# UNDERSTANDING ANNUITIES

Learn how these versatile investments can be part of your strategy for retirement savings and income.

RAYMOND JAMES®

## ANNUITIES CAN HELP PROVIDE THE RETIREMENT BENEFITS YOU NEED.

Planning for retirement should be an important part of your overall financial program. Selecting the appropriate financial products and strategies can help provide you with the retirement benefits you will need down the road.

Whether you are facing retirement, years away or already there, selecting an appropriate annuity can help provide you with tax-deferred growth as you save for retirement and plan for regular income when you've reached it.

Many types of annuity contracts exist, each with a variety of available options. The information in this brochure, and the guidance of your financial advisor, can help you determine whether an annuity is appropriate and, if it is, which type of annuity best meets your specific requirements.

Living longer in retirement only adds to the importance of having a long-term plan.

LONGER LIFETIMES

| Calculated Life Expectancy[1] | | |
|---|---|---|
| | Males | Females |
| 75% expect to live until age: | 77 | 80 |
| 50% expect to live until age: | 85 | 85 |
| 25% expect to live until age: | 90 | 90 |
| 10% expect to live until age: | 96 | 95 |

[1]Life expectancy is calculated by adding expected age at retirement and expected length of retirement for workers providing both pieces of information.
Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

## WHAT IS AN ANNUITY?

An annuity is a contract between you and an insurance company. You agree to make a payment or series of payments to the insurer, who in turn guarantees* specified payments back to you when you determine you need them to start. The guarantees are as strong as the underlying company.

Because annuities are designed as retirement vehicles, certain restrictions apply. For example, early withdrawals prior to age 59½ may be subject to penalties. However, unlike most retirement plans, there are no restrictions on the amount of money you can place in your annuity.

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In addition to the issuer, three or more participants may be involved in an annuity contract: the owner, the annuitant and the beneficiary (or beneficiaries). The annuitant and the owner are usually, but not necessarily, the same person.

The owner purchases the annuity, pays the premiums, names the contract's beneficiary and has all the rights to the contract. The owner is also responsible for any taxes due upon withdrawal or surrender. The annuitant is the person whose age and life expectancy are used to determine the annuity's benefits and who receives the annuity payments. The beneficiary receives the death benefit, if any, upon death of the annuitant or the owner.

### QUALIFIED AND NON-QUALIFIED MONEY

Whether you buy your annuity with qualified money (tax-deductible funds) or non-qualified money (funds that have already been taxed), you can accrue tax-deferred interest throughout your lifetime. However, the benefit to purchasing an annuity with non-qualified money is that you are never required to take required minimum distributions (RMDs) at age 70½ like qualified contracts and there is no maximum contribution limit set by the IRS.

In contrast, if you own a qualified contract, the IRS requires that you take minimum distributions (RMDs) annually beginning at age 70½. Such distributions are taxed at your current income tax rate at the time of the withdrawal.

**Guarantees are based on the claims-paying ability of the issuing company.*

## IMMEDIATE AND DEFERRED ANNUITIES

An annuity may be either immediate or deferred – that is, for income now or later. If you are about to retire or have already retired, an immediate annuity may be right for you. Usually purchased with a single payment (called a premium), immediate annuities provide income payments that start no later than one year after the premium is paid. Since you are receiving immediate income, some of that payment is return of principal and some of it is gains. You only pay income taxes on the portion that is gains. This is referred to as a tax-exclusion ratio.

If you are saving for retirement, you may want to consider a deferred annuity, which has a tax-deferred accumulation phase.

Earnings on non-qualified deferred annuities grow tax-deferred until withdrawn, which offers some control over when taxes are paid. As payout begins, gains are withdrawn first and taxed as ordinary income. No taxes are paid on return of principal. Withdrawals of gains prior to age 59½ are subject to a 10% federal tax penalty. The entire value of the annuity is included in the owner's estate for estate tax purposes, and any gains the beneficiaries receive are taxed as ordinary income.

With a deferred annuity, you also have the right to guaranteed future income payments beginning on a date agreed upon by you and the insurance company.

## ADVANTAGES AND DISADVANTAGES OF DEFERRED ANNUITIES

### Possible Advantages

- Opportunity for tax-deferred growth
- No minimum distributions are required on non-qualified assets, unlike traditional IRAs and many other qualified retirement plans
- No IRS contribution limits exist
- Tax-free transfers between annuity contracts are allowed by IRS Tax Code (Section 1035)
- Avoids probate and, in some states, offers protection against creditors
- Death benefits may be available

### Possible Disadvantages

- Earnings are taxed as ordinary income when withdrawn, not capital gains
- Early withdrawal tax penalty may apply if gains are withdrawn before owner turns 59½
- Surrender charges typically apply for early termination
- No step-up in cost-basis. Beneficiaries pay ordinary income taxes based on their tax bracket

## FOUR TYPES OF DEFERRED ANNUITIES

Four broad types of deferred annuities are widely available. Two of them – fixed and fixed index annuities – are primarily savings vehicles, while variable and structured annuities – the other two – are investment vehicles.

### Fixed Annuities

These insurance contracts may be appropriate if you do not want to assume any market risk. That is, the contracts are more concerned with safety of principal and a consistent, guaranteed return than they are with obtaining a high rate of return.

Fixed annuities are often considered to be alternatives to fixed income products such as CDs. If taxes are a concern, a deferred fixed annuity may be a better option than a CD. Earnings on CDs are taxable in the year the interest is earned, even if no funds are withdrawn. Withdrawing funds from a CD early may incur an early termination penalty, which is usually a portion of the interest earned.

Fixed annuities usually carry a declining surrender charge schedule and have different liquidity features than CDs, such as 10% of account value without penalty, which means that these annuities could result in the loss of principal for early termination. Similar to CDs, some fixed annuities offer a guarantee of premium regardless of early termination, often in exchange for lower interest rates.

**Helpful TIP**

When deciding whether to choose fixed income options such as CDs or bonds instead of – or in addition to – annuities, make sure to discuss the tax implications and risks with your tax professional and financial advisor.

Annuities and CDs both have the potential to offer safety of principal and a guaranteed interest rate, generating income for the future. Deferred fixed annuities offer a guaranteed minimum interest rate, regardless of market conditions. Should market conditions improve, interest rates may be adjusted upward, but will never decline below the guaranteed minimum.[1]

CDs fall under Federal Deposit Insurance Corporation (FDIC) insurance. Annuities, however, are not covered by the FDIC.

*[1] Deferred annuities are long-term investment alternatives designed for retirement purposes. Surrender charges may apply for early withdrawals and, if made prior to age 59½, may be subject to a 10% federal tax penalty in addition to any gains being taxed as ordinary income. Guarantees are based on the claims-paying ability of the issuing company.*

**Fixed Index Annuities**

Linked to broad-based stock indexes, these annuities have the ability to possibly earn a higher interest rate than a fixed annuity.

The issuer guarantees a return that is the greater of a contractual minimum rate or the return that would be generated by the underlying index, such as the S&P 500 (the S&P 500 is an unmanaged index of 500 widely held stocks). Since annuity holders do not invest directly in the index, they do not participate in any dividends accumulated on the securities represented by the index, nor do they participate in any losses in the index.

The features of the fixed index annuity, such as a cap or participation rate, determine how much of the gain of the underlying index will be credited to the annuity each year.

Because gains are locked in each year, you will not lose original value or any interest earned even if the index declines.[1]

The fixed index annuity buyer is willing to give up a known interest rate for a fluctuating interest rate with higher potential returns.

**Structured Annuities**

Structured annuities provide a combination of upside potential for growth and some downside protection against market losses for investors with a moderate risk tolerance.[1,2]

In contrast to a fixed index annuity, structured annuities are designed to provide higher returns up to a maximum ceiling or cap, in exchange for some potential principal loss. In addition, the structured annuity buyer is willing to wait longer (three to six years) before earning maximum interest.

Investors can select from a variety of "segments" within each contract. Each segment provides a unique combination of market exposure and downside protection. At the end of the segment, your account value will increase or decrease depending on the index performance and the level of protection.

[1] *Deferred annuities are long-term investment alternatives designed for retirement purposes. Surrender charges may apply for early withdrawals and, if made prior to age 59½, may be subject to a 10% federal tax penalty in addition to any gains being taxed as ordinary income. Guarantees are based on the claims-paying ability of the issuing company.*

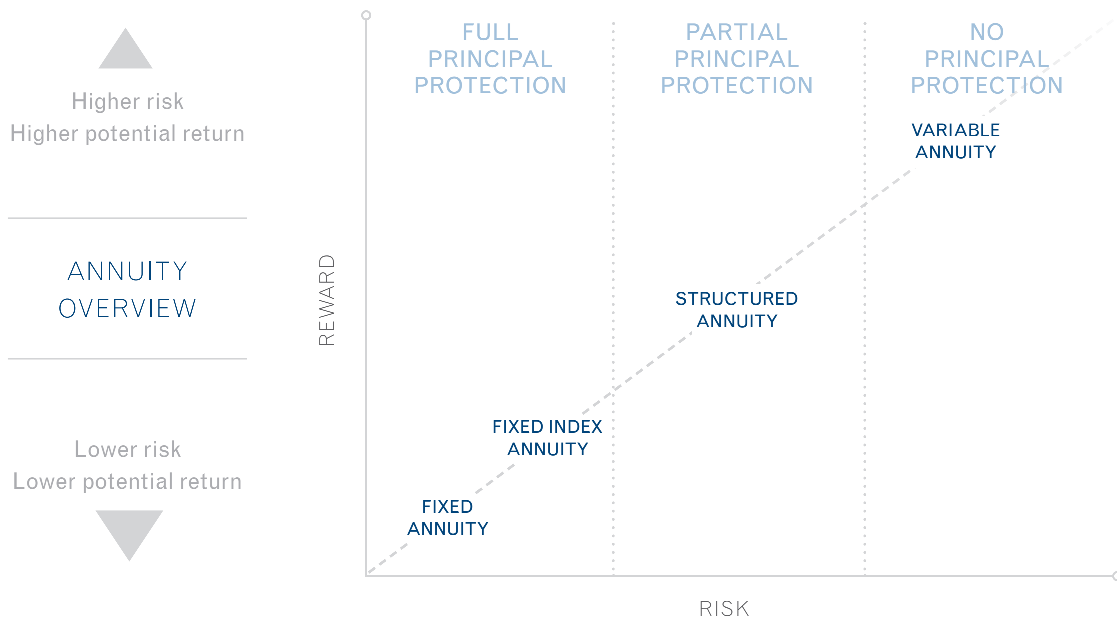
[2] *Investors should consider the investment objectives, risks, and charges and expenses of variable annuities carefully before investing. The prospectus contains this and other important information about the annuities. Prospectuses are available from your financial advisor and should be read carefully before investing. An investment in these annuities involves investment risk, including possible loss of principal. The contracts, when redeemed, may be worth more or less than the total amount invested. Past performance is no guarantee of future results.*

Variable annuities are more investment-oriented than fixed annuities, their savings-focused cousins.

**Variable Annuities**

Variable annuities are the most investment-oriented of deferred annuities. They typically offer annuity holders a wide array of securities. The return they deliver is based on the performance of the underlying securities. Unlike deferred fixed annuities, variable annuities do not guarantee a specific rate of return or offer any guarantee of your principal. Furthermore, variable annuities allow you to move funds within the annuity without tax consequences and offer an option to receive a full return of your principal as a death benefit.[1,2]

RISKS & REWARDS OF DEFERRED ANNUITIES




*[1] Deferred annuities are long-term investment alternatives designed for retirement purposes. Surrender charges may apply for early withdrawals and, if made prior to age 59½, may be subject to a 10% federal tax penalty in addition to any gains being taxed as ordinary income. Guarantees are based on the claims-paying ability of the issuing company.*

*[2] Investors should consider the investment objectives, risks, and charges and expenses of variable annuities carefully before investing. The prospectus contains this and other important information about the annuities. Prospectuses for both the variable annuity and its underlying funds are available from your financial advisor and should be read carefully before investing. An investment in these annuities involves investment risk, including possible loss of principal. The contracts, when redeemed, may be worth more or less than the total amount invested. Past performance is no guarantee of future results.*

**Receiving income from your deferred annuity**

The insurance company can provide guaranteed lifetime income through two methods: through annuitization or systematic withdrawals. Annuitization consists of exchanging a lump sum premium – or in the case of a deferred annuity, the account value – into a stream of lifetime income. The premium no longer has cash value and does not participate in accumulation. Like an immediate annuity, once a deferred annuity is annuitized, it will also enjoy a tax exclusion ratio.

With systematic withdrawals, funds are withdrawn from an account in specified amounts for a specified frequency, until the account is emptied.

Many annuities offer further guarantees – also called riders – at an additional cost. By purchasing an appropriate rider, you can be guaranteed a specified amount of income throughout your lifetime – regardless of market performance. The guarantee is a set percentage of your investment, which increases the longer you delay taking payments.

Among the most popular "add-on" riders is an optional living benefit known as the Guaranteed Lifetime Withdrawal Benefit (GLWB).[3] By adding this rider to a variable, fixed or fixed index annuity, you can begin taking systematic withdrawals at a specified age and continue taking those withdrawals for life, regardless of market downturns. Many GLWBs also enable annuity holders to choose between 1) taking immediate withdrawals and 2) focusing on accumulation until they decide to start taking withdrawals. The longer you wait to take income, the higher your income will potentially be.

## DEATH BENEFIT PROVISIONS ON ANNUITIES

The death benefit on most fixed and fixed index deferred annuities is the full contract value – the premium, plus any accrued interest less withdrawals, calculated and compounded to the date of death.

In the case of a structured annuity, the death benefit is typically equal to the account value. In some cases, you may be able to add a rider to guarantee the premium.

Most variable annuities will pay as a death benefit an amount equal to the greater of account value or premiums paid (less withdrawals). Adding an enhanced death benefit rider to a variable or fixed index annuity means that the beneficiary will receive either a predetermined amount above the original premium or the account value, whichever is greater.

Death benefits vary by company and contract. Because of this wide array of annuity types and individual products, as well as the many types of riders available, as a prospective annuity buyer, you should make sure you fully understand both the annuity you are considering and any riders that may apply.

[3] *GLWBs are subject to contract terms and conditions*

## FEES AND CHARGES

Fees and charges are typically found in all annuities and vary by issuer and contract.

Fees and charges are typically found in all annuities and vary by issuer and contract. With variable annuity contracts, there can be surrender charges, sub-account fees, mortality and expense charges, and rider charges (optional). Fixed, fixed index and structured annuity contracts have declining surrender charges and rider fees. And remember, these are in addition to the 10% federal tax penalty levied by the IRS for withdrawals by annuity holders younger than age 59½.

## CHECKLIST

| | | |
|---|---|---|
| • Have you determined the type of annuity best suited to your needs? | Yes ☐ | No ☐ |
| • Have you selected the "add-ons," or riders, that will provide you with the features and benefits you seek? | Yes ☐ | No ☐ |
| • Have you discussed both the tax and investment implications with the appropriate professionals? | Yes ☐ | No ☐ |

## A WORKSHEET TO HELP BRING ANNUITIES INTO FURTHER FOCUS

Here are some key questions designed to help start a conversation with your financial advisor to determine whether annuities are appropriate for you – and if so, which type. Write down your answers and share them with your advisor.

- How soon do you need to receive income? ______________________________
- How much principal do you need to invest inside of an annuity to cover your income needs? ______________________________
- Have you accurately inventoried all your assets and assessed their liquidity? ______________________________
- Are you seeking to grow your assets? ______________________________
- Are you willing and/or able to put any of your principal at risk? ______________________________
- Are you concerned that the income your annuity will generate will not keep pace with inflation? ______________________________
- Once you have decided to purchase an annuity, can you leave your principal intact for a minimum of five years? ______________________________
- If you are considering an immediate annuity, are you aware that your principal no longer continues to grow and possibly could provide no death benefit for your heirs if you live too long? ______________________________
- If you are considering a variable annuity, are you aware that, while your income may be guaranteed, the actual value of your account will fluctuate with the market – so that, if you decide to withdraw some or all of your entire principal, you may incur a loss? ______________________________
- With a living benefit rider, have you considered that if you withdraw more than the allotted guaranteed amount, your future income checks may be less? ______________________________
- Do you know for how long the surrender penalties apply? ______________________________
- Do you understand all the fees and charges associated with the annuities you are considering? ______________________________
- Should you purchase additional options (“riders”) to supplement the annuity you are considering? ______________________________
- Do you wish to use your annuity as a means to leave funds to an heir? ______________________________

**LIFE WELL PLANNED.**

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