

What Is an Annuity?

An annuity is a contract with an insurance company that is funded by the purchaser and designed to generate an income stream in retirement. It is a flexible financial vehicle that can help protect against the risk of living a long time because it provides an option for a lifetime income.

Two advantages of annuities are that the funds accumulate tax deferred and they can be distributed in a variety of ways to the contract owner.

There are many different types of annuities. Immediate annuities are designed to provide income right away, whereas deferred annuities are designed for long-term accumulation. Some annuities offer a guaranteed rate of interest, whereas others do not.

Generally, annuities have contract limitations, fees, and charges, which can include mortality and expense charges, account fees, underlying investment management fees, administrative fees, and charges for optional benefits. Most annuities have surrender charges that are assessed during the early years of the contract if the contract owner surrenders the annuity. Withdrawals of annuity earnings are taxed as ordinary income and may be subject to surrender charges, plus a 10 percent federal income tax penalty if made prior to age 59½. Withdrawals reduce annuity contract benefits and values. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing company. Annuities are not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association. For variable annuities, the investment return and principal value of an investment option are not guaranteed. Variable annuity subaccounts fluctuate with changes in market conditions; thus, the principal may be worth more or less than the original amount invested when the annuity is surrendered.

Variable annuities are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity contract and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

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