

## What Is the Difference Between Life Insurance and an Annuity?



Both life insurance and annuity contracts are sold by life insurance companies, however, the two products are different. Knowing the differences between life insurance and annuities, and how each can work to forward your goals, can help you make the right financial plan and provide the financial security you desire.

### What is life insurance?

[Life insurance](#) is a contract between you and a life insurance company in which you agree to make regular premium payments in exchange for insurance protection on a chosen individual's life. This individual may be yourself, or it may be another person, like your spouse or child. If the insured passes away while the insurance protection is in force, the life insurance company will pay a sum of money, called a death benefit, to designated beneficiaries. Beneficiaries are designated by the owner of the policy and are frequently the individuals who would be most financially impacted by the insured's death.

People purchase life insurance for a variety of purposes. Individuals with a shared mortgage or a large amount of debt may want to purchase enough life insurance coverage to pay off these debts in the event of their death. Parents may want to ensure their children have enough money to get through college if there were to be a tragedy and they were no longer around to support them. Business owners may get life insurance to ensure that their business partners can continue operating the business even if one owner passes away. Still, other individuals want to make life financially easier for their loved ones and simply use life insurance to replace their income. Life insurance provides a safety net for your family and lets them continue with as little financial hardship as possible.

### Things to know about life insurance:

- **Death benefits are not taxable.** Death benefits are usually tax-free, and beneficiaries do not need to list their proceeds when filing their tax returns.

- **Life insurance is flexible.** You are in control of how much coverage you want, the length of time you want that coverage to last, and any additional features that you would like to include. Life insurance is tailored to your needs, so you can rest assured your loved ones are financially safe.
- **You may be able to access the death benefit early.** Some insurers offer riders that allow you early access to the death benefit in specific cases, typically when the insured is diagnosed with a chronic or terminal illness.
- **Some policies do not end up paying out a death benefit.** If you purchase a term insurance policy, which gives you coverage that only lasts for a specified period of time, the beneficiary will only receive a death benefit if the insured passes away during the specified term. Permanent policies will pay out the death benefit regardless of when the insured passes as long as the required premiums have been paid.
- **Life insurance is an age-based, health-based product.** This means that, depending on the type of coverage chosen, premiums could get more expensive as the insured ages, and coverage may be more expensive or harder to obtain if the insured has or develops health problems. Purchasing coverage while the insured is [young and healthy](#) or purchasing a permanent policy can alleviate some of these changes.

### What is an annuity?

[Annuities](#) allow you to invest a sum of money with a life insurance company in exchange for a guarantee of fixed income payments in the future. If you choose, an annuity may be set up to provide you with an income stream for the remainder of your life. You can set up regular payments that are made to you starting instantly or later in the future. Some [annuity payout options](#) allow for the continuation of payments after the death of the annuitant.

An annuity is an excellent investment for many people, thanks to its stability and often-high contribution limits when compared to other retirement investment accounts.

Read more: [Annuities: The Unsung Heroes of Retirement Planning](#)

### Things to know about annuities:

- **Annuities offer tax-deferred growth.** Any money that an annuity earns once the principal is invested grows tax-deferred. This means that you do not need to pay taxes on the growth of the annuity until you start receiving regular payments. That said, earnings are taxed as ordinary income during the year you receive them.
- **Annuities provide regular payments.** The biggest advantage of an annuity is that you can receive regular payments of the invested principal and earned interest. These payments can serve as extra income when you retire, in addition to Social Security or any retirement or disability benefits you may be receiving from the military. These payments may last a specific period of time or an entire lifetime.
- **Annuities may offer death benefits.** Depending on your selected payout option, an annuity may provide income to a chosen beneficiary after your death. Payments may be made for a set number of years, with a beneficiary receiving any payments remaining after the annuitant passes away; payments may be guaranteed for the life of the annuitant with the caveat that if they pass away within a certain amount of time, a beneficiary will receive a number of payments; or the annuity could be set up to provide payments to two individuals, and continue providing payments to the survivor after one of them passes away.



### **What is the takeaway?**

The major difference between life insurance and an annuity is who benefits from the product. Annuities are primarily used to provide income for *you* until you pass — though some payout options will provide income to a beneficiary. Life insurance, on the other hand, provides for *your loved ones* after your passing. Furthermore, the tax status of payments received from a life insurance policy and an annuity are different, with life insurance proceeds *not* counting toward taxable income, and earnings on annuities being taxable.

Both annuities and life insurance come with an element of flexibility. However, your lifestyle and long-term financial plans will determine whether one or both products will help you achieve your goals. Research your options and speak with a financial adviser to learn which is best for your needs.

Navy Mutual has been a trusted provider of life insurance and annuities for over 140 years. We can help you protect your family *and* meet your retirement goals. [Schedule a consultation](#) with a representative, [get a quote online](#), or call us at [800-628-6011](tel:800-628-6011) to get started.