Why Do People Buy Annuities?

Annuities are insurance-based financial vehicles that can provide many benefits sought by retirement-minded investors. There are a number of reasons why people buy annuities.

Deferral of taxes is a big benefit, and so is the ability to put large sums of money into an annuity — more than is allowed annually in a 401(k) plan or an IRA — all at once or over a period of time. Annuities offer flexible payout options that can help retirees meet their cash-flow needs. They also offer a death benefit; generally, if the contract owner or annuitant dies before the annuitization stage, the beneficiary will receive a death benefit at least equal to the net premiums paid. Annuities can help an estate avoid probate; beneficiaries receive the annuity proceeds without time delays and probate expenses. One of the most appealing benefits of an annuity is the option for a guaranteed lifetime income stream.

When you purchase an annuity contract, your annuity assets will accumulate tax deferred until you start taking withdrawals in retirement. Distributions of earnings are taxed as ordinary income. Withdrawals taken prior to age 59½ may be subject to a 10% federal income tax penalty.

Fixed annuities pay a fixed rate of return that can start right away (with an immediate fixed annuity) or can be postponed to a future date (with a deferred fixed annuity). Although the rate on a fixed annuity may be adjusted, it will never fall below a guaranteed minimum rate specified in the annuity contract. This guaranteed rate acts as a “floor” to help protect owners from periods of low interest rates. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Variable annuities offer fluctuating returns. The owner of a variable annuity allocates premiums among his or her choice of investment subaccounts, which can range from low risk to very high risk. The return on a variable annuity is based on the performance of the subaccounts that are selected. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. The investment return and principal value of an investment option are not guaranteed. Variable annuity subaccounts fluctuate with changes in market conditions. When a variable annuity is surrendered, the principal may be worth more or less than the original amount invested.

Variable annuities are long-term investment vehicles designed for retirement purposes. They 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.

Of course, there are contract limitations, fees, and charges associated with annuities, which can include mortality and expense risk charges, sales and surrender charges, investment management fees, administrative fees, and charges for optional benefits. Surrender charges may apply during the contract's early years in the event that the contract owner surrenders the annuity. Variable annuities are not guaranteed by the FDIC or any other government agency; nor are they guaranteed or endorsed by any bank or savings association.