What to Expect When Purchasing Your First Annuity

An **annuity** is a contract between an individual and a life insurance company in which an individual contributes premiums to the insurance company in exchange for the guarantee of interest accumulation and the option of future income payments. Essentially, you make payments now and the insurance company agrees to begin making payments back to you – with interest – at a later date.

There are many reasons why an individual might choose to purchase an annuity:

- Annuities can be set up to provide lifetime income, supplementing pension and Social Security payments and creating a stream of income that cannot be outlived – unlike other retirement accounts that contain a finite amount of money and could run out.
- Annuities can be used as part of a long-term care strategy for individuals who do not have a traditional long-term care insurance policy or life insurance policy with long-term care features. Income from an annuity can be put toward the cost of care.
- Unlike other investments, fixed annuities are guaranteed not to lose money, making them a conservative choice for individuals who are risk-averse and want to protect their assets.
- Some individuals may struggle to manage lump-sum retirement funds; in this case, annuities can provide monthly income payments in more manageable amounts.
- Annuities grow tax-deferred, meaning that no taxes are paid on earnings until funds are withdrawn. This means that all of the interest earned by an annuity is allowed to grow unfettered by periodic tax payments, increasing the growth capabilities of the asset.

If you have decided that an annuity is right for you, you may be wondering about the process of purchasing one. It's simple.

First, choose your annuity.

You will want to consider several questions when **determining whether a particular annuity is right for you**.

1. Do you want to begin receiving income from the annuity now, or would you prefer to begin receiving income payments further into the future?

There are two types of annuities: immediate and deferred.

- **Immediate annuities** start providing payments right away, allowing you to turn your savings into a stream of income.
- **Deferred annuities** are designed to grow policy premiums in a tax-advantaged way for a period of time before initiating income payments.

2. What interest rates are being offered?

Your premium contributions can be invested by the insurance company in one of three ways:

1. **Fixed – Guaranteed Return:** You will receive guaranteed principal and interest payments in the future and your principal contribution is guaranteed not to decrease. This type of annuity will have a stated interest rate.
2. **Indexed – Hybrid Return:** This type of annuity will offer a guaranteed minimum interest rate, but the growth of your contributions is tied to a market index. In years when the market does well, you may earn more than the guaranteed minimum interest rate. This type of annuity is also guaranteed not to lose money, but the minimum interest rate may be less than that of a fixed annuity.
3. **Variable – Performance-Based Return:** The performance of the annuity is tied to an investment portfolio and therefore your policy premium(s) could earn or lose money, depending on market conditions. There is no stated interest rate for variable annuities.

If you want the highest guaranteed interest rate, your best bet is generally going to be a fixed annuity. If you are interested in earning money in the years when the market does well, but don't want to risk losing any of your premium contributions, an indexed annuity may be right for you. Variable annuities work best for individuals who have a high risk tolerance. Navy Mutual only offers fixed annuities.

Read more: **Current Annuity Rates**

3. Is there a minimum deposit required to purchase the annuity?

Depending on the product, there may be a minimum contribution amount that you must deposit to purchase the annuity. Having the funds readily available, then, is required to make your purchase.

- **Single premium annuities** are those purchased with a lump-sum payment. At Navy Mutual, we require minimum contributions of $10,000 for our single premium annuity products.
- **Installment premium annuities** allow you to make future payments in addition to your initial premium contribution, so they increase in value over time as you make additional scheduled (or unscheduled) contributions. At Navy Mutual, our Flexible Premium Retirement Annuity requires an initial contribution of at least $100, and subsequent contributions of at least $25.

Note: There may also be a maximum contribution amount allowed when funding an annuity.

Next, complete an application.

After you have chosen the right annuity for your situation, it's as easy as completing an application. While the requested information varies by company, you will typically be asked to provide:

- The name and contact information of the annuity owner
- The name and contact information of the contingent owner
  - If the owner passes away, the contingent owner gains ownership of the annuity.
- The name and contact information of the annuitant
  - The annuitant is the individual whose life is considered when determining payment amounts and who receives income payments.
- The name and contact information of chosen beneficiaries
  - Depending on the payout option chosen, payments may be made to a beneficiary if the annuitant passes away.

Note: The owner and annuitant are often the same individual, as would be the case if you fund the annuity and want to receive income payments from it.

On the application, you will also be able to choose the **payout option** that you desire, how frequently you would like to receive those payments, and to which account you would like those payments deposited.

From there, you simply need to transfer funds into the annuity. If you are purchasing a single premium annuity, it's as simple as making a one-time premium payment. If you are purchasing an installment premium, you can contribute additional funds at your discretion – these can generally be sent via check, wire transfer, or bank draft.

Once the insurance company receives the funds, your annuity purchase is complete and your annuity is active. You will begin receiving income payments at the time and in the manner specified in your contract. Note, however, that annuities may have a free look period – meaning if you change your mind, you can essentially "return" the policy for free. Navy Mutual's free look period lasts 30 days. If you want to surrender your annuity after the free-look period has passed, you may be required to pay surrender fees to cancel the contract.

If you are interested in purchasing an annuity, our specialists can help you decide which of our products best fits your needs. You can schedule a consultation **here**, or give us a call at **888-300-9331**.