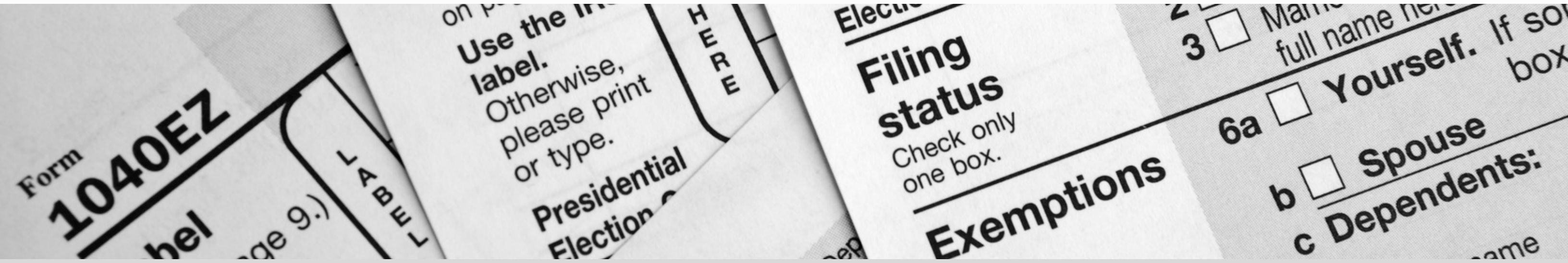
THE MOST COMMON QUESTIONS REGARDING *Annuities*

Q: WHAT IS A TAX DEFERRED *Annuity?*

A tax-deferred annuity is a financial product designed to help individuals save for retirement. This type of annuity contract offers tax advantages, allowing your investment to grow on a tax-deferred basis until you start withdrawing funds.



Here's how it generally works:

1) **Contribution**: You make regular contributions to the annuity through a lump sum payment or periodic overtime payments. These contributions can be made with pre-tax dollars, meaning you don't pay income taxes on the money you contribute.

2) **Accumulation Phase**: The money you contribute to the annuity grows over time. The earnings generated by your contributions are not subject to income tax while they remain inside the annuity. This tax-deferred growth allows your investment to potentially compound over the years, increasing the value of your annuity.

3) **Withdrawals**: When you reach retirement age or choose to start withdrawing funds, the money you receive is treated as taxable income. However, by this time, you may be in a lower tax bracket than during your working years, potentially reducing the tax burden. Keep in mind that if you withdraw funds before reaching the age of 59½, you may be subject to early withdrawal penalties and income taxes.

Insurance companies typically offer tax-deferred annuities that come in different forms, such as fixed, variable, or indexed annuities. Each type has its characteristics, including varying levels of risk, potential returns, and flexibility.

Q: WHAT ARE THE DIFFERENT CATEGORIES OF *Annuities?*

1) **Fixed Annuities**: In a fixed annuity, you make a lump-sum payment or periodic contributions to an insurance company or financial institution. The insurance company guarantees a fixed interest rate for a specified period. The annuity accumulates interest on a tax-deferred basis. When you start receiving payments, you'll receive a fixed income stream for a predetermined period or for the rest of your life.

2) **Variable Annuities**: Variable annuities offer the opportunity to invest in various investment options, such as mutual funds. The value of your investment will fluctuate based on the performance of the underlying investments you choose. Variable annuities carry investment risk, as the returns are not guaranteed. However, they offer the potential for higher returns compared to fixed annuities.

3) **Indexed Annuities**: Indexed annuities combine elements of both fixed and variable annuities. Indexed annuities provide the potential for higher returns than fixed annuities, but also offer downside protection, ensuring that you won't lose money if the market index performs poorly. The interest credited to your annuity is linked to the performance of a specific market index, such as the S&P 500.

4) **Immediate Annuities**: Immediate annuities are purchased with a lump sum payment and provide an immediate income stream. They are designed to start regular payments shortly after the initial investment, typically within one year. Immediate annuities are often used by individuals already in retirement and want a guaranteed income for the remainder of their lives or a specific period.

5) **Deferred Annuities:** Deferred annuities have an accumulation phase where your contributions grow tax-deferred until you start receiving payments. They can be either fixed, variable, or indexed annuities.

It's important to note that each type of annuity has its own costs, benefits, and suitability based on individual financial goals, risk tolerance, and retirement planning needs. Consulting with a financial advisor is recommended to understand which type of annuity aligns best with your circumstances.

Q: WHAT IS THE MAJOR ADVANTAGE OF *Annuities?*

The major advantage of annuities is their ability to provide a steady stream of income during retirement. Here are some key advantages:

1) **Guaranteed Income**: Annuities can provide a guaranteed income stream for a specific period or the rest of your life, depending on your type of annuity. This feature can help ensure a steady income even if you outlive your savings or experience fluctuations in other investments.

2) **Tax-Deferred Growth**: Annuities offer tax-deferred growth, meaning the earnings on your contributions accumulate without being subject to immediate income taxes. This allows your investment to grow more quickly since you don't pay taxes on the earnings until you start withdrawing funds.

3) **Diverse Range of Options**: Annuities come in various types, such as fixed, variable, indexed, immediate, and deferred annuities, providing flexibility to choose an option that suits your risk tolerance and financial goals. This variety allows you to customize your annuity based on your preferences and objectives.

4) **Protection from Market Volatility**: Fixed and indexed annuities provide a level of protection from market volatility. Fixed annuities guarantee your principal and interest rate, providing stability. Indexed annuities offer the potential for higher returns linked to market performance while protecting against market downturns.

5) **Estate Planning Benefits**: Annuities can offer estate planning advantages, such as the ability to pass on the remaining annuity balance to your beneficiaries upon your death. This can provide a legacy or financial support for your loved ones.

6) **Long-Term Financial Security**: Annuities can help ensure a stable income throughout your retirement years, providing financial security and peace of mind. By converting a portion of your savings into an annuity, you can create a predictable income stream that complements other retirement income sources like Social Security or pensions.

Q: IS AN *Annuity* SAFE?

Annuities can be considered relatively safe, but it depends on the specific type of annuity and the financial strength of the insurance company or institution offering it. Here are some factors to consider:

- **Insurance Company Stability**: Annuities are typically sold by insurance companies, so choosing a reputable and financially stable company is important. Look for companies with high ratings from independent rating agencies, as these ratings reflect the insurer's financial strength and ability to meet its obligations.

- **Fixed Annuities**: Fixed annuities provide a guaranteed interest rate and principal protection. As long as the insurance company backing the annuity remains financially sound, the guaranteed features of a fixed annuity make it a relatively safe option.

- **State Guaranty Associations**: In the United States, most states have guaranty associations that provide a certain level of protection to annuity holders if an insurance company fails. These associations typically provide coverage for a certain amount of annuity benefits, such as a maximum of $250,000 per individual per insurance company. The coverage limits vary by state, so it's important to understand the specific protections offered in your state.

- **Variable Annuities**: Variable annuities carry investment risk because the returns are tied to the performance of the underlying investment options. A variable annuity's safety depends on the selected investments' performance. While variable annuities offer growth potential, they also come with the risk of investment losses.

- **Regulatory Oversight**: Annuities are subject to regulation and oversight by governmental bodies. In many countries, insurance companies offering annuities must adhere to specific capital and solvency requirements to protect policyholders. Regulatory oversight helps provide a level of consumer protection.

Q: WHO SHOULD OWN AN *Annuity?*

Annuities can be suitable for certain individuals depending on their financial goals, retirement planning needs, and risk tolerance. Here are some situations where owning an annuity may be beneficial:

- **Retirement Income Planning**: Annuities are often used as a tool for retirement income planning. This is particularly useful for individuals without a pension or seeking to supplement their Social Security benefits. If you're concerned about outliving your savings or want a guaranteed income stream during retirement, an annuity can provide a reliable source of income.

- **Conservative Investors**: Fixed annuities attract conservative investors who prioritize capital preservation and predictable returns. A fixed annuity can offer stability and peace of mind if you prefer a low-risk investment option and are comfortable with a fixed interest rate.

- **Tax-Deferred Growth**: Annuities provide tax-deferred growth, making them appealing to individuals looking to maximize their retirement savings. If you've already contributed the maximum amount to other tax-advantaged retirement accounts like 401(k)s or IRAs, an annuity can be an additional tax-efficient way to save for retirement.

- **Legacy Planning**: Annuities can serve as an estate planning tool. Certain annuity options allow you to pass on the remaining balance to your beneficiaries upon your death if you want to leave a financial legacy for your loved ones.

- **Risk Diversification**: Annuities can be part of a diversified investment strategy. If you already have a well-rounded investment portfolio and want to add an element of guaranteed income or principal protection, an annuity can complement your other investments.

Q. WHO IS THE AVERAGE ANNUITY PURCHASER ?

The average age is 57, with an average premium of $85,000. Generally, the buyers are not "currently spending" the interest they earn on their taxable alternatives.

Q: WHAT KIND OF DOLLARS ARE DEPOSITED INTO *Annuities?*

Maturing CDs, checking and savings accounts, money market funds, mutual fund accounts, stocks and bond funds, IRA rollovers, Treasury bonds, and bills.

Annuities can be funded with different types of dollars, depending on the individual's financial situation and the specific type of annuity. Here are some common sources of funds used to deposit into annuities:

1) **Pre-Tax Dollars**: Many annuities, particularly those held within tax-advantaged retirement accounts, such as 401(k)s or traditional IRAs, are funded with pre-tax dollars. Contributions made to these retirement accounts are typically tax-deductible, meaning they reduce your taxable income in the year of contribution. When you withdraw funds from the annuity in retirement, the withdrawals are subject to income tax.

2) **After-Tax Dollars**: Annuities can also be funded with after-tax dollars, funds already subject to income tax. This can include personal savings, inheritances, or other sources of income that have been taxed. Contributions made with after-tax dollars to a non-qualified annuity do not provide immediate tax benefits. Still, the earnings on those contributions can grow on a tax-deferred basis until withdrawals are made.

3) **Rollover Dollars**: A rollover is another common source of funding for annuities. This occurs when an individual transfers funds from an existing retirement account, such as a 401(k) or another annuity, into a new annuity. Rollovers can be done without triggering immediate taxes or penalties if the funds are moved correctly according to the applicable tax rules.

Q. IS THE ANNUITY FOR EVERYONE?

No. Dollars earmarked for short-term needs should not go into the annuity. Annuities are generally considered longer-term holds, and funds allocated for annuities should be made after short-term needs are met. Those individuals looking for one of the safest ways "to accumulate" dollars on a tax-advantaged basis will find the deferred annuity extremely beneficial. Annuities are not suitable for everyone. Whether or not an annuity is a good fit for an individual depends on their financial goals, risk tolerance, and personal circumstances. Here are some factors to consider when determining if an annuity is right for you:

Retirement Planning: Annuities are often used as a retirement planning tool, providing a guaranteed income stream during retirement. If you prioritize a steady and predictable income in retirement, an annuity may be suitable. However, if you have other sufficient sources of retirement income, such as a pension or substantial savings, an annuity may be less necessary.

Risk Tolerance: Different types of annuities carry varying levels of risk. Fixed annuities offer more stability and guarantees, while variable annuities involve market-related risks. A fixed annuity may be more appropriate if you have a low risk tolerance and prefer more stability. A variable annuity could be considered if you're comfortable with market fluctuations and potential higher returns.

Financial Goals: Consider your financial goals and objectives. If your primary goal is long-term wealth accumulation or investment growth, other investment options may be better suited to your needs. Annuities are primarily designed to provide income and protect against longevity risk rather than maximize investment returns.

Liquidity Needs: Annuities are long-term commitments, and accessing the funds before a specific surrender period can result in penalties and fees. If you anticipate needing immediate access to your funds or require withdrawal flexibility, an annuity may not be the best choice. Ensure that you have enough liquid assets for emergencies and short-term expenses.

Diversification: Annuities should be considered as part of a broader financial plan and investment portfolio. Relying solely on annuities may not provide the necessary diversity in your overall investment strategy. Having a diversified mix of investments is important to mitigate risk and meet your various financial goals

Personal Circumstances: Your circumstances, such as age, health, family situation, and other sources of income, can impact the suitability of an annuity. Consider how an annuity aligns with your specific situation and whether it meets your unique needs.

Q: SINCE A WITHDRAWAL OF PRINCIPAL IS TAX-FREE AND IRS PENALTY-FREE, CAN THE PRINCIPAL BE WITHDRAWN FIRST AND THEN INTEREST?

No, the IRS considers that interest earnings are withdrawn first. Naturally, any portion of a withdrawal exceeding interest earned would be a tax-free return on principal. The best withdrawal option can be used as a benefit under the "exclusion ratio." This allows for the withdrawal of the original deposit and earned interest over a fixed period to reduce the annual tax liability. Any annuity company will be able to provide you with the exclusion ratio calculation.

Q: WHAT IF THE ANNUITY IS PAYING AN INTEREST RATE LESS THAN OTHER FINANCIAL ALTERNATIVES?

Suppose the interest rate offered by an annuity is lower than other financial alternatives. In that case, it's important to carefully evaluate the overall benefits and drawbacks of the annuity before making a decision. Here are a few considerations:

- **Guarantees and Stability**: Annuities, particularly fixed annuities, offer guarantees and stability that may not be available with other financial alternatives. While the interest rate may be lower, the principal is typically protected, and you have the assurance of a predictable income stream during retirement. This can provide peace of mind and protect against market volatility.
- **Risk Tolerance**: Assess your risk tolerance and investment preferences. If you have a lower risk tolerance and prefer more investment stability, accepting a slightly lower interest rate with an annuity might align better with your risk profile. On the other hand, if you have a higher risk tolerance and are comfortable with market fluctuations, you might consider alternative investments that offer potentially higher returns.
- **Tax Efficiency**: Annuities offer tax-deferred growth, meaning the earnings accumulate without immediate tax implications. This can provide an advantage in terms of compounding growth over time. Compare the after-tax returns of the annuity with other alternatives, considering the potential tax benefits of the annuity structure.
- **Overall Financial Plan**: Evaluate how the annuity fits your financial plan. Annuities can serve specific purposes, such as providing a guaranteed income stream in retirement. Assess whether the lower interest rate aligns with your specific financial goals and the role you want the annuity to play in your portfolio.
- **Consider Diversification**: Diversification is important in managing risk and optimizing returns. If the annuity's interest rate is lower, consider diversifying your investments by including other asset classes or financial instruments that offer higher returns. This allows you to achieve a balance between stability and growth potential.

Q: HOW IS THE INTEREST RATE DECLARED AFTER THE INITIAL *guarantee* PERIOD ?

Current market conditions and the insurance company's investment portfolio will dictate renewal rates. This means that renewal credited rates may float up or down depending on the overall portfolio investment yield. At the same time, many companies use the "Portfolio Rate" method to determine rates after the initial guarantee period. Each state will have a guaranteed minimum rate of return for annuities, so regardless of market conditions, the annuity will always grow at some level. This guaranteed minimum interest rate applies only to fixed annuities and never to variable annuities. The interest rate declared after an annuity's initial guarantee period depends on the annuity contract's specific terms and conditions. Here are a few common scenarios:

- **Fixed Annuities:** In a fixed annuity, the insurance company typically declares the interest rate on an annual or periodic basis. After the initial guarantee period, which can range from one to several years, the insurance company may adjust the interest rate based on prevailing market conditions or other factors. The new interest rate is usually declared for a specific period, known as a renewal period, which may differ from the initial guaranteed rate.

- **Indexed Annuities:** Indexed annuities are linked to the performance of an underlying market index, such as the S&P 500. After the initial guarantee period, the interest rate credited to the annuity is determined based on the formula specified in the annuity contract, which considers the chosen index's performance during a specific period. The exact calculation method can vary among different indexed annuities.

- **Variable Annuities**: Variable annuities do not declare a specific interest rate. Instead, the annuity's performance is based on the investment performance of the underlying investment options, such as mutual funds, you have chosen. The returns in variable annuities are not guaranteed and can fluctuate based on the performance of the investments.

Q. WILL THE ANNUITY BE TIED UP IN PROBATE PROCEEDINGS?

No, by naming a beneficiary the proceeds of an annuity should transfer immediately and without delay.

Q: WILL THE BENEFICIARY BE TAXED ON THE INTEREST THAT HAS ACCUMULATED INSIDE THE Annuity?

The tax treatment of an annuity's interest for beneficiaries depends on several factors, including the type of annuity, the timing and method of distribution, and the beneficiary's tax situation. Here are some general guidelines:

Death Before Annuity Commencement: If the annuity owner passes away before the annuity starts making distributions, the interest accumulated inside the annuity is generally taxable to the beneficiary as ordinary income in the year it is received. The beneficiary would report the taxable portion of the distribution on their income tax return.

Death After Annuity Commencement - Non-Qualified Annuities: For non-qualified annuities (purchased with after-tax funds), if the annuity owner dies after the annuity has started making distributions, the interest portion of the annuity payments received by the beneficiary is generally taxable as ordinary income in the year it is received. The taxable portion is calculated based on the exclusion ratio, which considers the original investment and the expected payout stream.

Death After Annuity Commencement - Qualified Annuities: For qualified annuities (held within tax-advantaged retirement accounts like 401(k)s or traditional IRAs), the tax treatment of the interest for beneficiaries depends on the distribution rules of the specific retirement account. Generally, the beneficiary would be subject to income tax on the entire amount distributed from the qualified annuity.

It's important to note that tax laws can change, and individual circumstances may vary. It's advisable to consult with a tax professional or financial advisor who can provide personalized guidance based on your specific situation and the relevant tax regulations in your jurisdiction. They can help you understand the potential tax implications for your beneficiary and provide appropriate tax planning strategies.

Q: IS THE *Annuity* IDENTICAL TO AN IRA?

No, an annuity is not identical to an IRA (Individual Retirement Account), although there are some similarities and connections between the two. Here's an overview of the key differences:

Purpose: Annuity: An annuity is a financial product offered by insurance companies that provides a guaranteed income stream during retirement. It primarily focuses on providing retirement income and may offer features like principal protection and a steady stream of payments.
IRA: An IRA is a tax-advantaged retirement account that individuals can set up at financial institutions. It is designed to hold and invest retirement savings and offers various investment options, including stocks, bonds, mutual funds, and more.

Structure: Annuity: Annuities are structured as insurance contracts, typically purchased from insurance companies. They can come in different types, such as fixed, variable, or indexed annuities, each with its own characteristics and features.
IRA: IRAs are investment accounts that can be opened with financial institutions like banks, brokerage firms, or other qualified providers. They are governed by specific tax laws and regulations, allowing individuals to contribute and invest funds for retirement.

Tax Treatment: **Annuity:** Annuities provide tax-deferred growth, meaning that the earnings on the contributions accumulate on a tax-deferred basis until withdrawals are made. When withdrawals are taken, they are subject to income tax.
IRA: Traditional IRAs offer tax-deferred growth, meaning contributions are tax-deductible in the year of contribution, and earnings grow tax-deferred until withdrawals are made in retirement. On the other hand, Roth IRAs are funded with after-tax dollars, and qualified withdrawals in retirement are tax-free.

Contribution Limits: **Annuity:** Annuities do not have specific contribution limits like IRAs. Instead, the contributions to annuities are typically determined by the individual's financial situation and the insurance company's guidelines.
IRA: IRAs have annual contribution limits set by the IRS. For 2023, the annual contribution limit is $6,000 (or $7,000 if age 50 or older), subject to income limitations and other factors. These limits are subject to change based on IRS regulations.

While there can be some overlap in the use of annuities and IRAs for retirement planning, they are distinct financial products with different structures, tax treatments, and purposes. It's important to understand the specific features and rules and consider how they fit within your overall retirement planning strategy. Consulting with a financial advisor can help clarify how annuities and IRAs can work together or independently to meet your retirement goals.

Disclaimer: Information in this booklet is deemed to be accurate. When considering an annuity, seek licensed and professional advice from a professional. Often it is an intelligent decision to get a second opinion.