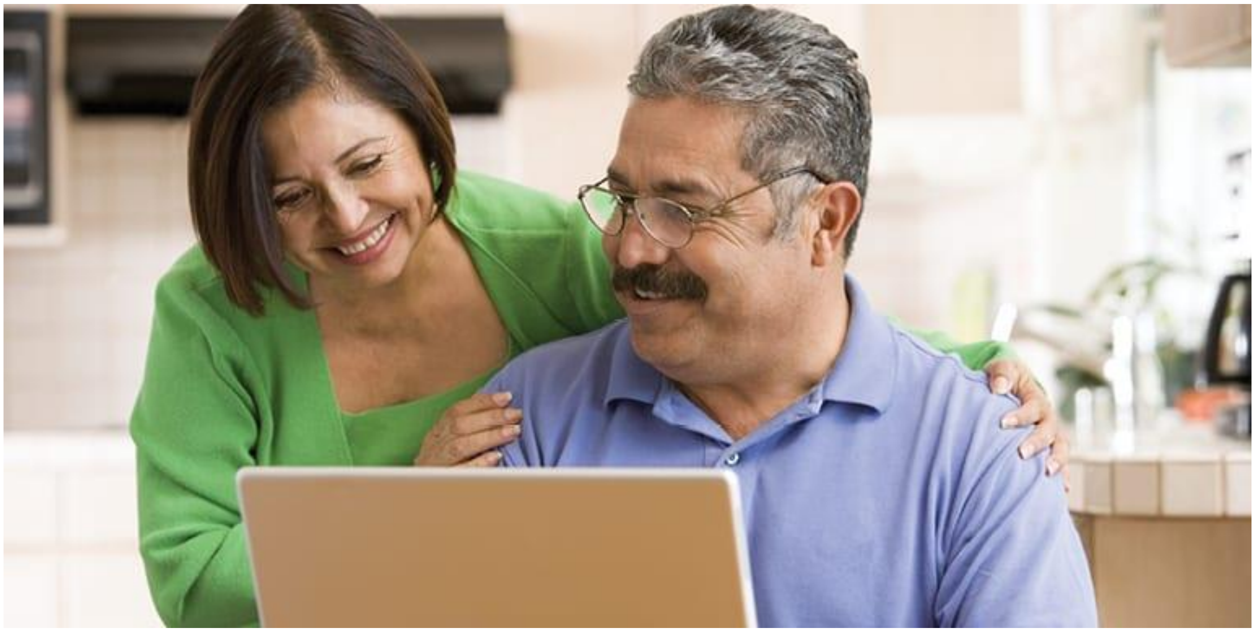
Types and Features of Annuities



Most people want to live comfortably in retirement. Annuities allow you to achieve that goal through the accumulation of assets on a tax-deferred basis and the receipt of a guaranteed income stream for a set amount of time. With increasing life expectancy and fewer Americans receiving pensions, annuities can act as a hedge against inflation and help reduce the risk of outliving your retirement savings.

When you purchase an annuity contract, you invest a sum of money with a life insurance company, and in return the insurance company agrees to provide you with a guaranteed income stream over a set period of time (a certain number or years or even a lifetime).

There are two ways to fund an annuity contract. You can either pay a single lump-sum premium upfront or make installment payments over time.

A **single premium annuity** is funded through one lump-sum payment. Often this lump sum comes from liquidating other assets such as a 401(k), an IRA, home equity, or an investment portfolio.
An **installment premium annuity** is funded over time through either scheduled or unscheduled premium contributions and is a great option for those who are still working, but want to secure a fixed income stream as part of their retirement savings plan.

Annuities also vary when it comes to payouts.

- A **deferred annuity** pays you in the future. It is designed to grow a sum of money in a tax-advantaged way, with the option to initiate income payments later on. Prior to the distribution of payments, earnings accumulate on a tax-deferred basis, meaning that you do not pay any taxes on interest earned until you begin to receive payments from the annuity.
- An **immediate annuity** starts a guaranteed income stream right away, with payments beginning within one year of the contract purchase date. Immediate annuities are funded

with a lump-sum deposit and are typically used as a tool to spread out income taxation or reduce the risk of outliving assets.

Deferred annuities are often funded in an installment premium model but could be used to safely grow a lump-sum investment as well. Immediate annuities are *always* funded with a lump-sum deposit.

While annuities are not investment accounts in the traditional sense, your premium deposits will be invested by the insurer to increase the value of the annuity over time. There are three models for investing the principal.

1. **Fixed – Guaranteed Return:** With a fixed annuity, you deposit a sum of money with an insurance company and receive a guaranteed principal and interest payment in the future. In addition, your principal is guaranteed to not decrease. The insurance company can provide these guarantees because it invests your money primarily in bonds or other conservative, fixed investment instruments. This type of annuity is low risk, and often provides a higher interest rate than a savings account or CD.
2. **Variable – Performance-Based Return:** With a variable annuity, you choose the underlying investment portfolio, so the annuity value fluctuates up and down based on changes in market conditions. If the portfolio of investments performs well, your returns may outperform those of a fixed annuity. However, if they do not perform well because of poor market conditions, your investment principal is exposed to risk of loss. While the risk is higher with a variable annuity than with a fixed annuity, there is also the potential for a higher reward.
3. **Indexed – Hybrid Return:** An indexed annuity embodies characteristics of both fixed and variable annuities. Like a fixed annuity, indexed annuities offer a guaranteed interest rate. In addition, they also offer an interest rate linked to an index market, like the S&P 500. Typically, in years when the market does well, the annuity earns an interest rate close to that of the index market; in years when the market does poorly, the annuity earns the guaranteed interest rate. This may be lower than the interest rate of a fixed annuity. There are several types of indexing methods used to calculate returns within this type of annuity, so it is important to understand not just which index an annuity is linked to, but how the returns are linked to that index.

Annuities can be complex financial instruments, and the interest rates, impact of market activity, payout options, and fees can vary widely between different products. It is important to compare all the features of each annuity as well as all the associated fees to ensure that you are selecting the option that best fits your savings and retirement income needs. Understanding your investment upfront can help you avoid any substantial surrender charges or tax penalties involved in surrendering your annuity early.

At Navy Mutual, we offer three different fixed annuities:

- Flexible Premium Retirement Annuity
- Single Premium Deferred Annuity
- Single Premium Immediate Annuity

Our guaranteed interest rates vary by product and also depend on the amount of money with which the annuity is being funded. You can find our current annuity rates **here**.

Navy Mutual has been providing life insurance products to members of the military and their families for over 140 years. If you are interested in learning more about how you can create guaranteed future income with an annuity or want to supplement your retirement accounts with a low-risk investment, call us at **800-628-6011** or **schedule an appointment** today.