Your Retirement Advisor
978.345.7075
lynnt@yourretirementadvisor.com
www.YourRetirementAdvisor.com

An Introduction to Annuities

What Is an Annuity?

An annuity is an insurance-based contract between you and the issuer.

How an annuity works:

- You pay premiums with after-tax dollars
- Issuer invests your money
- Earnings accumulate tax deferred
- Earnings are taxed as ordinary income when distributed

Some key terms defined

- **Owner** -- Usually purchases the annuity, pays the premiums, and names the beneficiary in the event of death. The owner can make withdrawals from the annuity or surrender it, and receive the payments if the annuity is annuitized.
- **Issuer** -- Generally an insurance company. The issuer accepts the premium payments, invests them in accordance with the annuity contract, and promises* to pay whatever benefits the annuity contract stipulates.
- **Annuitant** -- Provides the "measuring life" used by actuarial tables to determine the amount of the payments if the annuity is annuitized. Typically, the annuitant is also the owner of the annuity.
- **Annuitization** -- The conversion of an annuity into a stream of payments.
- **Beneficiary** -- Named by the owner of the annuity, the beneficiary receives the proceeds of the annuity if the owner dies before annuitization, or receives the remaining benefits (if any, depending on the annuitization payout selected) at the time of the owner's death.
- **Accumulation phase** -- The time period when premium payments are made.
- **Distribution phase** -- The time period when money is taken out of the annuity, either through withdrawals or an annuitization payout option.
- **Immediate annuities** -- Typically purchased with a single lump-sum payment, and the distribution period usually begins within a year of the purchase.
- **Deferred annuities** -- Most often purchased with a series of periodic payments. The distribution period begins sometime in the future, which allows any earnings to grow on a tax-deferred basis.

**Guarantees are subject to the claims-paying ability of the issuer.*

Why Buy an Annuity?

Reasons to buy

- To provide tax-deferred savings and a dependable income for life
- To save for a specific purpose
- To supplement other retirement income
- To maintain financial independence

Possible annual retirement expenses

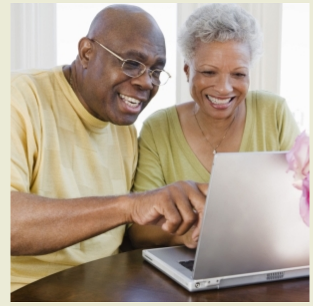
1.	Enter projected income in year prior to retirement	$ ___________
2.	Multiply by .80	x .80
3.	Result	$ ___________

Taking 80 percent of your anticipated income is a very simple way of estimating possible annual expenses in retirement. Obviously, your actual expenses will depend on your individual circumstances.

Estimated annual retirement income

4.	From Social Security	$___________
5.	From traditional employer pension plan	$___________
6.	From other retirement plans (e.g., 401(k) and IRAs)	$ ___________
7.	Other retirement income	$ ___________
8.	Total	$ ___________

Difference (line 3 – line 8) $ ___________



Will your estimated retirement income meet your anticipated expenses?

If not, an annuity can help you "bridge the gap."

"Compound interest is the greatest mathematical discovery of all time."-- attributed to Albert Einstein

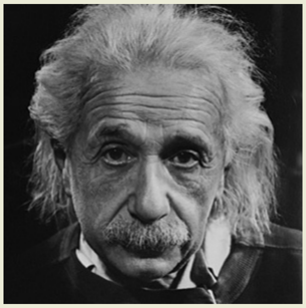
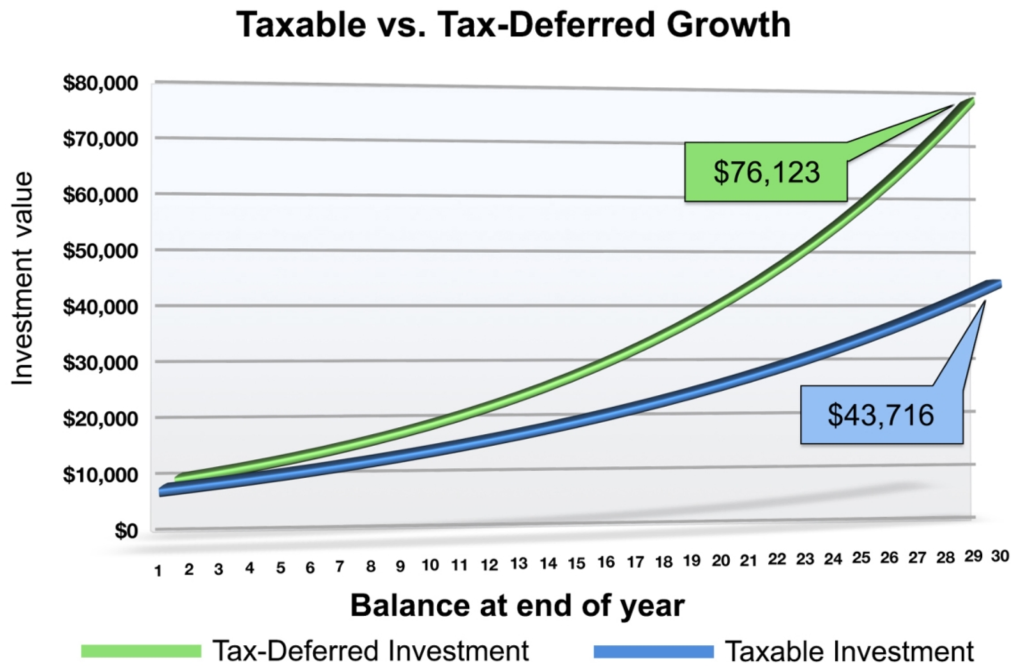


Photo: Philippe Halsman, Albert Einstein, silver gelatin print 1947, © Halsman Estate

Two Types of Growth



Assumptions:

1. Lump-sum investment of $10,000
2. Earning 7 percent a year compounding annually
3. You are in the 28 percent income tax bracket

This hypothetical example is for illustrative purposes only, and is not representative of any specific investment or mix of investments. Actual results will vary. Taxable investment assumes earnings are taxed as ordinary income. Investment is not reflective of possible lower maximum tax rates on capital gains and dividends, which would make the taxable investment more favorable, thereby reducing the difference in performance between the accounts shown. Earnings in the tax-deferred account will be taxed upon withdrawal as income at then-current rates. Applicable annuity charges are not reflected in this illustration. Had they been included, the return of the annuity would be lower. Consult a financial professional about how this example relates to your own situation.

You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison.

> ***Your annuity earnings grow tax deferred. As a result, you have the potential to accumulate more money than you could with similar investments that are taxed each year. Why? Because the money that's not going to taxes keeps compounding.***

Annuities vs. 401(k)s and IRAs

Of course, annuities aren't the only choice offering tax-deferred growth potential; retirement plans such as 401(k)s and individual retirement arrangements (IRAs) do that as well.

And, in general, 401(k)s and IRAs have more tax advantages. So, it makes sense to take full advantage of these other plans before considering an annuity. But not everybody can. And even if you can, 401(k)s and IRAs both have annual contribution limits. However, anyone can purchase an annuity and invest an unlimited amount in it.

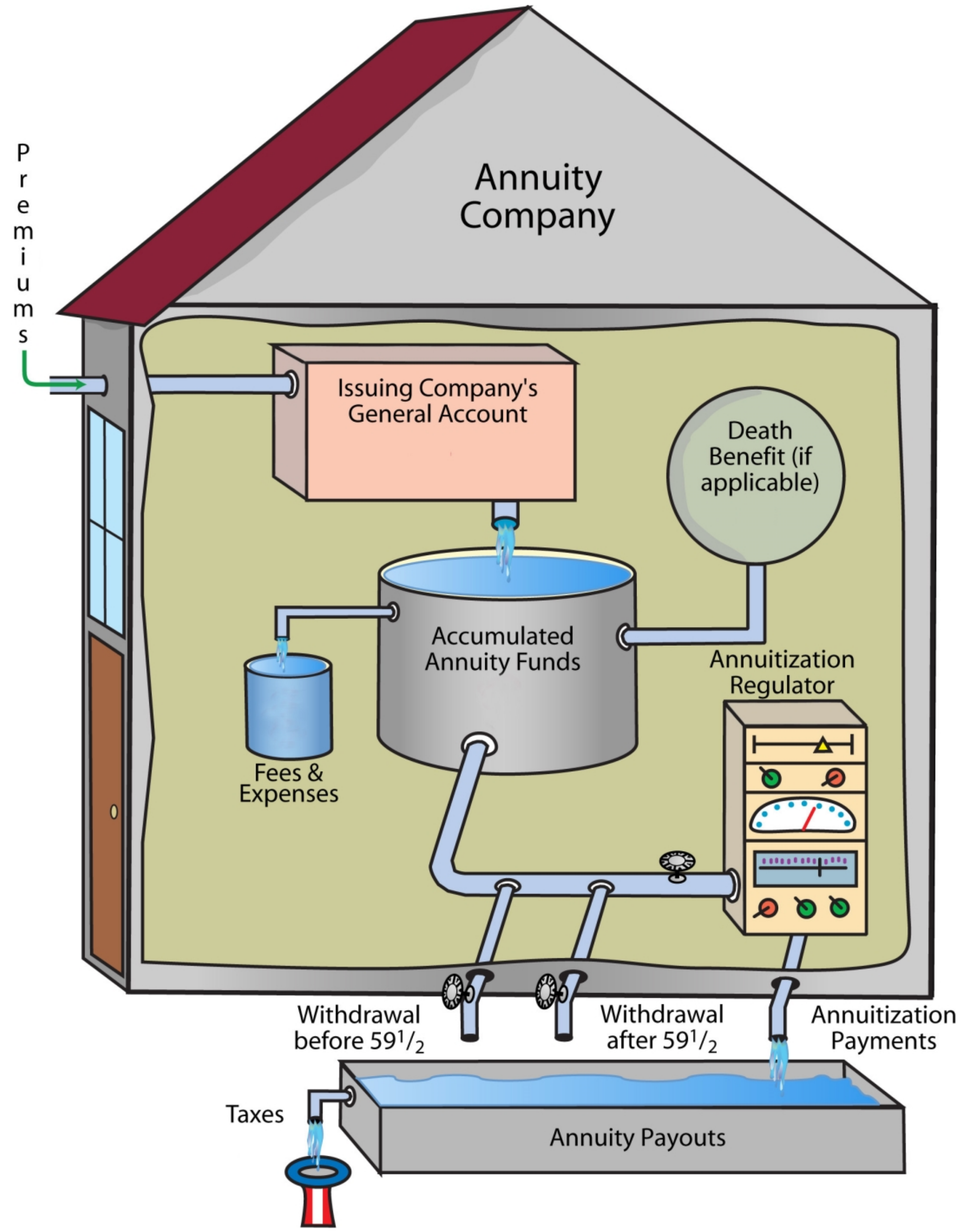
Here's what may be one of the most important distinctions between annuities and other retirement investments: an annuity can be converted into a stream of payments, and one of the payment options available to you is a stream of payments you can't outlive--no matter how long you live. While it's entirely possible that the funds you accumulate in an IRA or 401(k) could last for your entire life, there's generally no guarantee--it's possible that you could outlive your funds.

Annuities	401(k)s and Traditional IRAs	Roth IRAs
Generally funded with after-tax dollars	Can be funded with before-tax dollars	Funded with after-tax dollars, but qualified distributions are tax free
Unlimited contributions	Limited contributions	
Can elect death benefit	Generally no death benefit guaranteed	
Higher costs and fees generally apply	Costs and fees typically lower depending on the investments chosen	
No lifetime required minimum distributions (RMDs)	RMDs after age 70½	No lifetime RMDs
Can be converted to a guaranteed lifetime income stream*	Although funds accumulated in a 401(k) plan or an IRA could well last for your life, there's generally no guarantee	Although funds accumulated in a Roth IRA could well last for your life, there's generally no guarantee

**Guarantees are subject to the claims-paying ability of the annuity issuer. The earnings portion of annuity withdrawals is subject to income tax at ordinary income tax rates. Pretax or tax deductible contributions and pretax earnings are subject to income tax at ordinary tax rates when withdrawn.*

Employers can allow 401(k) participants to make after-tax Roth 401(k) contributions. Qualifying distributions from Roth 401(k) accounts are free from federal income tax, but Roth 401(k) accounts are subject to lifetime RMD requirements.

Putting Money in a Fixed Annuity



- You pay premiums to the issuer
- The issuer invests your premiums in its general account*
- Earnings compound and accumulate on a tax-deferred basis
- Annuity contract specifies how principal will be returned and the minimum rate of interest to be paid**

**Funds invested as part of the issuer's general account are subject to the claims of the issuer's creditors.*

***Guarantees are subject to the claims-paying ability of the issuer.*

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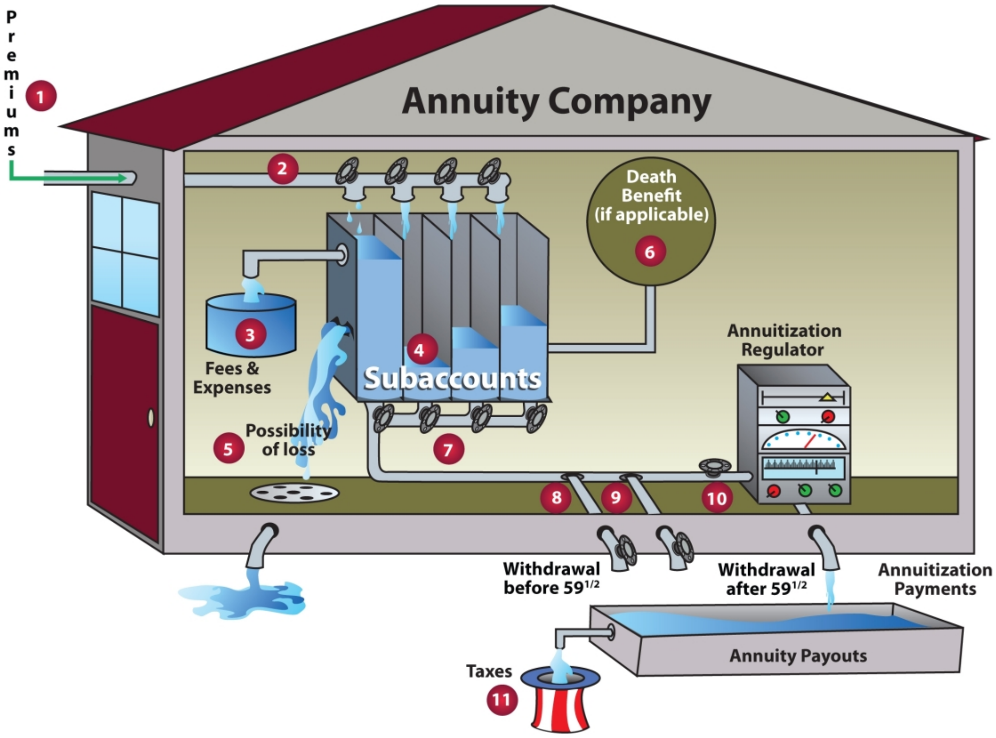
Putting Money in a Variable Annuity



- You can allocate premiums to investment choices ("subaccounts") offered by the issuer
- You can reallocate funds among subaccounts without incurring commission charges or triggering a taxable event
- Earnings are tied to the performance of the underlying subaccounts you choose
- If your subaccount choices perform poorly, you may lose money, including principal

Variable annuities are long-term investments suitable for retirement funding and are subject to market fluctuations and investment risk, including the possibility of loss of principal. Variable annuities contain fees and charges including, but not limited to, mortality and expense risk charges, sales and surrender (early withdrawal) charges, administrative fees, and charges for optional benefits and riders.

Variable annuities are sold by prospectus. You should consider the investment objectives, risk, charges, and expenses and its underlying accounts carefully before investing. The prospectus, which contains this and other information about the variable annuity, can be obtained from the insurance company issuing the variable annuity, or from your financial professional. You should read the prospectus carefully before you invest.

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Death benefit proceeds are not subject to probate, and are paid to your beneficiaries without delay.

**Guarantees are subject to the claims-paying ability of the issuer.*

Guaranteed Death Benefit

Annuities can provide guaranteed* death benefits to your named beneficiary

If you die before the annuity is annuitized, your named beneficiary will generally receive the greater of 100 percent of the premiums you've paid, or the annuity's cash value at the time of your death, less any withdrawals you may have taken.

If you die after annuitization has started, several annuitization options provide benefits to your named beneficiary after your death.

Payments your beneficiary receives from the annuity, in the form of death benefits or through annuitization, that exceed the premiums paid may be subject to income tax.

How much death benefit do you need?

Annual income needed	$______	
Number of years income needed	x______	
Total income needed		$______
Other needs:		
Education fund for children	$______	
Cash reserve account	$______	
Outstanding mortgage balance	$______	
Other debts	$______	
Final illness/funeral	$______	
Estate settlement costs	$______	
Total		+ $______
Total need		= $______
Less:		
Cash and other liquid savings	$______	
Other assets available to repay debt	$______	
Annual replacement income	$______	
Number of years income available	x______	
Total replacement income	$______	
Current life insurance	$______	
Total		– $______
Additional death benefit needed		$______

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Taking Money out of an Annuity

Withdrawals

You may withdraw money from an annuity at your own discretion, although withdrawal of earnings prior to age 59½ may be subject to a 10 percent penalty tax and applicable surrender charges. Withdrawals can be taken in fixed or varying amounts. While fixed annuity withdrawals are made from the issuer's general account, you may choose the subaccounts from which variable annuity withdrawals are taken.

Annuitization

At some point, you can also elect to receive periodic income payments referred to as annuitization. You can elect to receive payments monthly, quarterly, semiannually, or annually. Unlike fixed annuities, which pay a guaranteed* stream of fixed payments, variable annuities offer fixed payments or variable payments based on the performance of the subaccounts underlying your annuity, or you may choose a combination payment consisting of a fixed portion and a variable portion.

Guarantees are subject to the claims-paying ability of the issuer.

Annuity payout options

Payments for life -- You receive payments for the rest of your life. With this option, you may not live long enough to receive the return of your investment in the contract.

Payments for a specified period -- Payments are made for a predetermined period of time, after which they stop.

Payments for life with a term certain -- Payments are made for the rest of your life or a stated period of time, whichever is longer.

Refund life -- You receive payments for life, with the assurance that if you die before receiving at least the amount of your premium, the remaining balance will be paid to your beneficiary.

Joint and survivor life -- Payments are made over two lives. When the first person dies, payments (or a portion of the payments) continue for the rest of the life of the second person, or for a minimum period of time, whichever is longer.

Once you annuitize, you usually can't change your mind--you're no longer allowed to invest further in the annuity, make other withdrawals, or select a different payment option.

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Tax Consequences

The federal income tax consequences are essentially the same for fixed and variable annuity withdrawals. The portion of any withdrawal or payout that's considered earnings will be taxed as ordinary income.

Generally, withdrawals are considered to be coming from the earnings portion of the annuity first, then from the principal. If you annuitize, however, each payment is considered to be partially a return of your principal investment and partially a distribution of earnings on that investment.

With a few exceptions, in addition to the ordinary income tax on the withdrawal, a 10 percent premature distribution tax will be imposed on distributions you take from your annuity prior to the date you reach 59½ years of age.

Gifting an annuity may also have tax consequences for the annuity owner, and, generally speaking, the value of an annuity contract is includable in a deceased owner's gross estate. Your state may also impose taxes on annuities. Because taxation of annuities can be complicated, you should consult your tax advisor with any tax questions you may have.

**Guarantees are subject to the claims-paying ability of the issuer.*

Fixed annuity expenses

- May charge an annual contract fee
- May charge surrender fees if you withdraw some or all of your investment in the early (5 - 10) years of the contract

Variable annuity expenses

- An annual contract fee
- A mortality and expense risk charge that compensates the issuer for some of the guarantees that may be associated with the annuity
- Subaccount costs may include investment advisory fees and operational expenses
- May charge surrender fees if you withdraw some or all of your investment in the early (5 - 10) years of the contract

Before you buy: A checklist

Caution: Compare similar contracts. Do not compare fixed annuities with variable annuities.

- ❑ Have you received and read the annuity contract/prospectus?
- ❑ What is the issuer's rating?
- ❑ What are the fees and expenses?
    - ❑ Sales commission
    - ❑ Surrender fees
    - ❑ Mortality and expense risk charge
    - ❑ Annual maintenance fee
    - ❑ Investment advisory fee
    - ❑ Other expenses
- ❑ Fixed annuities: What are the guaranteed* and current interest rates? Does the first-year rate include a bonus rate?
- ❑ Variable annuities: What types of subaccounts are available? What is the most recent 12-month rate of return? What has been the rate of return for the past 3 to 5 years?

**Guarantees are subject to the claims-paying ability of the issuer.*

Annuity riders provide options and benefits that may make the annuity more suitable for your financial needs and goals.

Common Annuity Riders

Annuity issuers usually offer optional features, through riders, not otherwise found in the basic annuity contract. Riders differ based on the issuer and the type of annuity, and they can cost anywhere from 0.1 percent to 1.0 percent or more of the annuity's contract value each year.

Immediate annuity riders

Some immediate annuity riders offer features such as increasing payments each year to offset the effects of inflation (cost-of-living rider). Another rider ensures that if you don't live long enough to collect payments at least equal to your premium, then the balance will be paid to your beneficiary in a lump sum (cash refund rider) or in a series of payments (installment refund rider). If you need a lump-sum payment from your immediate annuity, the commuted payout rider allows you to accelerate future payments into a single payment.

Variable annuity riders

Common variable annuity riders offer guarantees* not provided by the basic policy. These guarantees include restoration of your premium if the annuity falls below that amount due to poor investment performance. You may be able to access this amount either through periodic withdrawals (the guaranteed withdrawal benefit rider) or in a lump sum after a stated number of years (the guaranteed accumulation benefit rider), or you can receive a guaranteed income for a fixed period of time or for your life without annuitization (guaranteed lifetime withdrawal benefit rider).

Fixed annuity riders

Common fixed annuity riders waive some or all applicable surrender charges, allowing more access to your annuity's cash value for such needs as long-term care (long-term care rider), if you become disabled (disability rider) or unemployed (unemployment rider), or if you suffer from a terminal or life threatening illness (terminal illness rider).

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IMPORTANT DISCLOSURES

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