Retirement Planning

UNDERSTANDING ANNUITIES

Learn how these versatile investments can be part of your strategy for retirement savings and income.

RAYMOND JAMES®

ANNUITIES CAN HELP PROVIDE THE RETIREMENT INCOME YOU NEED.

Planning for retirement should be an important part of your overall financial program. Selecting the appropriate financial products and strategies can help provide you with the income you will need down the road.

Whether you are facing retirement, years away or already there, selecting an appropriate annuity can help provide you with the income you need, for as long as you need it.

Many types of annuity contracts exist, each with a variety of available options. The information in this brochure, and the guidance of your financial advisor, can help you determine whether an annuity is appropriate and, if it is, which type of annuity best meets your specific requirements.

Living longer in retirement only adds to the importance of having a long-term plan.

LONGER LIFETIMES

Calculated Life Expectancy[1]		
	Males	Females
75% expect to live until age:	77	80
50% expect to live until age:	85	85
25% expect to live until age:	90	90
10% expect to live until age:	96	95

[1]Life expectancy is calculated by adding expected age at retirement and expected length of retirement for workers providing both pieces of information.

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

Unlike most retirement plans, there are no restrictions on the amount you can place in an annuity.

WHAT IS AN ANNUITY?

An annuity is a contract between you and an insurance company. You agree to make a payment or series of payments to the insurer, who in turn guarantees* specified payments back to you when you determine you need them to start. The guarantees are as strong as the underlying company.

Because annuities are designed as retirement vehicles, certain restrictions apply. For example, early withdrawals prior to age 59½ may be subject to penalties. However, unlike most retirement plans, there are no restrictions on the amount of money you can place in your annuity.

In addition to the issuer, three or more participants may be involved in an annuity contract: the owner, the annuitant and the beneficiary (or beneficiaries). The annuitant and the owner are usually, but not necessarily, the same person.

The owner purchases the annuity, pays the premiums, names the contract's beneficiary and has all the rights to the contract. The owner is also responsible for any taxes due upon surrender or payout. The annuitant is the person whose age and life expectancy are used to determine the annuity's benefits and who receives the annuity payments. The beneficiary receives the death benefit, if any, upon death of the annuitant or the owner.

QUALIFIED AND NON-QUALIFIED MONEY

Whether you buy your annuity with qualified money (tax-deductible funds) or non-qualified money (funds that have already been taxed), you can accrue tax-deferred interest throughout your lifetime. However, the benefit to purchasing an annuity with non-qualified money is that you are never required to take distributions and there is no maximum contribution limit set by the IRS.

In contrast, if you own a qualified contract, the IRS requires that you take minimum distributions (RMDs) annually beginning at age 70½. Such distributions are taxed at your current income tax rate at the time of the withdrawal.

*Guarantees are based on the claims-paying ability of the issuing company.

DEFERRED AND IMMEDIATE ANNUITIES

An annuity may be either immediate or deferred – that is, for income now or later. If you are at least five to ten years from retirement, a deferred annuity may be right for you.

Deferred annuities have an accumulation period, during which you pay premiums funding the annuity. Also during this period, any appreciation or income grows tax-deferred. Following the accumulation phase is the distribution period, when income payments start.

If you are about to retire or have already retired, an immediate annuity may be appropriate. Usually purchased with a single payment (called a premium), immediate annuities provide income payments that start no later than one year after the premium is paid.

An annuity may be either immediate or deferred – that is, for income now or later.

ADVANTAGES AND DISADVANTAGES OF DEFERRED ANNUITIES

Possible Advantages	Possible Disadvantages
Provide opportunity for tax-deferred growth	Earnings are taxed as ordinary income
No minimum distributions are required, unlike traditional IRAs and many other qualified retirement plans	Early withdrawal penalty may apply if funds are withdrawn before owner turns 59½
No contribution limits exist	Funds are partially illiquid during accumulation period
Tax-free transfers between annuity contracts are allowed by IRS Tax Code (Section 1035)	Surrender charges typically apply
Avoids probate and, in some states, offers protection against creditors	Annuities need to be set up prior to judgment
Death benefits may be available	Annuities require a long-term investment time frame (typically five years or longer) because of surrender charges often associated with early withdrawals.

Earnings on non-qualified deferred annuities grow tax-deferred until withdrawn, which offers some control over when taxes are paid. As payout begins, gains are withdrawn first and taxed as ordinary income. No taxes are paid on return of principal. Withdrawals of gains prior to age 59½ are subject to a 10% federal tax penalty. The entire value of the annuity is included in the owner's estate for estate tax purposes, and any gains the beneficiaries receive are taxed as ordinary income.

Annuities involve both risks and fees. (See page 10 for information on fees and charges.) For example, investing in variable annuities involves the possible loss of principal, while investing in fixed annuities may not generate the income required to keep pace with inflation. In addition, annuities can vary from one issuer to another. Make sure to discuss all aspects of any annuity you are considering with your financial advisor before making a decision.

THREE TYPES OF DEFERRED ANNUITIES

Three broad types of deferred annuities are widely available. Two of them – fixed and indexed annuities – are primarily savings vehicles. Variable annuities – the third category – are designed as investment vehicles for retirement purposes. Today's variable annuity is typically accompanied by a guaranteed lifetime income rider provided by the issuing insurance company.*

FIXED ANNUITIES

These insurance contracts may be appropriate if you do not want to assume any market risk. That is, the contracts are more concerned with safety of principal and a consistent, guaranteed return than they are with obtaining a high rate of return.

Fixed annuities are often considered to be alternatives to fixed income products such as CDs. If taxes are a concern, a deferred fixed annuity may be a better option than a CD. Earnings on CDs are taxable in the year the interest is earned, even if no funds are withdrawn. Withdrawing funds from a CD early may incur an early termination penalty, which is usually a portion of the interest earned.

Fixed annuities usually carry a declining surrender charge schedule and have different liquidity features than CDs, which means that these annuities could result in the loss of principal for early termination. Similar to CDs, some fixed annuities offer a guarantee of premium regardless of early termination, often in exchange for lower interest rates.

Helpful TIP

When deciding whether to choose fixed income options such as CDs or bonds instead of – or in addition to – annuities, make sure to discuss the tax implications and risks with your tax professional and financial advisor.

Annuities and CDs both have the potential to offer safety of principal and a guaranteed interest rate, generating income for the future. Deferred fixed annuities offer a guaranteed minimum interest rate, regardless of market conditions. Should market conditions improve, interest rates may be adjusted upward, but will never decline below the guaranteed minimum.*

CDs fall under Federal Deposit Insurance Corporation (FDIC) insurance. Annuities, however, are not covered by the FDIC.

*Guarantees are based upon the claims-paying ability of the issuing company.

If you are at least five to ten years from retirement, today's deferred annuities with an income rider may be right for you.

Variable annuities are more investment-oriented than fixed annuities, their savings-focused cousins.

As with fixed and indexed annuities, variable annuities generate income that is typically considered ordinary income, not the lesser-taxed capital gains.

INDEXED ANNUITIES

Linked to broad-based stock indexes, these annuities have the potential to protect your money during down markets while offering you an opportunity to participate in up markets.

The issuer guarantees a return that is the greater of a contractual minimum rate or the return that would be generated by the underlying index, such as the S&P 500 (The S&P 500 is an unmanaged index of 500 widely held stocks). Since annuity holders do not invest directly in the index, they do not participate in any dividends accumulated on the securities represented by the index.

The features of the index annuity determine how much of the gain of the underlying index will be credited to the annuity. These features, such as a cap or a participation rate, will have a maximum rate of interest the annuity may earn each year.

Indexed annuities also protect you on the "down side." Neither the original value of your annuity nor any gains previously received will decline if the underlying index declines.**

VARIABLE ANNUITIES

Unlike deferred fixed annuities, variable annuities do not guarantee a specific rate of return or offer any guarantee of your principal. Instead, the return they deliver is based on the performance of the underlying securities. Variable annuities are more investment-oriented than fixed annuities, their savings-focused cousins. They typically offer a wide array of securities from which annuity holders can choose. These may include geographic, sector and broad index stock funds.

** Early withdrawals could reduce the principal amount invested. Surrender charges may apply for early withdrawals and, if made prior to age 59½, may be subject to a 10% federal tax penalty in addition to any gains being taxed as ordinary income.

Variable annuities are long-term investment alternatives designed for retirement purposes. Withdrawals of taxable amounts are subject to income tax and, if taken prior to age 59½, a 10% federal tax penalty may apply. Early withdrawals may be subject to withdrawal charges. Partial withdrawals may also reduce benefits available under the contract, as well as the amount available upon a full surrender. The selection of additional protection features, options or riders will result in higher variable annuity charges. Guarantees are based on the claims-paying ability of the issuer. An investment in the securities underlying variable annuities involves investment risk, including possible loss of principal. The contract, when redeemed, may be worth more or less than the total amount invested. Past performance is no guarantee of future results.

IMMEDIATE ANNUITIES

Although they can be either fixed or variable, immediate annuities are neither investment nor savings vehicles. Unlike deferred annuities, they are designed solely to provide guaranteed income immediately within 12 months of the purchase date.

The contract holder exchanges principal in return for income – this premium no longer has cash value and does not participate in accumulation. These payments continue for the life of the contract holder or until a pre-designated period is completed.

A fixed immediate annuity will provide a level payment to the annuity holder, whereas a variable immediate annuity will provide payments that can fluctuate with the performance of the underlying securities in the contract. While a fixed immediate annuity may provide steady income, you may need to also separately examine and address the need, if any, for growth in your portfolio to cover possible inflation concerns.

There are many types of payout options from which to choose. One of the most popular is life with cash refund. This choice provides an income stream that lasts for the annuity holder's lifetime and provides a lump sum payout of the unused premium. If the annuity holder receives all or more than the initial premium through receipt of the payments, there is no longer a death benefit to the heirs.

NO WITHDRAWAL CHARGE

You may want to investigate the purchase of a No Withdrawal Charge ("C-Share") rider, which enables you to avoid the typical withdrawal charges when transferring 401(k) and/or non-qualified funds into an annuity.

There are many types of payout options from which to choose.

By purchasing an appropriate rider, you can be guaranteed a specified amount of income throughout your lifetime – regardless of market performance.

ADDING RIDERS TO YOUR ANNUITIES

Many annuities offer further guarantees – also called riders – at an additional cost. By purchasing an appropriate rider, you can be guaranteed a specified amount of income throughout your lifetime – regardless of market performance. The guarantee is a set percentage of your investment, which increases the longer you delay taking payments.

Among the most popular "add-on" riders is an optional living benefit known as the Guaranteed Lifetime Withdrawal Benefit (GLWB). By adding this rider to a variable annuity, you can begin taking withdrawals at a specified age and continue taking those withdrawals for life, regardless of market downturns. Many GLWBs also enable annuity holders to choose between 1) taking immediate withdrawals and 2) focusing on accumulation until they decide to start taking withdrawals.

During accumulation, the optional rider can increase based upon a certain percentage and/or market growth offering protection for future income; however, the value of the underlying portfolio is not protected. As a consequence, the value of your cash value can rise or decline. If you are looking for guaranteed return of your principal, you should not invest in variable annuities.

ADDING DEATH BENEFIT PROVISIONS TO YOUR ANNUITIES

Whether you own a fixed or variable deferred annuity, if you are planning to pass a legacy on to your heirs, you may wish to consider a death benefit provision. The death benefit on most fixed and indexed deferred annuities is the full contract value – the premium, plus any accrued interest less withdrawals, calculated and compounded to the date of death.

In the case of a variable annuity, the death benefit is typically an amount equal to the original invested sum or the value of the contract at the date of death, whichever is greater. Adding an enhanced death benefit rider to a variable annuity means that the beneficiary will receive either a predetermined amount above the original premium or the account value, whichever is greater.

Death benefits vary by company and contract. Because of this wide array of annuity types and individual products, as well as the many types of riders available, as a prospective annuity buyer, you should make sure you fully understand both the annuity you are considering and any riders that may apply.

FEES AND CHARGES

Fees and charges are typically found in all annuities and vary by issuer and contract.

Fees and charges are typically found in all annuities and vary by issuer and contract. With variable annuity contracts, there can be surrender charges, sub-account fees, mortality and expense charges, and rider charges (optional). Because C-Share annuities do not incur high surrender charges, they are generally subject to high annual fees. Fixed and indexed annuity contracts do not have fees but have declining surrender charges. And remember, these are in addition to the 10% federal tax penalty levied by the IRS for withdrawals by annuity holders younger than age 59½.

CHECKLIST

Question		
• Have you determined the type of annuity best suited to your needs?	Yes ☐	No ☐
• Have you selected the "add-ons," or riders, that will provide you with the features and benefits you seek?	Yes ☐	No ☐
• Have you discussed both the tax and investment implications with the appropriate professionals?	Yes ☐	No ☐

Investors should consider the investment objectives, risks, and charges and expenses of variable annuities carefully before investing. The prospectus contains this and other important information. Prospectuses for both the variable annuity contract and the underlying funds are available from your financial advisor and should be read carefully before investing.

A WORKSHEET TO HELP BRING ANNUITIES INTO FURTHER FOCUS.

Here are some key questions designed to help start a conversation with your financial advisor to determine whether annuities are appropriate for you – and if so, which type. Write down your answers and share them with your advisor.

- How soon do you need to receive income? ______________________
- How much principal do you need to invest inside of an annuity to cover your income needs? ______________________
- Have you accurately inventoried all your assets and assessed their liquidity? ______________________
- Are you seeking to grow your assets? ______________________
- Are you willing and/or able to put any of your principal at risk? ______________________
- Are you concerned that the income your annuity will generate will not keep pace with inflation? ______________________
- Once you have decided to purchase an annuity, can you leave your principal intact for a minimum of five years? ______________________
- If you are considering an immediate annuity, are you aware that your principal no longer continues to grow and possibly could provide no death benefit for your heirs if you live too long? ______________________
- If you are considering a variable annuity, are you aware that, while your income may be guaranteed, the actual value of your account will fluctuate with the market – so that, if you decide to withdraw some or all of your entire principal, you may incur a loss? ______________________
- With a living benefit rider, have you considered that if you withdraw more than the allotted guaranteed amount, your future income checks may be less? ______________________
- Do you know for how long the surrender penalties apply? ______________________
- Do you understand all the fees and charges associated with the annuities you are considering? ______________________
- Should you purchase additional options ("riders") to supplement the annuity you are considering? ______________________
- Do you wish to use your annuity as a means to leave funds to an heir? ______________________

LIFE WELL PLANNED.

RAYMOND JAMES®

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