

Annuities: A Quick Guide

An annuity is a contract with an insurance company that provides regular payments in exchange for a lump sum or series of premiums. A common retirement income source, its earnings grow tax-deferred until withdrawal.

How Do Annuities Work?

To understand how annuities work, it's essential to grasp the key components:

- **Premium:** This is the initial amount you pay to the insurance company to fund the annuity. You can pay a lump sum or make periodic payments.
- **Accumulation Phase:** During this phase, your premium grows tax-deferred. The insurance company invests your funds in various assets such as bonds or stocks, depending on the type of annuity.
- **Annuitization:** At a set point, you can choose to start receiving payments. This phase, called annuitization, can provide income for a specific period or for life.
- **Distribution Phase:** Once annuitization begins, the insurance company makes regular payments to you. These payments can be monthly, quarterly, or annually, based on the annuity terms.

Benefits of Annuities

Annuities provide income security by offering a guaranteed stream of payments to cover essential retirement expenses. They also offer tax benefits, as earnings grow tax-deferred until withdrawal, potentially reducing current tax liability.

Types of Annuities

Fixed Annuities

Offer a guaranteed interest rate for stability and security, ideal for risk-averse individuals.

Variable Annuities

Allow investment in sub-accounts with returns based on market performance, offering greater growth potential but no guarantees.

Immediate Annuities

Begin payments shortly after the premium is paid, making them suitable for those who need income right away.

Deferred Annuities

Accumulate funds over time, providing income at a future date.

Indexed Annuities

Provide returns tied to a financial index, balancing growth potential with some protection.

80%
of annuity owners
feel financially secure
in retirement.¹

¹Insured Retirement Institute (IRI), 2020 Fact Book