Annuities QuickSheet

What is an annuity?

An annuity is a contract that allows you to pay a series of premium deposits or a lump-sum amount to an insurance company in exchange for the guarantee of interest accumulation and options for future income payments.

Why annuities?

Safety: Annuities can provide *guaranteed* income for the duration of your entire life. Payments will never fully deplete your annuity if you choose a life income payout option.

Ease: You know how much money you will get each month (quarter, year) from an annuity, making budgeting simple.

Tax Savings: Premium contributions are made with after-tax dollars, but grow tax-deferred. When those deposits are returned as regular income payments, the portion of each payment that comes from the initial deposit is returned tax-free, and only growth from interest is taxed. The undistributed portion of the premium contribution grows as compound interest accumulates, and no taxable event is triggered until a distribution occurs.

Types of Annuities

LOW RISK

Fixed: Receive a guaranteed rate of return on a premium deposit for a certain period of time.

Indexed: Receive a guaranteed *minimum* rate of return in years of negative index performance, and up to a maximum capped rate of return in years of positive performance. The maximum rate may be lower than the actual rate of return of the index being tracked.

HIGH RISK

Variable: Receive payments that are tied to an investment portfolio. If the portfolio of investments performs well, returns may outperform those of a fixed or indexed annuity. If the portfolio does not perform well because of poor market conditions or contribution and distribution timing, the premiums invested are exposed to risk of loss.

Deferred Annuities...

- allow you the opportunity to initiate payments in the future.
- are funded in installments or with a lump-sum deposit.

Immediate Annuities...

- start a guaranteed income stream right away.
- are normally funded with a lump-sum deposit.

Who is who?

The **annuity owner** owns the annuity. They control beneficiary designations and timing of distributions or income annuitization, and are liable for any taxes imposed on distributed funds.

The **contingent owner** gains ownership of the annuity if the annuity owner passes away.

The **annuitant** is the individual whose life expectancy is considered when determining payment amounts under a lifelong income distribution method. *Note: The annuity owner and the annuitant are often, but not always, the same individual.*

The **beneficiary** may receive income payments if the annuitant passes away, depending on the payout option chosen by the annuity owner.

Receiving Payments

Lump Sum: The annuitant receives the entire accumulated surrender value as a single payment.

Fixed Period: The annuitant receives payments for a set period ranging from 1 to 30 years. Payments stop once this period is complete. If the annuitant dies during this period, a designated beneficiary receives the remainder of the payments.

Life Income with No Death Benefit: The annuitant receives the highest monthly income, with payments that are guaranteed for life. Payments stop upon the annuitant's death.

Life Income with "Period Certain:" The annuitant receives guaranteed payments for life. If the annuitant passes away during the period certain (a predetermined period of time after which no payments to any beneficiary will be made), a designated beneficiary receives the payments for the remainder of the period certain.

Joint and Survivor Income: The annuitant and a joint annuitant receive guaranteed payments until one of them passes away. At that time, the survivor continues to receive a percentage of the original payment amount until their death.

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Questions? Contact us: **counselor@navymutual.org / 800-628-6011**