When you reach the point where you have fully recovered your initial premium, the remaining payouts are fully taxable. If payouts cease prior to the date the premium has been recovered, the amount not recovered is allowed as a deduction to you for your last taxable year.

The tax benefits of fixed annuities do come with a restriction: Payouts must begin *after* you reach age 59½ or earnings may be subject to a 10% federal income tax penalty. Furthermore, if you withdraw funds during the accumulation period, the issuing company may levy withdrawal charges. If you cash in the full value of the annuity, you may incur surrender charges.

Choosing *when* to begin receiving money from your annuity is a personal decision generally based on your retirement income needs and your overall financial plan. These two factors will be key influences as you select a **payout option**.

Income for Life?

Annuity payouts may last for a fixed period of time or provide income for life. How much you receive generally depends on your age and the amount of money available. Most annuities offer a number of different payout choices. Here's a brief overview of the basic options:

Life Only. This option provides income for life and generally provides the largest benefit of all the options. You can receive payments monthly, quarterly, semi-annually, or annually. Note that after you die, all payments stop.

Life with Term Certain. With this option, you'll receive income for life. If you die before a stipulated time (the term certain), usually 5, 10, 15, or 20 years, the payments will then continue to a beneficiary for the remainder of the term certain.

Joint and Survivor Life. Under this arrangement, two individuals receive annuity payments for both their lives. When one dies, the other continues to receive income, or some portion of it, for the remainder of his or her life.

Installment Refund Life. With this option, if you die before you have received at least as much as your original premium payments, the balance will be paid out to a beneficiary in installments.

Unit Refund Life. This option is similar to the installment refund life option, except that the beneficiary receives the balance in a lump sum.

Payments for a Specified Period. With this option, payments are made for a pre-specified term, generally ranging from 1 to 30 years, and then continue to a beneficiary if you die before the term ends.

Fixed annuities can be an important part of your overall savings and income strategy, helping to meet diverse financial goals and objectives. If you are currently saving for retirement, a fixed annuity can help supplement your existing long-term vehicles, such as a 401(k) plan or an **Individual Retirement Account (IRA)**. If you are a retiree, a fixed annuity can provide you with a regular income stream during your golden years.

The decisions you make *today* can have a long-term impact on your future. The choice to prepare is yours — the earlier you start, the closer you are to building financial security.

Note: Fixed annuities are neither insured nor guaranteed by the Federal Deposit Insurance Company (FDIC); they may decline in value if surrendered prior to maturity. Guarantees are based on the claims-paying ability of the issuing company.

Name, Designation(s)
Title

Company Name
Street Address
City, State Zip Code
Phone Number
Fax Number
E-mail Address

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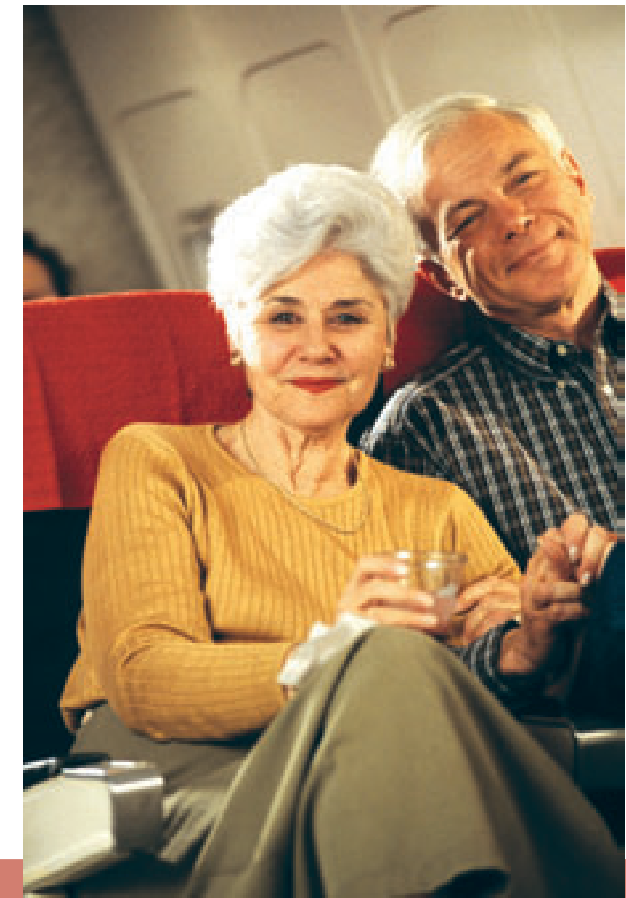
Fixed Annuities

Helping You Build Financial Security



running out of retirement income is a major concern for many Americans. As their "golden years" approach, many investors want less risk and more guarantees. **Annuities** that offer a guaranteed, fixed rate of return and tax deferral on earnings, as well as income that can last for life, can be an appealing money management option for present and future retirees with a low risk tolerance and/or a need to *diversify* assets.

Will You Outlive Your Assets?

Baby boomers—those born between 1946 and 1964—will begin to retire in 2011. Many of this generation are in their peak earning years and are actively saving for retirement. While many workers in earlier generations retired at age 65, if not before, trends in the future will likely see people living longer and extending their careers well into their sixties, if not beyond. In fact, for those born after 1966, the age for receiving full benefits from Social Security will be 67, not age 65.

With a decrease in the popularity of traditional pension plans, the onus of saving for a comfortable retirement falls on the individual. To help in this process, employers increasingly offer defined contribution plans, such as the 401(k). While setting aside a portion of your income in an employer-sponsored retirement plan is an important step, you may need more than current contribution limits allow you to save. Many people who project their retirement income needs realize they need to supplement their employer-sponsored benefits and Social Security incomes with personal savings.

According to the Employee Benefit Research Institute's 2006 *Retirement Confidence Survey*, 64% of American workers are currently saving for retirement, with older workers saving more than younger workers. While it bodes well that

people are accumulating retirement funds, more than half of workers (53%) have less than $25,000 in total savings, excluding their homes and traditional pensions. Only 26% of respondents age 55 or older have saved more than $250,000. Even so, a majority of savers (64%) expect most of their retirement income to come from savings. Those who have not yet saved for retirement expect Social Security, employment, or family to provide most of their income.

The survey also reports that while retirees should expect their retirement income to replace at least 70% of their pre-retirement earnings, half of American workers believe they will need less than that for a comfortable retirement. In fact, only four in ten workers have actually tried to calculate their retirement needs in an effort to determine how much they should be saving. Of these workers, 10% admit they have guessed or read about how much they'll need.

One way to account for a funding shortfall is to work later in life. According to the survey, approximately two-thirds of workers expect to work during retirement. Only 6% of workers expect to retire before the age of 55, while 27% anticipate retiring at age 65 and 25% expect to be age 66 or older. In addition, half of the men and women surveyed expect to live until age 55, and one-quarter expect to live until at least age 90. With people living longer, it is important to plan for the possibility of spending at least 20 years in retirement.

The Annuity Option

One retirement income option that may help you build financial security for life is the **fixed annuity**. Considered long-term instruments, fixed annuities offer the following:

- Guaranteed fixed rates of return

- Tax deferral
- A variety of income payout options
- Immediate or deferred start dates
- Lump-sum or installment purchase options

When you purchase a **fixed annuity**, you receive a guarantee that your money will earn interest at a specified rate, and your return (the money paid back to you) will occur on a set schedule in fixed amounts. There are two payment options: **single premium** (one lump-sum payment) or **multiple premiums** (payments made in installments). Payouts to you can begin immediately or at a future time — but are usually scheduled for retirement —and they can last for your lifetime or another scheduled length of time.

Retirees often favor **immediate annuities**, which can begin to provide income at regular intervals as soon as a single, lump-sum premium has been paid. **Deferred annuities**, often favored by those *saving* for retirement, accrue premium payments (your contributions) over time (the accumulation period) with the payout scheduled for a future date. Earnings on premiums are tax deferred.

Favorable Tax Treatment

Because annuities help people save for retirement, they receive favorable tax treatment. Tax deferral allows your potential earnings to enjoy **compound interest** without immediate taxation, which can significantly impact the value of your savings. Annuities that are part of a qualified retirement plan offer no additional tax deferral benefits.

Let's take a closer look at the benefits of tax deferral. Consider the hypothetical example to the right, which assumes earnings at 6%, 30% combined state and federal taxes, and no

inflation. Compare the value of saving $100 per month for 30 years in a *taxable* instrument to a *tax-deferred* instrument.

Year	Taxable	Tax Deferred
5	$6,664	$6,977
10	$14,881	$16,388
15	$25,016	$29,082
20	$37,513	$46,204
25	$52,926	$69,299
30	$71,934	$100,452

**The tax-deferred surrender value would be $81,116, assuming 30% combined state and federal income taxes.*

After 30 years, savings in a tax-deferred instrument could be worth $28,518 *more* than those in a taxable instrument receiving the same rate of return. This attests not only to the power of tax deferral, but also to the positive effect time can have on your long-term savings.

Unlike some qualified retirement plans, annuities are not subject to income or contribution limits. Annuity premiums that are not part of a qualified retirement plan are paid with after-tax dollars. Your principal contribution will not be taxed again, but interest *earnings* are taxable on a deferred basis.

The Internal Revenue Service (IRS) determines the amount not taxable using an annuity **exclusion ratio**, which accounts for your principal contributions and life expectancy, as well as the annuity's expected return for the life of the contract. The total amount you may exclude from income is limited to the total amount of premium you put into the annuity.