FINANCIAL BASICS:

Annuities 101

How annuity products could help you retire with greater confidence.

MYERS CAPITAL ADVISORS

When considering retirement, a common question is whether your savings will last as long as you need it to and provide the quality of life you've worked for. Annuities are a financial product that many consumers use to generate a steady stream of income during retirement. Annuities are long-term contracts between an individual and an insurance company. The contract holder agrees to pay the insurer a lump sum of money or series of payments which can grow over time, and the insurer agrees to pay a certain amount of money at regular intervals for a specific period of time. The duration of this period and the amount of money promised to the contract holder will vary depending on the type of annuity.

However, not all annuities are created equal. Some annuities offer immediate payment options (immediate annuities), while others are designed for growth and won't pay out funds until a set period of time, often years (deferred annuities). To determine if an annuity is suitable for you and your situation, you should understand the four basic types of annuities and their respective benefits and restrictions. Keep in mind that all annuities share a few common features:

- Tax deferral – annuity funds and their growth are taxed only upon withdrawal at ordinary income rates. They may incur an additional 10% federal penalty for withdrawals before age 59-1/2.
- Annuities typically bypass the probate process with a properly named beneficiary.
- All annuities involve fees and charges, including potential surrender penalties.
- Annuities can be funded with after-tax funds or with pre-tax funds as part of a qualified retirement plan.

Single Premium Immediate Annuities *(SPIAs)*

A single premium immediate annuity (SPIA) is one of the most consumer-friendly choices for retirees, particularly if they need immediate income. With an SPIA, the contract holder can convert their retirement savings, such as funds from a 401(k) or other savings vehicle, into an annuity contract, which provides a permanent stream of income. At the time of purchase, the contract holder can choose the frequency of payments, which can be monthly, quarterly, semi-annually, or annually, as well as any customized options. These options can vary between annuity contracts but typically include life only (income for the lifetime of one person), joint (income for one person and their spouse), and payments over a structured period of time (which can provide income to beneficiaries beyond your lifetime).

KEY ADVANTAGES OF SPIAs

- Guaranteed, immediate income, usually within one month of signing the contract.
- May allow you to defer taxes on part of your retirement savings.
- Customizable options to help you reach your goals.

IMPORTANT INFORMATION ABOUT OF SPIAs

- Are often illiquid, which means once your contract has issued it's set and there is no getting out unless you purchase additional features which usually come at the cost of income you receive from the policy.
- If you have not selected a certain period for your payments or purchased additional riders, your heirs are unlikely to receive a death benefit.
- This product is not designed for growth.

Multi-Year Guarantee Annuities *(MYGA)*

MYGAs are designed to help you avoid market volatility while taking advantage of tax-deferred growth. To get started with a MYGA, you purchase a single premium amount that fits your goals and budget. The company agrees to pay you a fixed interest rate on your premium amount for a specific period of time. At the end of the time period, you can either renew your annuity with an updated rate, leave your funds in at a fixed rate, get a settlement option, or withdraw your money.

You might be thinking that MYGAs sound a lot like fixed annuities, but not so fast. While all MYGAs are fixed annuities, not all fixed annuities are MYGAs. Although they can share some of the same features, the main difference is how the interest is calculated and for how long it may be guaranteed. MYGAs only provide a guaranteed interest rate for as long as the selected guaranteed period lasts, usually between one and ten years, and then the rate resets based on current economic conditions, at the discretion of the issuing company.

KEY ADVANTAGES OF MYGAs

- Fixed interest rates offer predictable, guaranteed interest rates in retirement.
- Because the rates are set for a certain number of years, you won't suffer from market fluctuations or experience investment losses.
- You won't pay taxes until you begin withdrawing from your MYGA.
- You can leave any remaining assets to your beneficiaries, causes, or organizations that you care about.

IMPORTANT INFORMATION ABOUT OF MYGAs

- The minimum premium amounts vary by product and company.
- If you need to elect for early withdrawal or surrender, there will be penalties that cost you money.
- Some contracts have a Market Value Adjustment (MVA)—positive or negative—to the accumulated value of your investment if you make a full or partial surrender during the surrender charge period.
- May provide lower returns than stocks or mutual funds.
- They may not keep pace with inflation over time.

Fixed Indexed Annuities *(FIAs)*

Fixed-indexed annuities (FIAs) are fixed annuity products that offer an alternative way to calculate interest. An FIA tracks a selected stock market index, such as the S&P 500 or the Dow Jones Industrial Average, and can earn interest tied to the performance of the selected index, typically on each contract anniversary. FIAs also protect a portion of your principal, so if the market index goes down, the worst that can happen is that you have zero interest for that year. However, if the index is higher on the anniversary of your contract, you receive a portion of the growth as indexed interest credits, subject to limits set by the company called caps, spreads, or participation rates.

KEY ADVANTAGES OF FIAs

- Your principal is protected from market volatility.
- Some contracts offer customization riders like guaranteed income or single and joint life options (some of these additional options may carry annual fees with them).
- Your money can grow tax-deferred.

IMPORTANT INFORMATION ABOUT OF FIAs

- Interest credits are not guaranteed and are dictated by the underlying performance of the indexes it's tied to, even if you've chosen to allocate to a fixed account which is subject to change year over year.
- You could lose buying power after years of rising inflation.
- You're locked into your annuity for a set number of years (the surrender charge period), which means you will incur penalties if you choose to withdraw more money.

Variable Annuities *(VAs)*

Like their counterparts, variable annuities offer periodic payments in exchange for a lump sum of money that can grow tax-deferred until you begin withdrawing. Once you begin withdrawing, the funds will be subject to ordinary income taxes. Because of this, variable annuities are considered to be long-term investments.

Like fixed and fixed indexed annuities, VAs have two phases: accumulation and payout. During the accumulation phase, you make purchase payments and allocate them to the investment options (often called “subaccounts”) you designate. For example, you could allocate 40% to bonds, another 40% to a U.S. stocks, and 20% to an international stock options. Your investments will fluctuate over time depending on performance, and while you could grow your money significantly, you can also lose money in a VA. You also have the option to allocate funds to a fixed account that pays a set rate of interest, but the insurance company can reset this rate periodically.

During the payout phase, you can choose to receive your purchase payments plus the investment income and gains (if any) as a lump-sum payment or monthly payments over a set or indefinite period (like you or your spouse’s lifetime).

KEY ADVANTAGES OF VAs

- Your money can grow tax-deferred.
- VAs include a death benefit and sometimes a “stepped-up” death benefit which will lock in your investment performance and prevent a decline in value later.
- Your money has the potential to grow based on changes in the stock and bond markets.

IMPORTANT INFORMATION ABOUT OF VAs

- Additional features come with extra charges.
- You may be charged a transfer fee if you move money between investments.
- The fees are typically higher than other annuities.
- They can be quite complex and sometimes carry riders with them you don’t need (but will pay for anyway) if you don’t review them thoroughly.
- Your investment can experience principal loss in negative market environments.

Is An Annuity Right for You?

Annuities are complex financial products. Having a guide to walk you through the ins and outs of each product you consider is always best. The most important tip we can give you is to know what you're buying. Even the smallest detail in an annuity could cost you. We'll help you review the terms, conditions, time periods, and additional contract options to determine if an annuity makes sense for you, and if so, which products work with your retirement strategy to help you achieve the quality of life you deserve.

Annuities are long-term products designed for retirement income. All guarantees are backed by the financial strength and claims-paying ability of the issuing company and do not apply to the performance of the variable sub accounts available in variable annuities. ***Variable annuities are subject to risk, including the possible loss of principal.***

Purchasing an annuity within a retirement plan that provides tax deferral under sections of the Internal Revenue Code results in no additional tax benefit. An annuity should be used to fund a qualified plan based upon the annuity's features other than tax deferral. All annuity features, risks, limitations, and costs should be considered prior to purchasing an annuity within a tax-qualified retirement plan. Product and feature availability may vary by state.

Before investing in a variable annuity, contact your financial professional for a prospectus. The prospectus contains details on investment objectives, risks, fees, and expenses, as well as other information about the variable annuity and variable investment options, which your clients should carefully consider. Encourage your clients to read the prospectuses thoroughly before sending money.

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