



ANNUITY PRODUCT OVERVIEW

- EXECUTIVE SUMMARY
- CLASSIFYING ANNUITIES
- DISTINGUISHING ATTRIBUTES
- PRODUCT EXAMPLES

Contact:



(866) 900-5050



info@SETITANDLEAVEIT.com

www.SETITANDLEAVEIT.com

DISCLAIMER

- The following content is not meant to recommend or solicit the purchase of any financial products or investments.
- Content and product descriptions here within are hypothetical and meant for illustrative purposes only.
- Please read any contract or agreement thoroughly before purchase or signing.
- Annuities may result in financial loss.
- Annuities embed and assess fees – some of which are paid out in commissions to the agent(s) selling them.

EXECUTIVE SUMMARY

- *Annuities* are contracts between you and an insurance company.
- They are designed to address various goals related to investing (i.e., saving or accumulation) and retirement (i.e., income).
- Lifetime income guarantees, tax deferral, and other features make annuities different than standard investments like stocks and bonds.
- There are three primary types of annuities[†]: Fixed, index, and variable.
- Most annuities allow for customization via riders and other options.
- Annuities range from simple to complex and their fees range from low to extremely high (e.g., more than 3% a year).

[†] Some entities classify annuities differently. We follow the conventions of our financial regulators (i.e., [SEC](#) and [FINRA](#)).

NOTE: We address frequently asked questions and provide definitions for many annuity-related terms on our [FAQ page](#).



CLASSIFYING ANNUITIES

Annuities are multi-dimensional products. They are often presented in different and seemingly conflicting ways. Below we offer our perspective on classifying and navigating various annuity products you are likely to encounter.

THREE PRIMARY TYPES OF ANNUITIES

FIXED

Fixed annuities offer guaranteed rates of return or guaranteed levels of cash flows (i.e., no stock market dependence).

INCOME

An *income* annuity is a type of fixed annuity that effectively converts capital into a stream of income that can continue for as long as you live.

INDEX

Fixed index annuities (FIAs) can offer growth based on the performance of an underlying index (e.g., S&P 500) with no risk of loss[†].

[†] When held for a pre-specified period.

MYGA

Fixed rate annuities like the *multi-year-guaranteed annuity* (MYGA) allow you to grow capital at a fixed rate of return like certified deposits (CDs).

VARIABLE

The value or payout of a *variable* annuity depends on the performance of underlying investments (e.g., stock + bond funds) called *sub-accounts*.

Note: We generally find *variable* annuities to be too complex and too expensive for most situations. Please [contact us](#) if you would like more details.

DISTINGUISHING ATTRIBUTES

Below we highlight various facets of annuity products that are important to consider.

Facet	Description
Purpose	Each type of annuity is generally geared for either growth or income. However, some may be used for both purposes.
Transparency	Annuity products range from simple and intuitive to extremely complex.
Method of purchase	Annuities are generally purchased via lump sum or by a series of smaller payments.
Fees	It is critical to understand the fees you pay when purchasing an annuity. Some annuity fees are <i>embedded</i> in the returns or payouts they guarantee while others are <i>assessed</i> and paid as you go. A portion of the fees will typically be paid as commissions to the agent who sells the product.
Riders	Most annuities offer riders . These are options that allow you to customize the product.
Taxes	Annuity products can offer tax-deferral, but gains are taxed as income upon withdrawal. This balance is an important consideration – especially for index and variable annuity products.
Surrender period	Some annuities specify a period of time (<i>surrender</i> period) whereby they may impose penalties (surrender charges) on withdrawals.
Credit-worthiness	Annuity guarantees are subject to the credit-worthiness of the carriers issuing the product. Lower-quality carriers typically offer better terms, but also pose more credit risk. Most states offer guaranty programs whereby they effectively insure the insurer.

NOTE: We created short educational [videos](#) to help explain annuities and other retirement concepts.

PRODUCT EXAMPLES (FIXED)

Type	Product		Description	Account Types
Fixed	Single premium immediate annuity (SPIA)	INCOME	Lump sum purchase of guaranteed income starting within the next 12 months.	Eligible for qualified or non-qualified accounts. Special tax treatment to fulfil required minimum distributions (RMDs).
Fixed	Deferred income annuity (DIA)		Lump sum purchase of guaranteed income starting in 13 months or later.	Eligible for qualified or non-qualified accounts. Client must not be older than 69 for qualified accounts.
Fixed	Qualified longevity annuity contract (QLAC)		Effectively a DIA that allows one to defer RMDs.	Qualified accounts. Limited to the lesser of \$130,000 or 25% of one's IRA assets.
Fixed	Longevity insurance		Effectively a DIA that can start when client is 85 years old.	Eligible for qualified or non-qualified accounts.
Fixed	Multi-year guaranteed annuity (MYGA) / Fixed rate annuity (FRA)	GROWTH	Guarantee a fixed rate of return over a specified period like a certified deposit (CD).	Eligible for qualified or non-qualified accounts.

NOTES

- The value within annuity products accrues on a tax-deferred basis. This is beneficial for fixed annuities in taxable accounts since interest is fully reinvested rather than being taxed (as income) when paid.
- Income annuities typically have four payout options (not always available for some types of annuities):
 - Life only: Income lasts throughout one's life – even if they pass right away.
 - Life with cash refund: Income lasts throughout one's life, but beneficiaries receive the balance if the total payments were less than the premium(s) paid. Effectively guarantees no loss or a minimum return of zero.
 - Life with period certain: Income lasts throughout one's life, but for at least a certain number of years – going to beneficiaries if policyholder passes during this guaranteed period.
 - Fixed period: Income is paid for a specific period – going to beneficiaries if policyholder passes.

PRODUCT EXAMPLES (INDEX/VARIABLE)

Type	Product		Description	Account Types
Index	Fixed index annuity (FIA)	GROWTH / INCOME	Performance is calculated based on the price returns [†] of an established stock market index (e.g., S&P 500™). However, the returns over each period are limited on the downside and upside. For example, there may be a minimum return of 2% and a maximum return of 8% each year.	Can be qualified or non-qualified account.
Variable	Variable annuity (VA)		Performance is based on the actual performance of underlying investments called <i>sub-accounts</i> . There are not floors or caps on returns. However, there are riders on can select that guarantee minimum amounts of lifetime income and/or death benefits.	Can be qualified or non-qualified account.

[†] Price returns do not include dividends.

NOTES

- In general, variable and index annuities are rather complex products with many moving parts.
- The primary purpose of fixed index and variable annuities is growth, but one may add riders for guaranteed income.
- Their fees can be high and significant surrender charges may apply if funds are withdrawn too early.
- One should carefully consider the purpose of variable and index annuities. It is often more tax-efficient to hold stock-related investments in taxable accounts where the generally lower long-term capital gains rates may apply.
- Variable and index annuities tend to pay brokers higher commissions.
- The complexity and conflicts of interest make it important to work with a fiduciary who can understand these products and act in your best interests.

**PLEASE READ THE IMPORTANT DISCLAIMER
AT THE BEGINNING OF THIS BROCHURE.**