Anthem Financial Club

DISCLAIMER

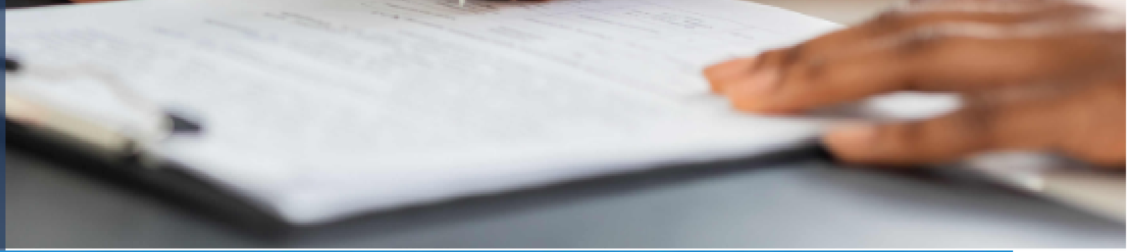
- We Are A “For Information Only” Club
- Your Investment Decisions Are Your Own!

- The Financial Club does NOT give financial advice

All Participating in the Financial Club’s Discussion Groups are Required to be paid members of the Financial Club

Investment Products

Annuities



Overview

FINRA is dedicated to protecting investors and safeguarding market integrity in a manner that facilitates vibrant capital markets.

ESSENTIALS

- Annuities are contracts with insurance companies
- Annuities grow on a tax-deferred basis
- All annuities are regulated by state insurance commissioners
- Variable annuities & registered indexed-linked annuities are regulated by the U.S. Securities and Exchange Commission (SEC) and FINRA
- Annuities may be either immediate or deferred
- Fixed, variable and indexed annuities come with differing risks and potential rewards
- Annuities are complex and can be costly
- Added benefits (sold as "riders") can be costly
- Variable annuities may have surrender periods of 8 or more years. Penalties are assessed when liquidated early.

nnuity Terms

ccumulation Period
ne time during which the owner makes payments to accumulate assets

nnuitant
ne person whose life expectancy determines the payout benefits.

nnuitization
ne process of converting an annuity investment into a stream of regular payments

eneficiary
ne person designated by the contract owner to receive benefits due upon the death of the annuitant or contract owner

uffer
buffer is the percentage loss you do not want to absorb during a down market. Losses up to the buffer are absorbed by the
surance company but losses in excess of the buffer are absorbed by you

ontract Owner
ne person who pays the premium for the annuity.

eferred Annuity
n annuity where the contract owner contributes money as a lump sum or with premiums over time paying out for a future date.

Fixed Annuity
An annuity that guarantees both a minimum rate of return and the payout

Floor
Represents the maximum percentage loss you’re willing to absorb during a down market

Free-Look Period
A set time period within which the purchaser can cancel the contract without a surrender charge

Immediate Annuity
An annuity contract, purchased with a lump sum that pays the owner a guaranteed income

Indexed Annuity
Annuity with the rate of return tied to the performance of a market index

Payout Phase
The period during which the insurance company makes income payments for the money accumulated in an annuity

Premium
A premium is the amount paid into the annuity by the contract owner

Fixed Annuities

- Fixed annuities guarantee a rate of return (interest rate) and a payout. The interest rate can change over time.
- Often the interest rate is fixed for a number of years then change based on current rates.
- Payouts may be your lifetime or another time period.
- A deferred fixed annuity pays you no less than a specified rate of interest when your account is growing.
- With an immediate fixed annuity you receive a predetermined fixed dollar amount usually monthly.
- Guarantees an income stream

Fixed immediate annuities

Fixed immediate annuities have guarantees that the monthly income payments will remain the same

The drawback is that it won’t bring big bucks. The payments typically trail the returns of equity and bond portfolios during a bull market

Another drawback is the fixed payments don’t stretch as far as they once did due to inflation. Riders are often purchased that feature cost-of-living increases; this increases the cost of the annuity and may lower your overall returns

- Variable annuities offer investors choices: the rate of return (up or down) is not guaranteed; it depends on the performance of your selected stocks, bonds and money market funds.
- Variable annuities offer "subaccounts" that resemble mutual funds. Unlike mutual funds their earnings are tax-deferred, they have a death benefit, and annuity payout options can provide guaranteed income for life.
- Annual expenses are likely to be much higher than a mutual fund's expenses.
- Unlike a fixed annuity, variable annuities don't provide a guaranteed earning rate. You could actually lose money
- Variable annuities generally offer death benefits; but generally only guarantee a return of premium. For an additional fee, a rider may be purchased to increase the benefit based on market performance or a fixed rate.
- In general, variable annuities have 2 phases: 1) accumulation phase when premiums are paid into the investments and 2) payout phase when the insurance company guarantees a minimum payment.
- Because of the complexity of variable annuities, they are a leading source of investor complaints.

Indexed Annuities

Indexed annuities are both fixed and variable. Indexed annuities typically offer a minimum guaranteed interest rate combined with an interest rate linked to a market index.

Indexed annuities can be tied to a broad, well-known index like the S&P 500 Index. However, some use other indexes that expose you to more risk (but more potential return). It is less risk than a variable annuity.

Because of the differing indexing methods used to calculate gains to credit interest, it's difficult to compare one indexed annuity to another.
There are generally 2 types of indexed annuities:

- Equity-Indexed Annuities (EIAs) that offer a guaranteed minimum interest rate as well as an additional interest rate tied to the performance of one or more market indexes.
- Registered Index-Linked Annuities (RILAs) that credit investments with an interest rate tied to one or more market indexes. Often the RILA limits exposure to losses but caps your opportunity for gains by the same amount. For example, if your buffer is 10 % and the market decreases by 15%, you only absorb a 5% loss.

A floor represent the percentage loss of your selected market index(es)

Payout Options

There are various payout options for deferred annuities. To “annuitize” investments in a deferred annuity you receive a guaranteed income for a certain period or the rest of your life. The decision is generally irrevocable. You give up control of your investment in exchange for a guarantee of a steady income stream.

Alternatively, you can make systematic withdrawals or get a lump sum payment.

Annuities and Taxes

- You don’t pay taxes on any growth until there are withdrawals, but investments in nonqualified annuities are made with after-tax dollars, meaning you cannot deduct contributions to an annuity from your taxable income.
- Unlike other retirement accounts that offer tax-deferred growth, like IRAs and 401(k)s, annuities don’t have annual contribution limits. You get no tax advantages investing in an annuity within an IRA or 401(k).
- When taking money out of an annuity, gains are taxed at ordinary income rates. And if you withdraw money before turning 59 ½ , you may face a 10 % tax penalty.
- Most investors should think about annuities only after they’ve maxed out their before-tax retirement plans and should consult with a tax professional before purchasing or withdrawing any funds from an annuity.

Registered Index-Linked Annuity (RILA)
Sometimes referred to as a “buffer” annuity. Offers an interest rate tied to one or more market index. The selection of a floor or buffer allows for a limit to your losses during a down market in exchange for capping your gains to the same extent when the market goes up.

Surrender Charge
Sometimes referred to as a contingent deferred sales charge, is the penalty fee owned by a contract owner who sells or withdraws money from the annuity during the surrender period

Surrender Period
Time period set after the purchase of an annuity during which you cannot surrender the annuity without penalty

Variable Annuity
An annuity for which the rate of return varies based on the performance of the chosen investment options

Variable Immediate Annuities
Allow you to allocate your principal into a wide array of underlying investments.
Typically you are allowed to move money out of one investment into another.
The value of the variable immediate annuity, and the payments received, will fluctuate based on the selected investments

Benefits of Living Longer
Those who benefit most from immediate annuities are healthy people who expect to live longer-than-average lives
To mitigate an early demise, a rider can be purchased to allow a beneficiary to receive some money after the owners death.

- Deferred Income Annuities (Longevity Insurance) are purchased as an alternative to a pension guaranteeing income in later years. They are an immediate annuity with a delayed payout phase.
- Unlike immediate annuities, the payout comes at a predetermined future date. Additional contributions can be made but the insurance company could impose limitations on additional contributions.
- The upside is generally a larger income than an immediate annuity. Leftover payments, called “mortality credits” remain in the mortality pool and increase the pot for individuals with longer life spans.

Purchasing Deferred Income Annuities

- You are allowed to take a portion of a 401(k) or traditional IRA and use it to but a **Qualified Longevity Annuity Contract (QLAC)**. The value of the QLAC is excluded from the retirement account balance used to determine Required Minimum Distributions (RMDs).
- IRS rules allow a portion of funds from qualified retirement accounts (up to a limit adjusted by the IRS each year) to purchase a QLAC without it counting as a currently taxable withdrawal. You can delay RMDs for funds used to purchase a QLAC up to age 85, and you won't start paying taxes on the money until payments are received from your annuity.

Once you hand over the money, you can't get it back. A DIA is generally an irrevocable decision. You are trading liquidity for a promise of a payout in the future.
Your heirs could be out of luck. Most DIAs don't pay your heirs if you pass before you reach the age when you would receive benefits. (you can purchase a rider)
Inflation. Generally payments from DIAs are not adjusted for inflation. (you can purchase a rider that will reduce your payments)
The guarantee of future payments is only as good as the insurance company backing them.

Indexed Annuity Rate of Returns
Depends on how selected index performs, but generally the indexed annuity does not fully match the positive rate of return of the index to which and annuity is linked – and could be significantly less

Participation Rates
The percentage of an index's returns are credited to the annuity. For instance, if an annuity has a participation rate of 75%, then the index-linked returns would only amount to 75% pf the gains associated with the index. Some annuities use Spread, Margin or Asset Fee in addition to or instead of a participation rate. This is subtracted from any gain.

Interest Caps
During big bull markets, the annuity gains with an interest cap limits gains to that cap (i.e. 7%)
Some annuity contracts allow changes to fees, participation rates and interest caps from time to time.

Buffers
The percentage of loss the contract owner doesn't want to absorb. The owner is responsible for losses greater than the buffer.

Risks

Company or Credit Risk

The annuity is only guaranteed as long as the insurance company issuing it remains in business. Companies such as Standard & Poor's provide ratings of insurance companies.

Inflation Risk

Fixed annuities typically don't have cost-of-living adjustments to keep pace with inflation, so purchasing power declines over time. Annuities with inflation protection can be purchased, but the cost is significantly higher.

Interest Rate Risk

Interest rates of a fixed annuity could change after an initial fixed period. Returns may be less over time. You may miss out in the event interest rates move up,

Liquidity Risk (or Withdrawal Risk)

Many annuities have set holding periods and surrender charges for withdrawing cash early. Also, if withdrawing before age 59 ½ you may have a tax penalty

Death Risk

An annuity may continue payments to a beneficiary after your death depending on the type of annuity and its provisions. An insurance company may not be obligated to continue payments to your estate. Variable annuities typically include a death benefit, however, other types of annuities may not provide any financial guarantee.

Exchanging or Replacing a Current Annuity

- If you have an annuity and want to exchange or replace it, remember that there may be additional costs and fees, including surrender charges, and usually means the clock restarts for early withdrawal penalties.
- Exchanging a fixed annuity for a variable annuity affects the guaranteed income and is affected by fluctuations in the market. Also, some variable annuities can be more expensive than fixed annuities.
- An “1035 exchange” permits a direct transfer of funds without tax consequences.

Buyout Offers

Accepting a buyout offer may cause you to lose valuable benefits or enhancements to the existing investment.

When to Consider Exchanging a Variable Annuity

- Investment options in the new variable annuity are better suited to your investment goals and objectives
- The new annuity may be less expensive
- Various benefits of the new variable annuity may be more robust or better suited.

When Not to Make and Exchange

You are offered “bonus” or “premium” payments as a major or primary enticement to make an exchange. Generally there are higher expenses that offset any gain.

You need money from the annuity in the short term. Know the impact of surrender charges. Check when your surrender charges expire

You pay higher charges, such as annual fees for the new contract or for new features, or you pay for features that you don’t really need.

The IRS allows you to exchange one variable annuity contract for a new one without paying tax on the income and investment gains earned on the original contract. These are called “1035 Exchanges”