The Retirement Saving and Income Handbook

A Basic Guide to Annuity and Non-Annuity Solutions for Accumulating and Preserving Wealth and Generating Retirement Income

2025

Insured Retirement Institute

Table of Contents

BASICS OF ANNUITIES

ANNUITY SOLUTIONS

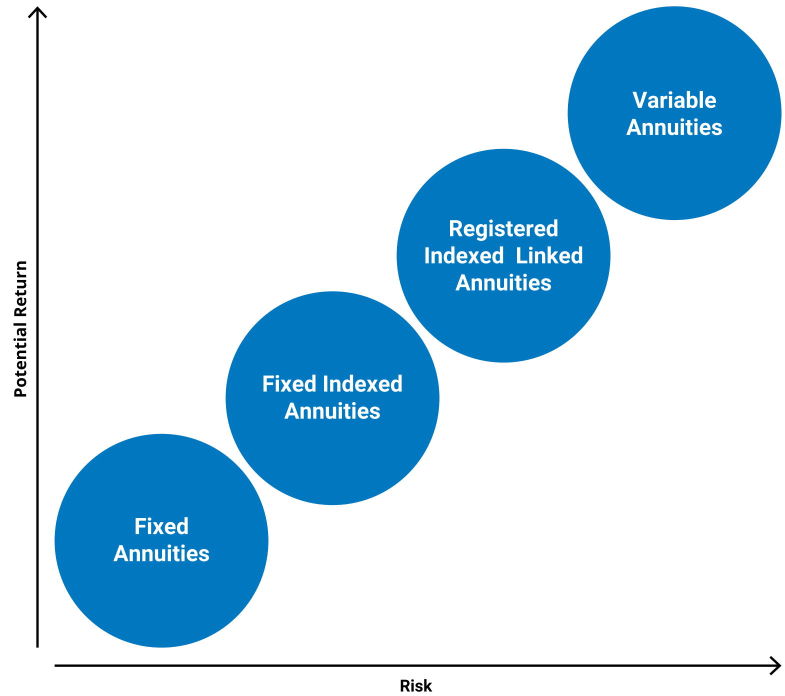
NON-ANNUITY SOLUTIONS

APPENDIX

Structure and Content of the Handbook

HOW TO USE THIS HANDBOOK

First, a few words on what this handbook is, and what it is not. This is not an exhaustive guide to all annuity and non-annuity products available in the market today, nor does it purport to present all the features and benefits of each product discussed or all the various features and benefits offered by insurers, asset managers, and banks in their unique product offerings. Rather, this handbook provides a basic description of each product or solution, a synopsis of common features found in each, and a visual representation of how each one functions. It is intended as an introduction to annuities and other solutions that provide investors with opportunities to accumulate wealth, fully or partially protect investable assets from market risk and market volatility, and efficiently distribute wealth to create supplemental income throughout retirement.



THE UNIQUE VALUE OF ANNUITIES

Annuities play a unique role in an investor's portfolio. While alternatives can be effective and, in some cases, preferable, only annuities guarantee income for the life of the investor, no matter how long that life may be. This guide describes the basics of these products and provides examples for how they can help consumers achieve their financial goals.

RISK, RETURN, PROTECTION, AND INCOME

All deferred annuities can be thought of as falling along a spectrum of potential return and market risk. Fixed annuities, which guarantee preservation of principal but credit a fixed rate of interest, have the lowest level of market risk but also the lowest potential return. Variable annuities, conversely, can be fully invested in risk assets (i.e., stocks) through subaccounts that are like open-end mutual funds, and therefore have the highest risk but also the highest potential return. Alternatives such as certificates of deposit (CDs), bonds and bond ladders, exchange-traded funds (ETFs), and options strategies share some characteristics of annuities but cannot guarantee income. The chart below shows where annuities and alternatives fall in terms of risk and whether they are primarily income or protection oriented.

Why Use Annuities In Retirement Portfolios?

Many American workers spend a lifetime accumulating wealth in employer-provided retirement plans like 401(k)s, and most must rely on this wealth as one of two main sources of income during retirement — the other being Social Security. It is generally accepted that most people need about 70 percent of their pre-retirement income during their retirement years, but Social Security replaces an average of 40 percent of pre-retirement income, and as little as 28 percent for top earners.[1] According to the Bureau of Labor Statistics, as of March 2025 only 14 percent of private sector employees in the United States had access to a defined benefit plan to provide lifetime retirement income, leaving most reliant on savings to fill the gap between needed income and Social Security.

There are many ways to design an investment portfolio to provide income for retirees. Interest from bonds and CDs, dividend-paying stocks, and systematic liquidation of assets can all be employed to provide income. However, including annuities provides three core advantages:

> Income can be guaranteed for life;
> Interest and investment returns are not taxed until money is withdrawn;
> Principal can be fully or partially protected.

Incorporating annuities into the portfolio can help ensure that if the portfolio fails, it does not fail catastrophically. Monte Carlo simulations are often used to show how a portfolio can be expected to perform using thousands of return scenarios based on historical data, with the output being the percentage of successful scenarios. For example, the analysis might show that the portfolio provided income for 30 years in 95% of simulations, but in in the 5% of simulations that "failed," the failure was catastrophic. For a retirement income portfolio, the Monte Carlo illustration will commonly show the percentage of historic returns scenarios where the portfolio was able to sustain a set percentage of annual withdrawals for 30 years. Annuities can also be incorporated into the Monte Carlo analysis, in which case a portion of the portfolio is used to purchase an annuity to provide protected income. Depending on the sequence of returns each scenario experiences, the non-annuity portfolio may perform better or worse, but the key difference is that the annuity portfolio never fails catastrophically because protected income from the annuity continues for the life of the consumer. When the non-annuity portfolio fails to provide income for 30 years, the real world impact is the exhausting of investable assets and the complete cessation of income from the portfolio. Figure 1 compares the two approaches.

FIGURE 1: THE REAL MEASURE OF SUCCESS

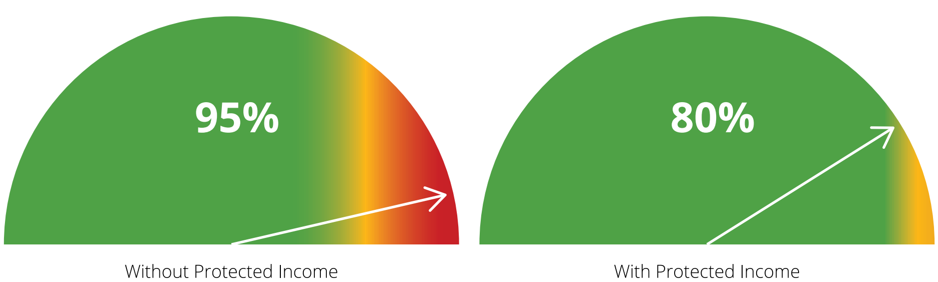


Figure 1 shows the results of Monte Carlo simulations with and without protected income from an annuity. When the annuity is added, while 20 percent of the simulations fall short of the income goal, the annuity continues to provide protected income. Without the annuity, 95 percent of simulations achieve the income goal. In the five percent that fail, the result is catastrophic: investable assets are exhausted and income goes to zero.

Guaranteed Lifetime Income and Asset Protection

Monte Carlo illustrations of retirement income portfolios fail when the hypothetical investment returns are not sufficient to overcome the impact of withdrawals. This is often due to the simulation modeling negative returns in the early years, causing portfolio value to be reduced both by withdrawals and significant market declines. Without very high positive returns in subsequent years, the portfolio can be depleted before the end of the targeted timeframe for income. This is known as "sequence of returns risk."

This is made clear through the simple deterministic illustration in Figure 2, which shows two portfolios with the same returns, one using an annuity for part of the income and one relying solely on a Systematic Withdrawal Plan (SWiP).

FIGURE 2: INCOME AND ADVERSE SEQUENCE OF RETURNS

In Figure 2 both portfolios have a starting balance of $500,000; annual withdrawals of $25,000, increased by 2% annually; an average 3.8% annual return; and -15% returns in years 10 and 11. One portfolio solely uses a SWiP for income, the other uses $200,000 of the portfolio to purchase an annuity for a portion of the income. In both cases, the portfolio is fully depleted when the hypothetical investor is over age 80, but the portfolio using the annuity lasts two years longer, because the mortality credits that boost the annuity payments mean less needs to be withdrawn from the remaining portfolio to provide the total income needed. And importantly, in the annuity scenario a portion of the income continues for life.

An important point is that Figure 1 does not tell a real-world story. An actual investor faced with the conditions of the non-annuity portfolio would be likely to allocate more of the portfolio to "safe" investments long before fully exhausting the portfolio, to try to preserve assets. Depending on market conditions, such a flight to safety could paradoxically hasten the depletion of assets as returns would likely be lower than from a mix of safer and riskier assets. By guaranteeing some of the income with an annuity, Figure 2 shows how the portfolio can provide lifetime income, help preserve assets, and give the investor the confidence to "stay the course."

Benefits Common Across Annuities

Rather than repeat certain benefits common to all or most insured (annuity) products and solutions on each page of this guide, the simple table below briefly describes each benefit and notes exceptions to the description and limitations.

Benefit	Description	Exceptions and Limitations
Tax-deferred interest/ earnings on unlimited after-tax contributions	Federal and state income taxes are not payable until monies are withdrawn from the annuity or the account value is annuitized.	Immediate annuities do not have a deferral period, therefore no tax deferred earnings accrue.
Death benefits	Payments to beneficiaries upon the death of the annuity owner. Enhanced benefits may be available paying an amount greater than the annuity cash value, such as "return of premium" options which guarantee a death benefit of at least the total amount invested.	Annuitized income may not continue after the death of the annuitant or may be limited. Unlike life insurance, annuity death benefits are generally taxable.
Exemption from probate	Monies paid out to beneficiaries upon the death of an annuity owner are excluded from the probate process.	For trust-owned annuities, the provisions of the trust govern distribution of assets and generally avoid probate.
Protection from creditors	Annuity benefits may be unconditionally exempt from seizure by creditors.	Levels of protection vary by state. AK, CA, FL, GA, HI, IN, TX, and LA provide for 100% annuity protection.
Protection from outliving one's income (annuitization)	All annuities can be "annuitized," i.e., contributions or account balances can be converted into guaranteed lifetime income. In non-qualified contracts, the portion of each payment representing the amount invested is not taxed (this is the "exclusion ratio").	Account values are generally not accessible other than through set, scheduled ongoing income payments. The insurance benefits of annuities are subject to the claims paying ability of the issuing company. State funds exist to help make policy holders whole in the event of insolvency, up to specified dollar amounts which vary by state.

Annuity Comparison Grid

Feature	Immediate Annuity	Deferred Fixed Annuity	Deferred Indexed Annuity (FIA)	Deferred Variable Annuity (VA)	Registered Index-Linked Annuity (RILA)	Contingent Deferred Annuity (CDA)
When income starts	Immediately (within 12 months)	At a future date	At a future date	At a future date	At a future date	At a future date
Primary purpose	Lifetime or period-certain guaranteed income	Guaranteed accumulation and income	Index-linked growth with principal protection	Market-based growth, optional income guarantees	Index-linked growth with partial principal protection	Guarantee lifetime income on outside investment accounts
Investment type	None (insurer manages payout pool)	Insurer's general account (fixed rate)	General account using structured index options	Separate subaccounts (open-end mutual funds or funds of ETFs)	Separate account using structured index options	Insurance overlay to owner's existing investment portfolio (e.g., a managed account)
Principal protection	Yes	Yes	Yes	No, unless an optional guarantee of principal or income is added	Partial (losses limited by buffers or floors)	No, the guarantee protects income, not principal
Growth potential	Low	Moderate (fixed rate)	Moderate to high (index gains capped)	High (market returns)	Moderate to high (market-linked with limits)	Depends on investments chosen by the owner
Explicit Fees	None	None, unless optional riders are elected	None, unless optional riders are elected	Range from very low for fee-based to high for commissioned products, plus fees for optional riders	None or very low, unless optional riders are elected	

Feature	Immediate Annuity	Deferred Fixed Annuity	Deferred Indexed Annuity (FIA)	Deferred Variable Annuity (VA)	Registered Index-Linked Annuity (RILA)	Contingent Deferred Annuity (CDA)
Risk level	Very low	Low	Moderate	High	Moderate to high	Varies — investment risk remains, but income is protected
Liquidity	Not liquid once income starts, but there are options to pay undistributed principal to beneficiaries at annuitant's death	Limited annual free withdrawals; charges may apply to excess early withdrawals and full surrenders	Limited annual free withdrawals; charges may apply to excess early withdrawals and full surrenders	Limited annual free withdrawals; charges may apply to excess early withdrawals and full surrenders	Limited annual free withdrawals; charges may apply to excess early withdrawals and full surrenders	High — investments remain liquid; annuity guarantees income only. However, excess withdrawals may result in adjustment or voiding of the income guarantee
Optional riders	Commutation rights may be available	Income and death benefit riders	Income and death benefit riders	Income and death benefit riders	Income and death benefit riders	The CDA is effectively an income guarantee rider
Regulatory oversight	State insurance departments	State insurance departments	State insurance departments	SEC + State insurance departments (registered product)	SEC + State insurance departments (registered product)	SEC + State insurance departments
Best suited for those seeking	Immediate guaranteed income	Safe growth	Market-linked growth with full principal protection	Maximum growth potential	Market-linked growth with partial principal protection	Guaranteed lifetime income from an existing managed account

Annuity Case Studies

The following case studies illustrate how tailored annuity strategies can address a wide range of client needs, from lifetime income and tax efficiency to long-term care protection and special needs planning. Each example highlights how thoughtful analysis and product selection can create personalized solutions that protect assets, reduce tax exposure, provide reliable income, and support unique family circumstances. Together, they demonstrate the versatility of annuities as tools for helping clients achieve retirement security and financial resilience.

IRI would like to thank Marguerita Cheng, Blue Ocean Wealth Management; Carlos Dias, Dias Wealth; John Pinkley, CFP, CLU, Achievement Financial Group (Raymond James); and Carla Williams, Gateway Financial Partners (LPL) for contributing these real-world examples of annuities in action.

INCOME AND LONG-TERM CARE PROTECTION

A self-employed hairdresser retired at 65 with no pension and a spouse 12 years older. She suffered from chronic obstructive pulmonary disease (COPD), making her ineligible for long-term care (LTC) insurance. An annuity with a lifetime income rider that doubled payouts if she could not perform two of six activities of daily living (ADLs) was recommended. The rider activated in 2019, and five years later she was diagnosed with Alzheimer's and moved into assisted living. With the ADLs met, the income doubled and helps cover her care costs.

LONG-TERM CARE AND TAX STRATEGY

At 72, a client wanted to plan for future LTC needs but worried about qualifying for coverage. He owned a $175,567 variable annuity (VA) with $60,000 in gains that would be taxable if the VA was liquidated. To avoid tax liability and secure coverage, it was repositioned into an LTC annuity with a 3x multiplier that will provide $630,630 in benefits ($7,007/month for 90 months) starting at age 80, and due to the Pension Protection Act all benefits will be tax-free.

LIFETIME INCOME, TAX STRATEGY, AND LONG-TERM CARE PROTECTION

A 63-year-old client and his 64-year-old wife wanted guaranteed income but also to preserve a death benefit. An analysis was done to compare immediate annuities and income riders. An immediate annuity required $610,000, while an income rider required $600,000 and offered a potential "doubler" if two ADLs couldn't be met. Unlike immediate annuities, the rider allowed for growth and a larger potential death benefit. Comparing both options showed how Immediate annuities may provide higher guaranteed payouts in certain rate environments, while income riders often provide greater flexibility, potential for continued payment and tax deferral, and other features such as enhanced death benefits or benefit "doublers" (two times benefit value upon a LTC event). Properly comparing both ensures the chosen solution aligns with both current income needs and objectives.

CONSERVATIVE INCOME STRATEGY

A 64-year-old client, still working, received a proposal for an income rider but primarily wanted predictable returns with flexibility. Instead, a 10-year multi-year guaranteed annuity (MYGA) at 6% was recommended. A $1 million deposit produced $60,000 in annual penalty-free interest withdrawals, with the full principal returned at maturity. This approach met her income goals without the complexity of an income rider.

TAX STRATEGY AND SUPPLEMENTAL INCOME

At age 64, a client was considering a $326,000 investment in either a CD or a fixed deferred annuity. By 2025, he was receiving $30,200 in pension income and $28,400 in Social Security annually. The interest earnings from the CD would have made 85% of his Social Security benefit taxable, creating a $6,386 federal tax liability. By using an annuity crediting deferred interest, only 47% was taxable, lowering the tax on his Social Security benefits to $2,952. As a side note, had the client had significantly greater investments a CD purchase would have also risked raising Medicare premiums due to the income-related monthly adjusted amount (IRMAA). The annuity allowed flexible interest deferral, reducing annual tax exposure.

INHERITED ANNUITIES AND TAX STRATEGY

A couple in their 60s inherited non-qualified annuities from both sets of parents. In 2023, the wife inherited $122,000 (basis $40,000). In 2025, the husband inherited $121,000 (basis $75,283). By using a non-qualified "stretch" strategy, they were able to minimize required distributions and avoid large tax bills. Living in California at the top of the 22% tax bracket, a lump sum would have pushed them into a higher bracket (24%). Stretching preserved tax deferral, kept tax rates lower and avoided the 10-year stretch distribution limit.

PLANNING FOR SPECIAL NEEDS

The client, with a special needs son, needed retirement security and beneficiary flexibility. Pension rules prevented her from naming a non-spousal beneficiary, so two variable annuities with guaranteed withdrawal benefits were purchased five years apart, representing under 15% of her net worth. These provide lifetime security while ensuring support for her son.

Parents of two special needs daughters, now ages 66 and 67, own annuities purchased many years ago. If minimizing fees is a priority, they can use 1035 exchanges into a registered index-linked annuity (RILA). If LTC coverage is more important, they can consider products that double income for care needs. Their case highlights how annuities offer flexibility to adjust coverage, fees, and protection as needs evolve.

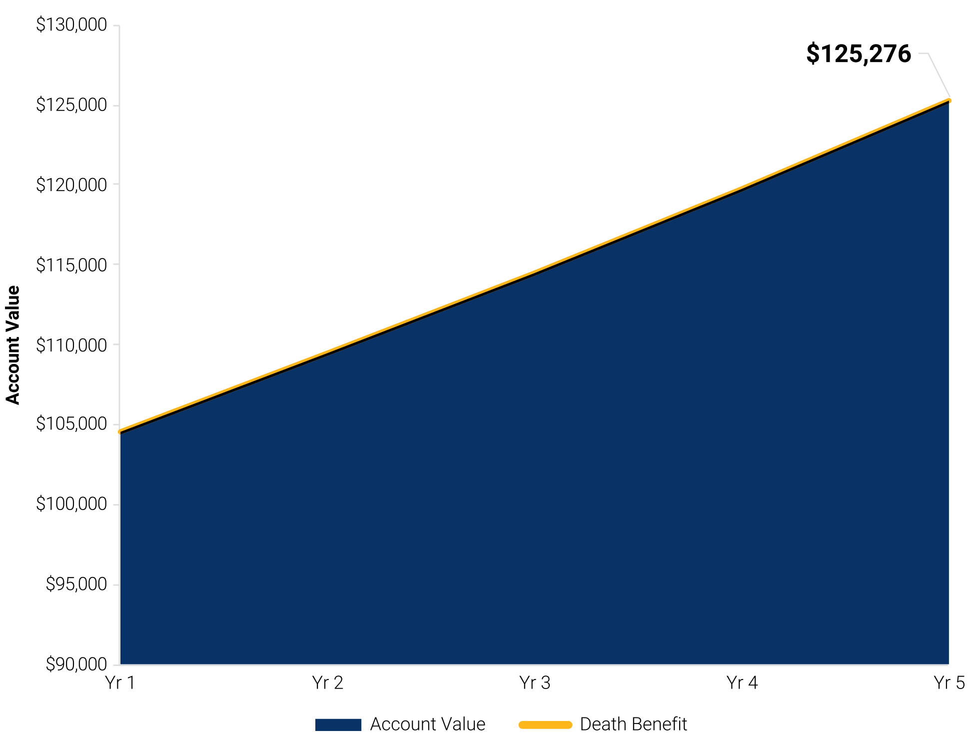
Fixed Annuities

SUMMARY

Fixed annuities are insurance contracts that offer tax-deferred investing and a guaranteed rate of return in the form of interest credited to the contract by the issuing insurance company.

HOW IT WORKS

An initial purchase payment is invested by the contract owner and managed in the insurance company's general account. The insurance company guarantees that the account will earn a specific interest rate for a specified period. This period is known as the accumulation phase. Many fixed annuities have specific terms after which they "mature" and will automatically renew for another term of the same length unless liquidated or exchanged, similar to the manner in which CDs issued by a bank mature. Others continue to credit interest at renewal rates published each year, after an initial guaranteed rate period, until the contract is terminated. As with all deferred annuities, fixed annuities can be "annuitized," or converted into lifetime income payments.



In this example, $100,000 is invested in the annuity and the annuity credits interest at a 4.61% rate (the average five-year MYGA rate as of June, 2025 from Beacon Annuity Solutions) for five years, resulting in an ending value of $125,276. The contract owner dies five years after the contract is issued and the accumulated value is paid to the beneficiary. Basic fixed annuities are simple and straightforward, often have significantly higher crediting rates than certificates of deposit, and include the benefit of compounding interest on a tax deferred basis.

BENEFITS

- Principal protection and a guaranteed minimum rate of return, subject to the claims paying ability of the issuer.
- Fixed annuities offer beneficiaries a simple standard death benefit: the annuity's accumulation value or the minimum guaranteed surrender value, whichever is greater, which ensures beneficiaries receive no less than the current value. Some products offer optional enhanced death benefits that may pay out a higher value.
- Ability to annuitize the contract to create lifetime income in retirement.
- Interest rates for fixed annuities are usually higher, and depending on market conditions sometimes significantly higher, than what you would get from a CD.

RESTRICTIONS AND LIMITATIONS

- Most contracts have a minimum investment amount, commonly $5,000 to $25,000, and a maximum of $1 million without prior approval.
- Annual withdrawals exceeding 10% of the amount invested may be subject to an early withdrawal penalty (surrender charge) during the early contract years (three years is common).
- Most fixed annuities are "spread products" without explicit fees (other than for optional benefits).

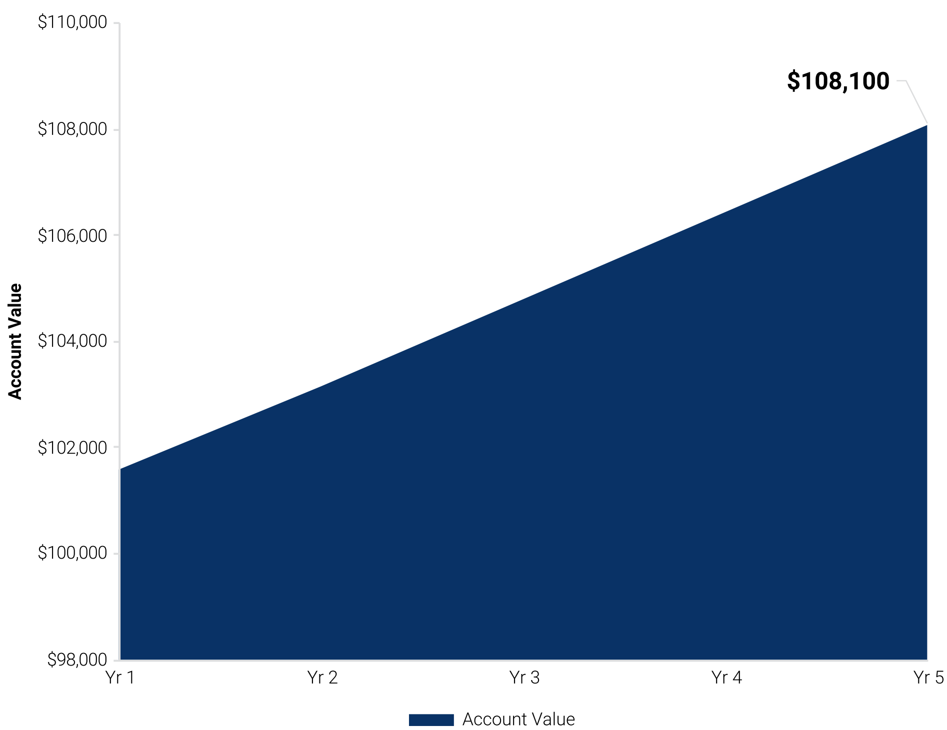
Certificates of Deposit

SUMMARY

Certificates of deposit (CDs) are fixed income investments issued by banks and credit unions. CDs are credited with a fixed rate of interest on a lump sum for a specified number of years. In general, the longer until the CD matures, the higher the interest that is paid. Virtually every bank and credit union offers a variety of CD options.

HOW IT WORKS

An initial contribution is made to purchase the CD, which is then held for the time period specified with interest credited and compounded annually. The interest rate credited to the CD is locked in for the term (e.g., a six-month or one-year CD) and cannot be changed by the bank. When the CD matures at the end of the specified period, it may be liquidated, or cashed in, within a specified time period, usually 30 days. After 30 days the CD will automatically roll over to a new CD for the same time period at prevailing interest rates. Unless held in a qualified account, the interest credited to the CD is included in taxable income each year.



In this example, $100,000 is invested in a 5-year CD crediting 1.57% per year (the average CD rate in June 2025 from bankrate.com). At the end of five years the CD is worth $108,100 due to compound interest. This is very similar to a fixed annuity, excepting that in the event of death the CD is included in the estate of the investor and in probate proceedings unless held in a trust. The fixed annuity is paid out directly to the beneficiary named in the contract. Unlike a fixed annuity, taxes are due every year as the bank credits interest rather than when the CD matures or is cashed in.

CLIENT BENEFITS

- Principal and interest are guaranteed by both the bank and the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank.
- Simple, easy to understand structure.
- Can be purchased in many denominations and durations to align with future spending needs.

RESTRICTIONS AND LIMITATIONS

- Ultra-conservative investments have lower returns over time, making it more difficult to accumulate wealth.
- Interest rates are generally lower than those available in fixed annuities.
- CDs carry penalties for early withdrawals. Unlike annuities, CDs do not generally offer free withdrawal provisions.
- A CD cannot be directly converted to lifetime income.
- Interest earned on CDs is taxable when it is credited by the bank, not when the CD matures and can be liquidated.

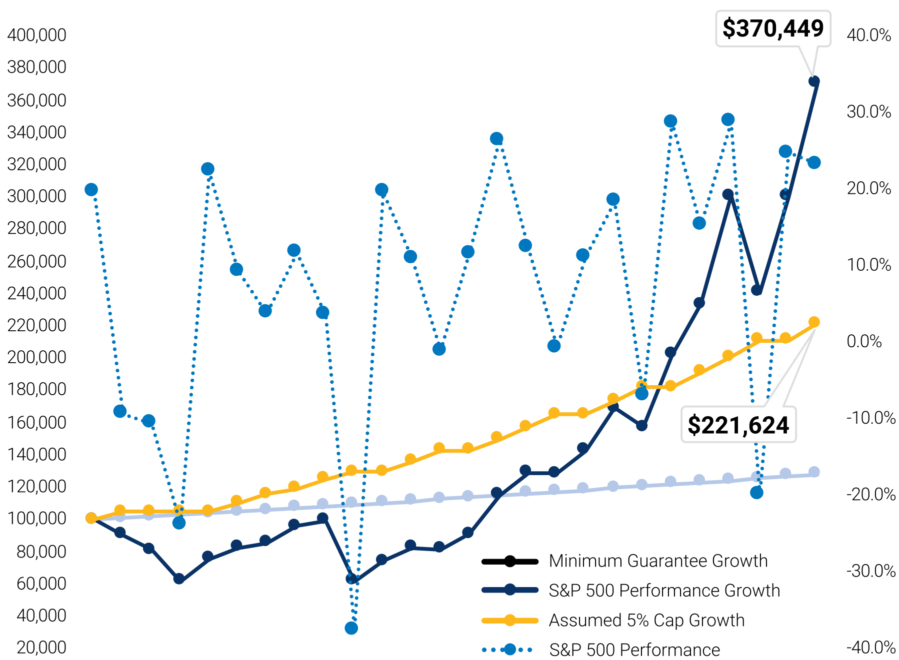
Fixed Indexed Annuities

SUMMARY

Fixed indexed annuities (FIAs) are a type of annuity that offers more upside potential than a traditional fixed annuity with a crediting rate based on the performance of an underlying stock market index such as the S&P 500, Dow Jones, and Nasdaq. FIAs are insurance contracts, not investments or securities, that offer tax-deferred growth with a guaranteed rate of return that provide protection from loss of principal in market downturns, capping both gains and losses. FIAs can be used for guaranteed income through annuitization or the inclusion of a guaranteed income rider.

HOW IT WORKS

An initial contribution is invested by the contract owner and managed in the insurance company's general account. While the contract owner is not invested directly in options, a portion of general account earnings is used to purchase options on market indexes (e.g., the S&P 500). Positive returns on the options result in additional interest credited to the contract. Interest may be credited based on a participation rate, spread, or trigger basis.



In this example using actual S&P 500 return data from 1999 to 2024, the FIA is guaranteed a minimum crediting rate of 1% per year. In years where the change in the S&P 500 is positive, the annuity is credited with the gain in the index, up to 5%. When the change in the S&P 500 is negative, no additional interest is credited and no loss of principal occurs. Over time, and in the volatile stock market conditions shown here, the FIA grows from $100,000 to $221,624, for a compound annual return rate of about 3.3%. This example also shows why an FIA is best positioned as a diversifying assets in the fixed income allocation of a portfolio. The FIA's value does not increase as much as the hypothetical investment in the S&P 500 index, but it avoids the significant drops in value the S&P investment experiences during bear market years.

CLIENT BENEFITS

- Tax-deferred growth, and during the income phase clients only pay taxes on the interest earned (for non-qualified FIAs).
- Principal protection and a guaranteed minimum rate of return, subject to the claims paying ability of the issuer.
- The ability to earn interest based on the positive performance of a market index.
- Death benefits ensuring beneficiaries receive no less than the account value and optional enhanced death benefits that may pay out a higher value.
- Ability to annuitize the contract or utilize an income benefit rider to create lifetime income in retirement.

RESTRICTIONS AND LIMITATIONS

- Most contracts have a minimum investment amount, commonly $5,000 to $25,000, and a maximum of $1 million without prior approval.
- The minimum guaranteed surrender value is typically 87.5% of premium. The contract must be held to maturity for 100% principal protection.
- Annual withdrawals exceeding the surrender charge free amount may be subject to an early withdrawal penalty (surrender charge) during the first several contract years.
- Most FIAs are "spread products" without explicit fees (other than for optional benefits). Fee-based products are available with fees up to 1.5% of the account value.
- Guaranteed interest is generally lower than that credited by a fixed annuity, but potential returns are higher due to index-based crediting.

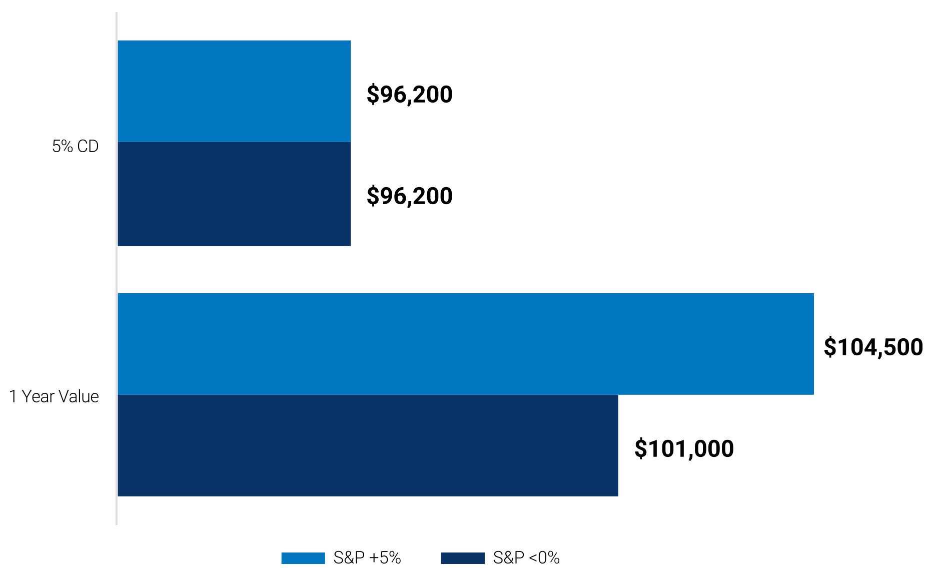
Fixed Income + Index Call Options

SUMMARY

For a given investment amount, a CD, Treasury security, or corporate bond is purchased that will grow to equal that amount plus one percent at maturity. The difference between the value of the fixed income security at maturity and its cost is used to purchase options on the S&P 500 (or other) index or indexes.

HOW IT WORKS

The discounted purchase price of the CD or bond grows to equal the total initial investment, or the total investment plus some interest when the instrument matures. Coincident with the maturity of that security, the options are either sold "in the money," i.e., the S&P 500 index has increased in value and the options are worth more than when purchased, or they expire worthless. This options concept is referred to as "moneyness." The total return is equal to the interest on the fixed income security plus the profit realized from the options trades, if any. This mimics the basic structure of an FIA — a minimum fixed rate of return and a portion of any gain in the index (options profit). The options strategy may be a simple purchase of call options, or the simultaneous purchase of an in-the-money call and sale of an out-of-the-money call, making the options cheaper and providing a higher participation rate in the gain of the index, if any.



In this example, $100,000 is the total investment. $96,200 is invested in a 5% one-year CD, which will mature at $101,000. The remaining $3,800 is used to purchase one-year SPDR S&P 500 ETF Trust (SPY) at-the-money calls at a strike price of $470 when the index is at $6,714.59. After one year, if the S&P is up 5%, the total return will consist of $1,000 from the CD and a $3,500 profit from sale of the options, for a total of $104,500 or a roughly 90% participation rate versus the return if the initial investment received 100% of the index return. If the S&P is flat or down, the options expire worthless, and the return is limited to the interest on the CD.

CLIENT BENEFITS

- Provides principal protection if strategy is held until maturity.
- Many different indexes and options strategies can be utilized.
- May be easier to exit than a FIA if a significant change in portfolio strategy is desired.

RESTRICTIONS AND LIMITATIONS

- Requires knowledge of options trading as well as frequent monitoring and trading.
- Earnings are not tax deferred.
- Guaranteed lifetime income is not directly available in conjunction with the strategy.

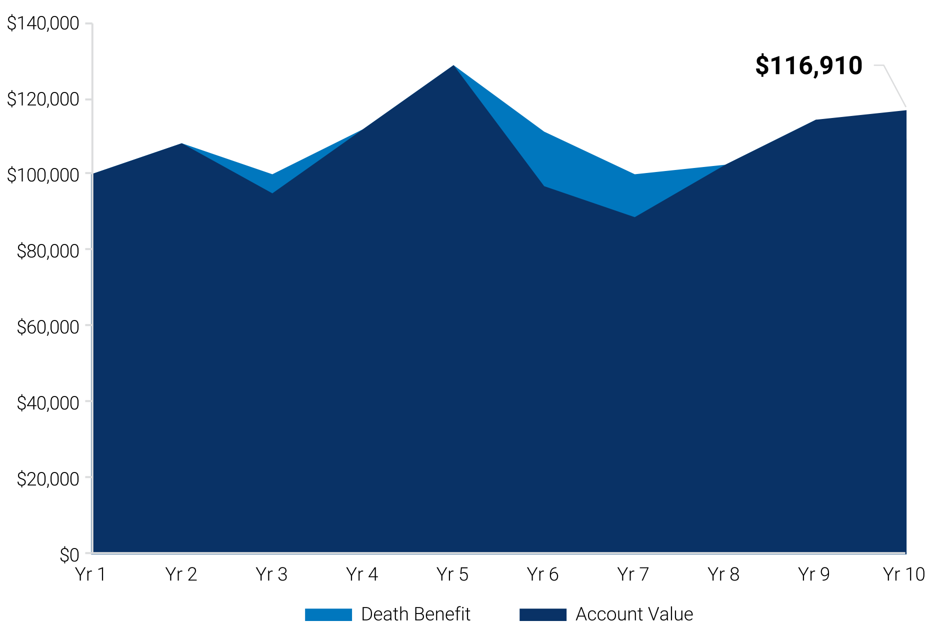
Variable Annuities

SUMMARY

Variable annuities (VAs) are insurance contracts that are considered securities that allow tax-deferred growth by investing the premium in investment subaccounts that resemble open-end mutual funds. These subaccounts invest the premium in pools of different assets like stocks, bonds, money market funds, and in most VAs, a general account option. Variable annuity subaccounts are open-end mutual fund share classes created specifically for use by VAs. Most VAs include optional riders for a fee that offer principal or income protection during the life of the owner and to the beneficiary. These may include enhanced death benefits, guaranteed lifetime withdrawal benefits (GLWBs), guarantee lifetime accumulation benefits (GMABs), and guaranteed lifetime income benefits (GMIBs).

HOW IT WORKS

An initial purchase payment is invested by the contract owner and allocated among the subaccounts and general account of the insurer. Contracts may be funded with a single purchase payment or funded over time subject to minimums and maximums defined by the issuer. Funds in the annuity can be withdrawn, the contract can be "annuitized" (converted to lifetime income payments), or funds may be paid out to beneficiaries upon the death of the contract owner. The death benefit will be no less than the account value, less any surrender charges that may apply. However, most contracts include a standard death benefit that pays the beneficiary no less than the amount invested and waives surrender charges in the event of the owner's death.



In this example, $100,000 is invested in the annuity and the contract owner dies 10 years after the contract is issued. At time of death the accumulated value of $116,910 is higher than the amount invested so the full value is paid to the beneficiary. However, had death occurred at a point when negative returns lowered the accumulated value, the full amount invested would have been paid instead.

CLIENT BENEFITS

- Investing on a tax-deferred basis without being subject to the limitations currently in place on qualified plans (401(k), IRA, Roth IRA, etc.)
- Principal protection through return of premium death benefits, if included in the contract, ensuring beneficiaries receive no less than the amount invested.
- Ability to annuitize the contract to create lifetime income in retirement.
- Portfolio rebalancing and investment changes can be made without tax consequences.
- Higher potential returns based on market performance and reinvested dividents.

RESTRICTIONS AND LIMITATIONS

- Most contracts have a minimum investment amount, commonly $5,000 to $25,000, and a maximum of $1 million without prior approval.
- Annual withdrawals exceeding 10% of the amount invested may be subject to an early withdrawal penalty (surrender charge) during the first several contract years.
- Most contracts include annual fees that pay for the distribution and administration of the annuity and the basic return of premium death benefit in the contract.
- Risk of loss of principal due to market losses, benchmark risk and return dilution.

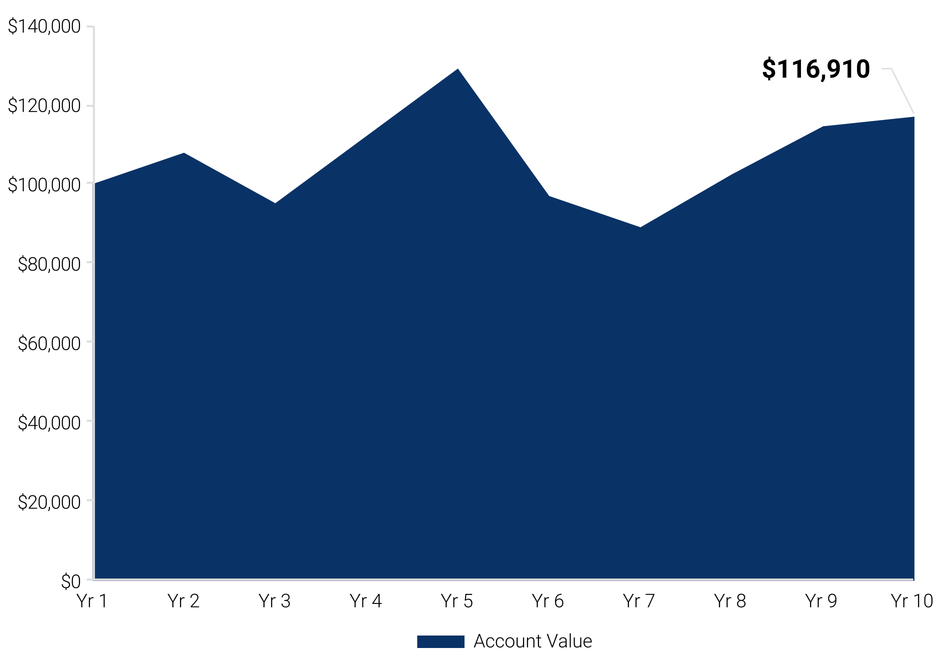
Open-end Mutual Funds

SUMMARY

Open-end mutual funds are Securities and Exchange Commission (SEC) registered pooled investment portfolios that buy and sell securities on behalf of investors in the fund. Mutual funds are priced daily, highly liquid, and diversified. A wide range of investment strategies are available to enable advisors to build portfolios aligning with a client's financial goals and risk tolerance.

HOW IT WORKS

An investment account is opened with an online broker or through a financial professional (also called a financial advisor or investment advisor). A strategy is decided upon and mutual funds aligning with the strategy are purchased, either on an ad hoc basis or by setting up a regular investment plan.



In this example, $100,000 is invested in the mutual fund. Its value rises and falls as the stocks and bonds held in the mutual fund portfolio fluctuate in price and dividend and capital gains are reinvested. The ending value of $116,910 is the same as in the VA example, but mutual funds have no insurance features, and therefore the cash value of the fund is always equal to the value of the underlying securities.

CLIENT BENEFITS

- Professional portfolio management.
- Convenience.
- Fair pricing.
- Diversification — losses due to poor performance of a single security are mitigated.
- Higher potential returns based on market performance and reinvested dividends.

RESTRICTIONS AND LIMITATIONS

- No guarantees.
- Tax inefficient; unless held in a qualified account (e.g., 401(k) or IRA), interest and capital gains are taxable when distributed or reinvested by the fund. Shares must be redeemed or other sources of capital must be used to satisfy tax liabilities, and it is possible to have net investment losses and tax liabilities in the same year.
- Benchmark risk (fund returns may deviate from benchmarks).
- Return dilution — the flip side of diversification, return dilution limits participation in returns from high performing securities.

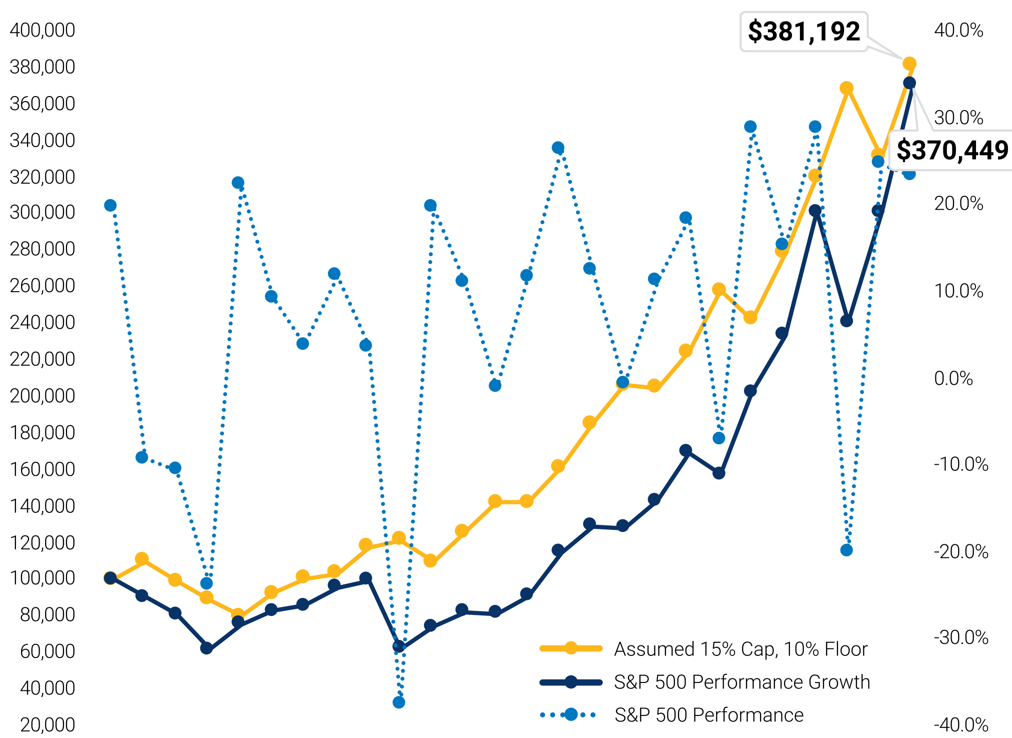
Registered Index-linked Annuities I — Floor Strategy

SUMMARY

Registered index-linked annuities (RILAs) utilize options strategies to provide both upside potential and downside protection. The contract owner is not directly invested in the securities that underlie the index, but rather receives a return on investment based on the performance of the options.

HOW IT WORKS

The initial contribution is held in a segregated separate account managed by the insurance company. Earnings from this account are used to purchase options on one or more market indexes, the most common being the S&P 500 index. In a floor strategy, the client is protected from losses beyond a set percentage, with gains capped at a predefined percentage. As an example, a 10% floor and a 15% cap limits loss to 10% if the index drops 25% and caps the gain at 15% even if the index rises 25%.



In this example using actual S&P 500 return data from 1999 to 2024, $100,000 is invested in the annuity. In years when the S&P 500 has a positive change in value, the RILA account value increases up to 15%. In years when the change in the value of the S&P 500 is negative, losses are limited to 10%. The insurance company absorbs losses beyond the 10% floor. The RILA outperforms the S&P 500 due to market volatility and the years the S&P 500 experienced significant losses, and the annuity grows from $100,000 to $381,192, for a compound annual return rate of about 5.5%.

CLIENT BENEFITS

- Upside potential is greater than in conservative fixed income investments.
- The client receives a measure of principal protection by giving up some upside potential.
- Losses are limited to the preset floor percentage.
- The client is more likely to stay invested and accumulate greater savings for retirement than with a very conservative investment strategy.
- Attractive investment options in a volatile equity market where consumers want greater upside potential than a FIA, fixed annuity, or CD can offer.

RESTRICTIONS AND LIMITATIONS

- Principal protection is generally less than 100 percent in RILA products.
- Gains are limited to the preset cap percentage.
- Only certain indexes are available.
- Index gains do not include dividend income.

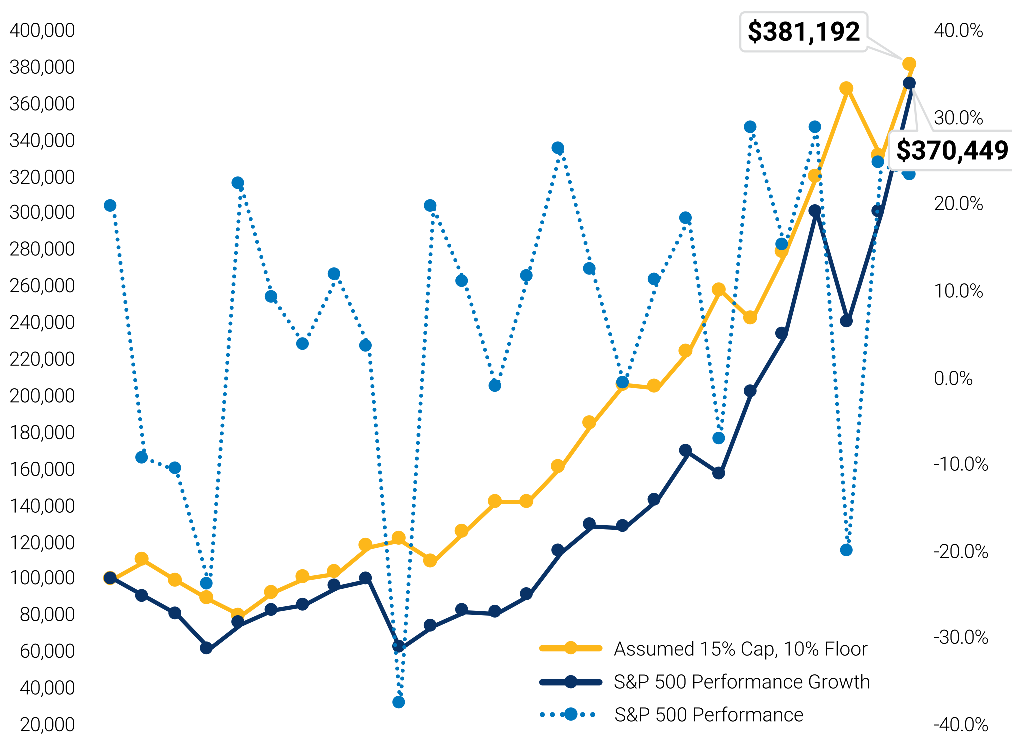
Managed Floor ETFs

SUMMARY

Managed floor ETFs use a laddered options strategy to target a maximum level of loss while seeking to achieve incremental positive returns. The options strategies used in the ETF are designed to provide upside potential with call options while targeting a loss "floor," for example limiting losses to 10 percent, using put options.

HOW IT WORKS

Exchange-traded put option contracts are purchased to provide a floor against significant losses in the target market indexes. Short-dated call options are simultaneously sold with the objective of generating incremental returns above and beyond the cost of the put options. Capital appreciation of the underlying holdings and the incremental returns from the call options are intended to generate positive returns for investors over the long term, while limiting losses.



From an illustration perspective, a managed floor ETF is similar to a RILA using a floor strategy; that is, the downside is limited to a 10% loss while the upside is capped. In the case of the ETF, the upside cap is not defined but rather a result of the gains and losses stemming from the options trades. For simplicity, the same 15% upside cap shown for the RILA floor strategy is used here, with the same result in terms of the ending account value. Note, however, that the difference in tax treatment of the annuity and the ETF would have a material impact on the net result..

CLIENT BENEFITS

- Upside potential, which can be described as "equity like," is greater than in conservative fixed income investments.
- The client receives a measure of principal protection by giving up some upside potential.
- Intended to limit losses to a defined percentage.
- The client is more likely to stay invested and accumulate greater savings for retirement than with a very conservative investment strategy.
- May include dividend returns depending on the specific product chosen.

RESTRICTIONS AND LIMITATIONS

- Requires frequent maintenance and trading.
- Loss limits and return goals are targets, not guarantees.
- Insured principal protection and lifetime income are not directly available.
- Gains are not tax deferred.
- May not include dividend returns depending on specific product chosen.

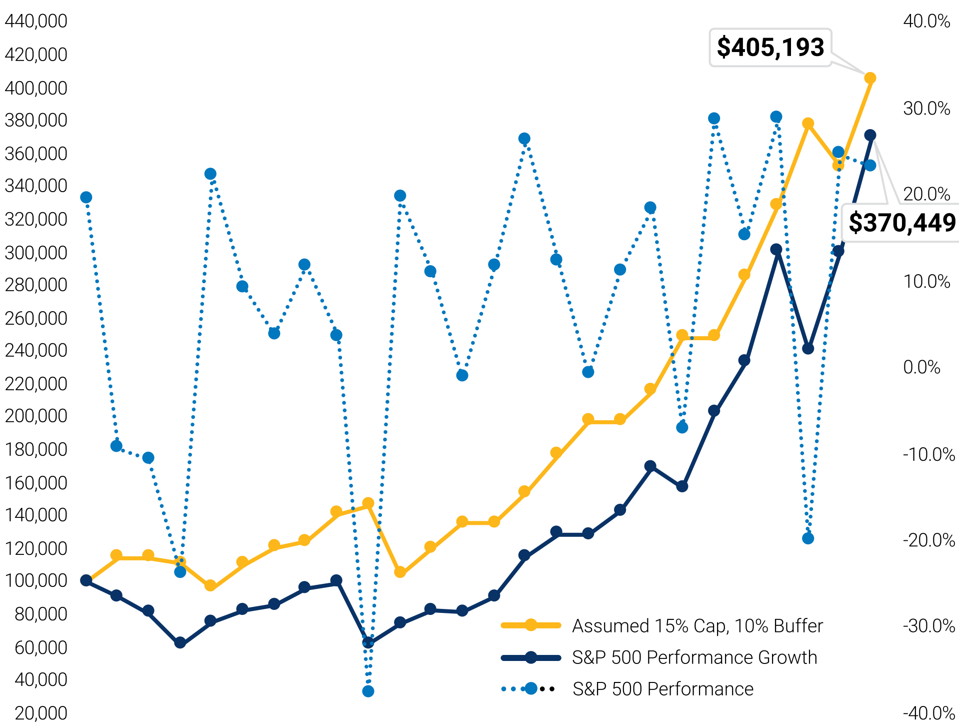
Registered Index-linked Annuities II — Buffer Strategy

SUMMARY

RILAs utilize options strategies to provide both upside potential and downside protection. The contract owner is not directly invested in the securities that underlie the index but rather receives a return on investment based on the performance of the options.

HOW IT WORKS

The initial contribution is held in a segregated separate account managed by the insurance company. Earnings from this account are used to purchase options on one or more market indexes, the most common being the S&P 500 index. In a buffer strategy, the client is protected from losses up to a set percentage, with gains capped at a predefined percentage. As an example, a 10% buffer with a 15% cap will protect against losses up to 10% , resulting in a 15% loss if the index drops 25%, while the cap limits annual gains to 15%.



In this example using actual S&P 500 return data from 1999 to 2024, $100,000 is invested in the annuity. In years when the S&P 500 has a positive change in value, the RILA account value increases by the lesser of 15% or the actual change in value of the index. In years when the change in the value of the S&P 500 is negative, losses are protected up to 10%. The client absorbs losses beyond the 10% buffer. There is no guaranteed minimum return, and in this example the RILA grows to $405,193, for a compound annual growth rate of 5.75%, and the account experiences far less volatility and reduced losses when the S&P drops significantly. In this market scenario the buffer strategy outperforms both the S&P 500 and the RILA floor strategy due to the number of sub-10% market downturns the investor is protected against, versus the floor strategy which only protects against losses greater than 10%, a far less frequent occurence.

CLIENT BENEFITS

- Upside potential is greater than in conservative fixed income investments.
- The client receives a measure of principal protection by giving up some upside potential.
- Client is protected against losses up to a set percentage.
- The client is more likely to stay invested and accumulate greater savings for retirement than with a very conservative investment strategy.
- Income benefit riders may be available.

RESTRICTIONS AND LIMITATIONS

- Principal protection is generally less than 100 percent in RILA products.
- Losses beyond the buffer are unlimited.
- Only certain indexes are available.
- Index gains do not include dividend income.

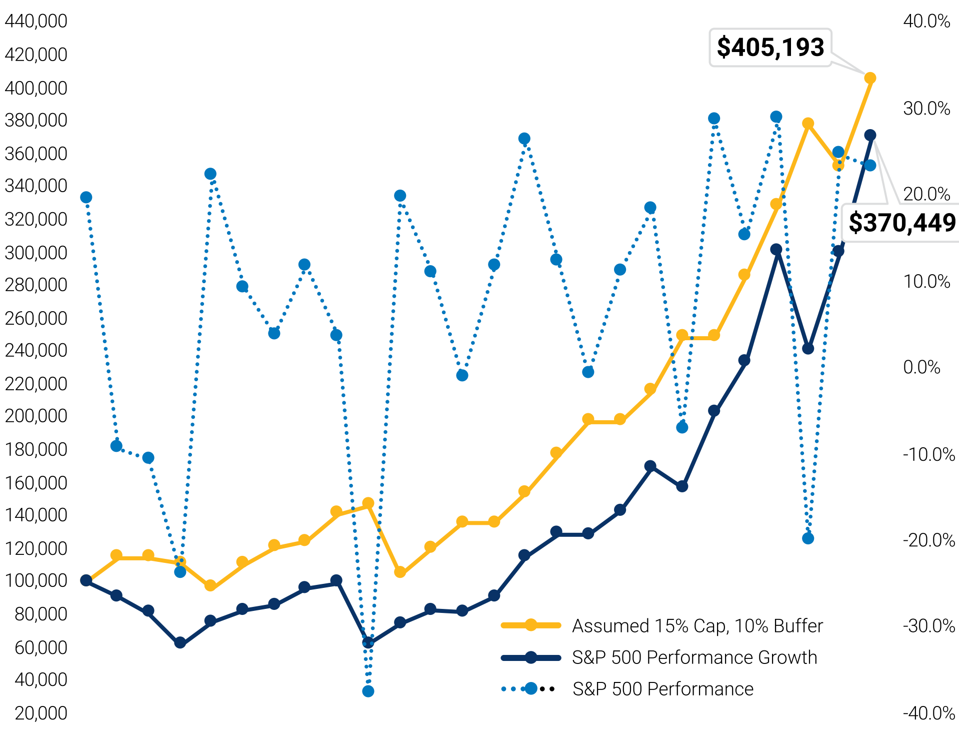
Buffered ETFs

SUMMARY

Buffered ETFs use a laddered options strategy to target a maximum level of loss while seeking to achieve incremental positive returns. A buffered ETF is designed to provide investors with the upside of an asset's returns, up to a capped percentage, while also providing downside protection on a percentage of losses, for example on the first 10 or 15 percent. Buffered ETFs typically have one-year outcome periods.

HOW IT WORKS

A typical buffered ETF purchases one-year call options on a market index, allowing it to purchase the index at the current price in one year. It will also buy put options to provide protection and sell calls to generate premium income that is intended to defray the cost of the put options and generate additional incremental returns.



From an illustration perspective, a buffered ETF is like a RILA using a buffered strategy; as in the RILA, in this example the downside is protected up to a 10% loss while the upside is capped. Unlike the RILA, in the case of the ETF the upside cap is not defined but rather is the result of the gains and losses stemming from the options trades. For simplicity, a 15% cap is used in the chart. The ending value is the same as in the buffered RILA example, but again taxes would impact this result.

CLIENT BENEFITS

- Upside potential is greater than in conservative fixed income investments.
- The client receives a measure of principal protection by giving up some upside potential.
- Losses are only incurred beyond a set percentage.
- The client is more likely to stay invested and accumulate greater savings for retirement than with a very conservative investment strategy.

RESTRICTIONS AND LIMITATIONS

- Gains are less than the return of the underlying index.
- Loss limits and return goals are targets, not guarantees.
- Insured principal protection and lifetime income are not available.
- Gains are not tax deferred.
- Do not typically include dividend return.
- Requires frequent maintenance and trading.

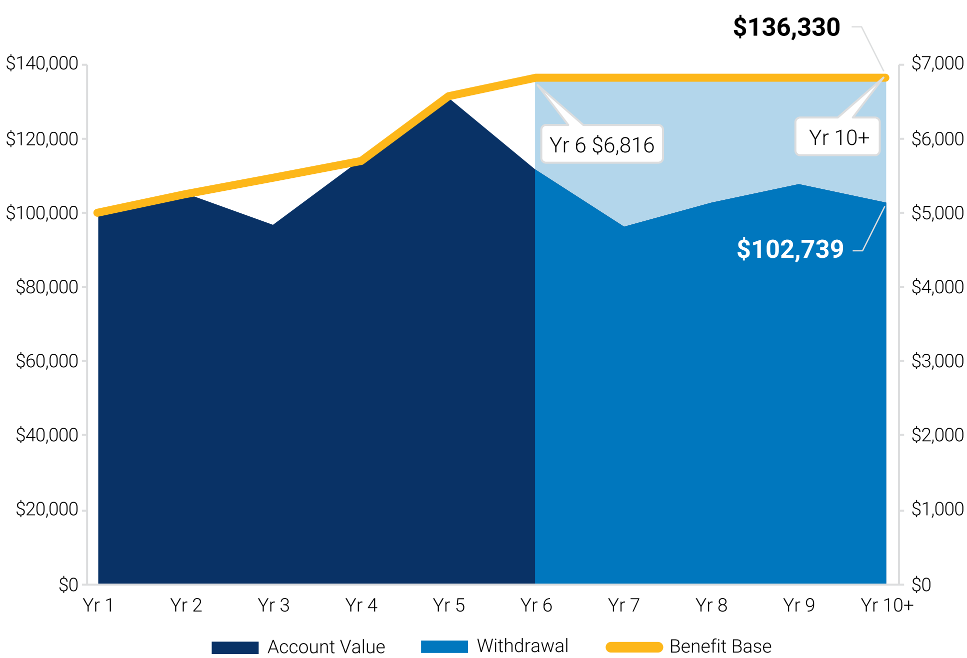
Living Benefits I — Guaranteed Lifetime Withdrawal Benefits and Contingent Deferred Annuities

SUMMARY

Living benefits provide benefits to annuity owners during their lives, most notably income for as long as they live, even if the annuity value becomes zero. A common one is the GLWB, which provides income through regular lifetime withdrawals. GLWBs are optional for an additional fee on many VAs and FIAs as well as some RILAs and fixed annuities. Contingent deferred annuities (CDAs) function much like a GLWB on a variable annuity contract, but the GLWB is an endorsement attached to a portfolio of mutual funds rather than integrated into a variable annuity. The CDA is issued by an insurance company and guarantees that a set level of income from the portfolio will continue for the life of the consumer after the portfolio itself is exhausted, provided the purchaser adheres to defined investment and withdrawal parameters.

HOW IT WORKS

An investment is made by the purchaser. A "benefit base" is initially equal to the amount invested and may increase at a fixed rate prior to income payments beginning, and on anniversaries before and after income payments begin if positive returns increase the account value above the benefit base. Income is through lifetime guaranteed withdrawals calculated as a percentage of the benefit base.



In this example, $100,000 is invested in the annuity and withdrawals begin after five years. Prior to the start of withdrawals, the benefit base increases each year due to either positive investment performance (step-up) or annual increases based on a fixed percentage rate. Once withdrawals begin, the guaranteed withdrawal amount may still increase if the contract value becomes greather than the benefit base due to positive investment performance. If the account value is depleted to $0, income is paid out of the insurance company's general account.

CLIENT BENEFITS

- The client receives regular payments guaranteed for life, or two lives in the case of joint life benefits, to supplement Social Security retirement benefits and other sources of retirement income, such as pensions.
- Unpaid account value may be distributed to beneficiaries upon the death of the owner(s).
- The guarantee itself may give the client more confidence to remain invested during periods of high market volatility, potentially increasing overall portfolio returns in the long run.
- Many GLWBs allow additional penalty-free withdrawals to satisfy required minimum distribution (RMD) rules.

RESTRICTIONS AND LIMITATIONS

- If the contract value becomes zero, payments will continue and will not increase or decrease. Payments will cease at the death of the owner(s), and in some contracts the income amount may be reduced.
- There may be a limited menu of investment options, or some riskier options may not be available, when a GLWB is elected.
- If excess withdrawals are taken, the guaranteed amount will be reduced, usually on a pro-rata basis, and in some cases is no longer payable for life.

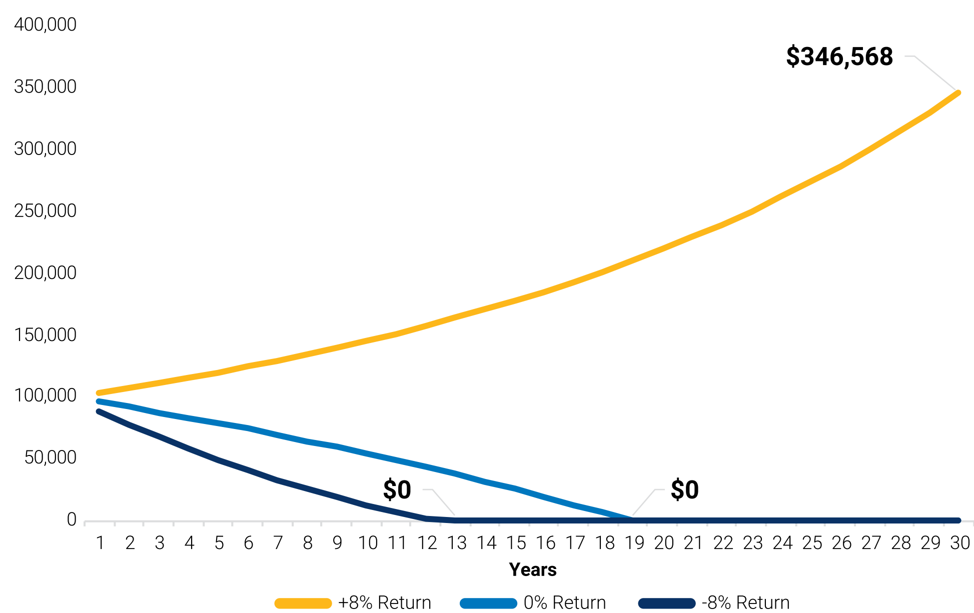
Systematic Withdrawal Plans

SUMMARY

A systematic withdrawal plan (SWiP) is a method of generating regular retirement income from an investment portfolio by systematically withdrawing set amounts, usually on a monthly basis. A SWiP is generally actively managed, using a diversified portfolio of investments. Withdrawals may be taken from a combination of qualified assets (e.g., 401(k) and IRA) and non-qualified assets, requiring careful consideration of the differences in taxation of these assets, as well as special rules for qualified assets such as RMDs.

HOW IT WORKS

The initial withdrawal is calculated as an amount that will provide sufficient supplemental income to the client and also be sustainable over many years during retirement. The so-called "4% rule," where the initial withdrawal is 4% of the total portfolio value, is often used as a starting point. Subsequent withdrawals are typically increased annually to offset increased spending needs due to the impact of inflation.



$100,000 is invested in a mutual fund portfolio and withdrawals begin at $4,000 per year, or 4% of the portfolio value, and are increased each year using a 3% inflation assumption. In the positive case, where returns average 8% annually, the account value continues to grow, reaching $346,568 as earnings exceed withdrawals. If returns average 0%, the portfolio is depleted in about 19 years, and at -8% it takes about 12 years for the portfolio value to reach zero. In all three scenarios, the withdrawal amounts are the same but reach over $9,000 annually in the 8% return scenario and end at about $5,500 after 12 years in the -8% example.

CLIENT BENEFITS

- The client receives regular monthly payments to supplement Social Security and any other sources of retirement income, such as a pension.
- The account remains fully liquid, permitting ready access to additional funds if needed; however, additional withdrawals increase the likelihood of funds running out while the client is still alive.
- Tax harvesting can be employed to manage tax liability (selling off investments with capital losses first to provide tax deductions).

RESTRICTIONS AND LIMITATIONS

- No guarantee systematic withdrawals will be sustainable for the life of the client(s); funds may be depleted entirely or systematic withdrawal amounts significantly reduced to preserve principal.
- No principal protection.
- Increases in income due to gains in the portfolio cannot be locked in, as with step-ups in a GLWB.
- No death or lifetime income benefits are available in a mutual fund portfolio.

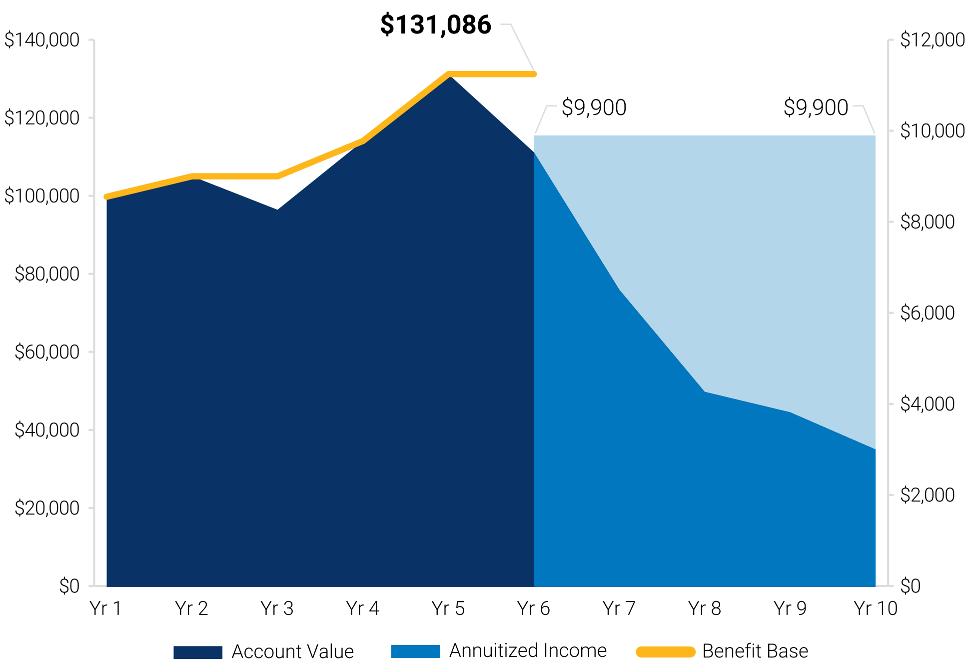
Living Benefits II — Guaranteed Minimum Income Benefits

SUMMARY

GMIBs provide annuitants with a guaranteed lifetime income payment through annuitization of a minimum contract value after a set period, usually 10 years. Annuity payments are calculated against the guaranteed benefit base if that value is higher than the actual account value. GMIBs are available for an additional fee on some VAs.

HOW IT WORKS

An initial purchase payment is invested by the contract owner. A benefit base, initially equal to the amount invested, increases at a set rate for 10 years, and may also be stepped up on contract anniversaries if the current contract value is higher. After 10 years, the contract may be annuitized using the greater of the current contract value or the benefit base.



$100,000 is invested in the annuity and the contract value of $131,086 is annuitized after 10 years. Prior to annuitization, the benefit base increases each year due to either positive investment performance (step-up) or annual increases based on a fixed percentage rate. Once annuitization occurs, there is no account value to withdraw from and the annuitant receives guaranteed income payments for as long as they live. Like a SPIA, upon death beneficiaries may receive a lump sum benefit or continued payouts for a period of time, depending on the type of annuitization chosen.

CLIENT BENEFITS

- The client receives regular payments guaranteed for life, or two lives in the case of joint life benefits.
- The guarantee itself may give the client more confidence to remain invested during periods of high market volatility, potentially increasing returns in the long run.
- Guaranteed income payments are generally higher than from a GLWB.

RESTRICTIONS AND LIMITATIONS

- While the insurance company guarantees the income amount, there is no guarantee of the contract value or the amount invested.
- There may be a limited menu of investment options, or some riskier options may not be available, when a GMIB is elected.
- Exercising the benefit requires annuitization of the account value; there is no liquidity other than through annuitization features such as cash or installment refund and period certain payments.
- These benefits are less commonly available than they once were.

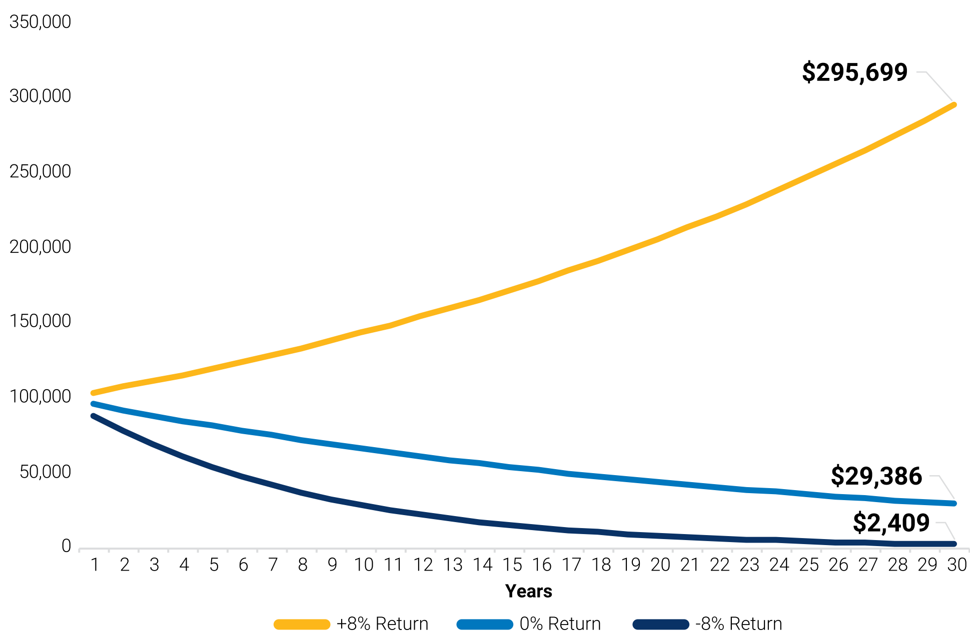
Variable Income Plans

SUMMARY

In a variable income plan, a constant percentage is withdrawn on a regular basis, with the amount of the withdrawal fluctuating based on the returns of a portfolio of investable assets. When the portfolio increases in value, income increases; conversely, when returns are flat or negative and the portfolio decreases in value, income decreases, helping to preserve principal.

HOW IT WORKS

The initial withdrawal is calculated as an amount that will provide sufficient supplemental income to the client and be sustainable over many years during retirement. As opposed to the "4% rule," where income payments start as a set dollar amount and increase by the inflation rate, in a variable income plan the same percentage is taken out each year but the amount fluctuates.



$100,000 is invested in a mutual fund portfolio and withdrawals begin at $4,000 per year, or 4% of the portfolio value. In all cases the portfolio continues for the entire 30-year time horizon. In the positive case, where returns average 8% annually, the account value continues to grow to $295,699 as earnings exceed withdrawals and income payments grow to over $11,000 per year. However, in the negative return scenario, performance is poor enough to drive withdrawals down to only $100 per year as the 4% withdrawal rate is applied to a portfolio that has decreased to just a few thousand dollars in value.

CLIENT BENEFITS

- The client receives regular monthly payments to supplement Social Security and any other sources of retirement income, such as a pension.
- The account remains fully liquid, permitting ready access to additional funds if needed; however, additional withdrawals increase the likelihood of funds depleting while the client is still alive.
- Tax harvesting can be employed to manage tax liability (selling off investments with capital losses first to provide tax deductions).
- The portfolio will never be completely depleted.

RESTRICTIONS AND LIMITATIONS

- There are no guarantees systematic withdrawals will be sustainable for the life of the client(s); funds may be depleted to a point where withdrawal amounts must be significantly reduced to preserve principal.
- Funds may be depleted to a point where they fall below minimum account requirements.
- Increases in portfolio value cannot be locked in, as with step-up in a GLWB.
- Poor performance and a long period of withdrawals may reduce income payments considerably.
- No enhanced death or lifetime income benefits are available in a mutual fund portfolio.

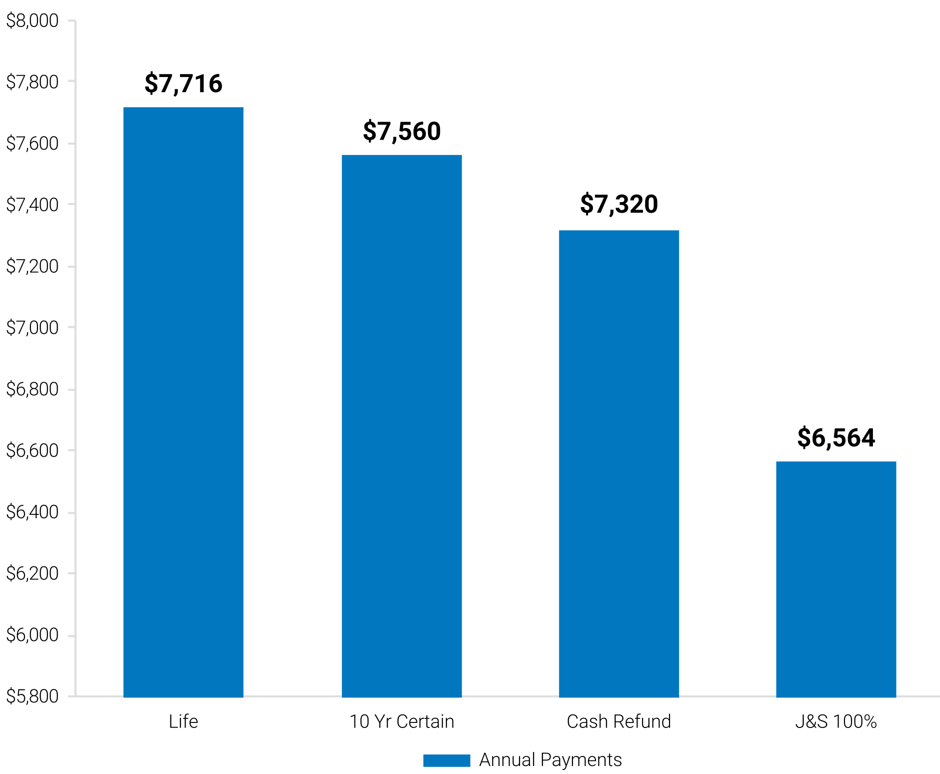
Single Premium Immediate Annuities

SUMMARY

Single premium immediate annuities (SPIAs) provide lifetime income payments in exchange for a lump sum investment.

HOW IT WORKS

An initial purchase payment is invested by the contract owner and deposited to the general account of the insurer. The annuitant (usually the contract owner) receives monthly payments for life, and beneficiaries may or may not receive payments upon the annuitant's death depending on the structure of the annuity.



In this example, $100,000 is invested in the SPIA by a 65-year-old male (second life for J&S is a 65-year-old female) and payments begin immediately, usually the following month. There is no account value shown on the graph, as the annuitant is only entitled to the payments. Payment amounts are lower for options other than a life annuity because payments continue, or there is a refund of unpaid benefits, after the primary owner's death.

CLIENT BENEFITS

- The client receives regular payments guaranteed for life, or two lives in the case of joint life benefits.
- Payments may continue after the annuitant's death with period certain, cash refund, and installment refund features.
- SPIAs generally produce the highest amount of guaranteed lifetime income per invested dollar.
- Variable SPIAs invest purchase payments in variable subaccounts. Payments are initially set using an assumed interest rate, and future payments increase or decrease based on actual returns. Few variable SPIAs are available in the market today.
- Some SPIAs may offer a "commutation" feature.

RESTRICTIONS AND LIMITATIONS

- The tradeoff for higher payments is the loss of liquidity; invested funds are only available as annuity payments or beneficiary payments under period certain or refund features, if elected.
- Depending on the terms of the contract and how long the annuitant lives, there may be no death benefit paid to beneficiaries.
- In standard fixed SPIAs, payments do not increase if interest rates rise.

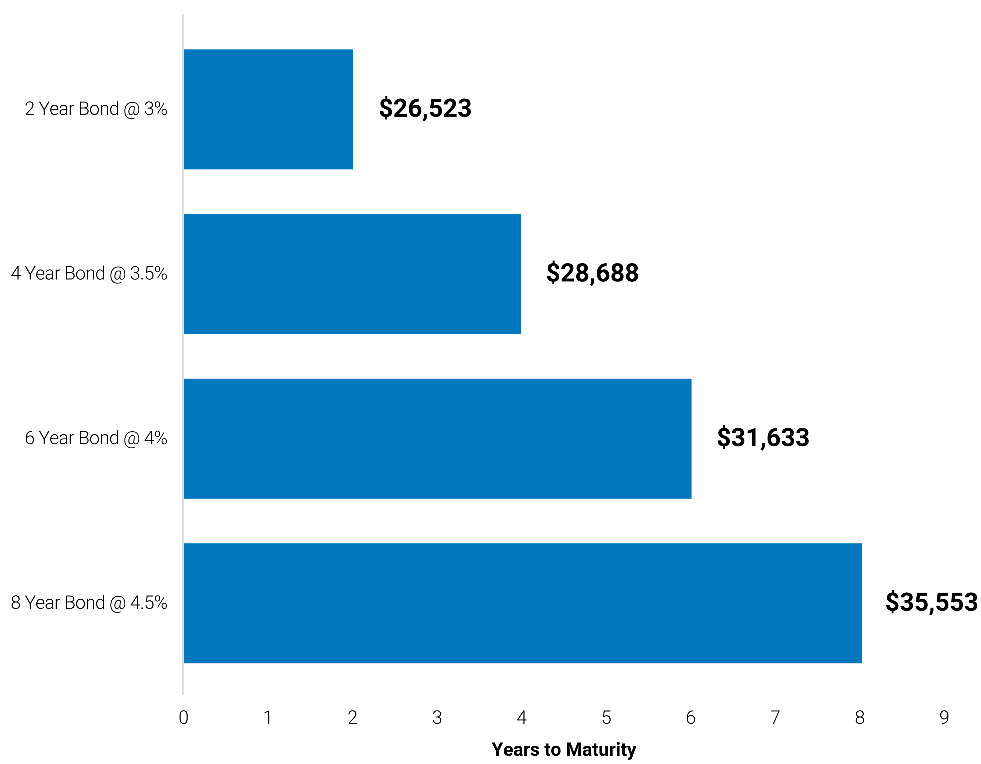
Bond/CD Ladders

SUMMARY

Bonds or CDs of varying duration are purchased. As each bond or CD matures, the proceeds are used to provide retirement income and purchase additional bonds or CDs at the longest duration, extending the ladder.

HOW IT WORKS

The initial purchase is of a series of bonds or CDs of varying duration, for example two, four, six, and eight years. As each bond matures, it is used to purchase another eight-year bond. After eight years, an eight-year bond will be maturing every two years, providing both reinvestment proceeds and retirement income. This helps investors take advantage of the higher rates associated with longer maturities while eventually providing a steady stream of maturing bonds that can be rolled into those longer maturities when older bonds mature.



A bond ladder is simply a series of fixed income purchases designed to ensure a bond is regularly maturing to both provide retirement income and take advantage of fluctuating interest rates. Here, equal investments of $25,000 are made in four bonds or CDs of varying duration. Every two years, the proceeds from the maturing bond (less monies used for supplemental retirement income) are used to purchase another eight-year bond, extending the ladder an additional two years.

CLIENT BENEFITS

- Simplicity and liquidity.
- The client receives regular payments from the bonds or CDs.
- Principal can remain intact if bond interest is sufficient to provide supplemental retirement income.

RESTRICTIONS AND LIMITATIONS

- Income will generally be lower than that provided by SPIAs because there is no mortality pooling component to the payments.
- Low interest rates may result in very little income if principal is not tapped.
- Rapidly rising rates can significantly reduce bond values, especially those of longer duration.
- As bonds mature, the new purchase is subject to the current rate environment which could negatively impact ongoing interest payments if rates have fallen significantly.

Definitions of Key Terms

Accumulation phase: The period of time prior to annuitization or surrender when amounts invested in an annuity accrue interest, dividends, and/or capital gains.

Annuity: An insurance contract that provides future income in exchange for present contributions. It is a long-term investment designed to help protect investable assets and mitigate the risk of outliving income.

Annuitant: The individual entitled to payments made by the annuity and whose age and gender is used to determine the payment amount. The annuitant is usually also the contract owner but may be another person, such as a spouse.

Annuitization: Annuitization is the conversion of the contract value of a deferred annuity into a lifetime stream of income payments, or payments for a set period, or the greater of the two. There are several options to choose from when annuitizing; options that provide a greater guarantee of continuing payments generally result in lower initial payments:

- **Life only:** Payments begin immediately and continue for the life of the annuitant. Payments cease at death, and there is no death benefit paid, even if only one payment was made.
- **Life with period certain:** Payments continue for the longer of the annuitant's life or a set number of years; five, 10, 15, and 20 year certain periods are commonly available.
- **Life with cash refund:** If the annuitant dies before the total of payments made is equal to the amount annuitized, the difference is paid out in a lump sum to beneficiaries.
- **Life with installment refund:** If the annuitant dies before the total of payments made is equal to the amount annuitized, the difference is paid out in installments to beneficiaries.
- **Joint & survivor:** Payments continue until the second of two annuitants dies. Payments may continue at the same amount or at some percentage of the original payment, generally 75%, 662/3%, or 50%. When payments reduce after the first death, the initial payment will be greater.

Benchmark risk: The potential for the investment returns of a mutual fund or subaccount to differ significantly from its benchmark (the market index it is measured against).

Benefit base: A value used to calculate a benefit in an annuity, most commonly a lifetime withdrawal benefit. The benefit base value is "notional," i.e., it does not represent contract or cash value but is only used to calculate the value of a benefit.

Beneficiary: The person, persons, or entity legally entitled to receive benefits from financial products. For annuities, these are contractual benefits paid upon the death of the owner, or owners, of the contract.

Bonds: Debt obligations issued by federal, state, and local government agencies or private companies. For example, treasury securities are debt obligations issued by the United States Department of the Treasury, including bills, notes and bonds of varying maturities that pay interest on a semi-annual basis. Corporate bonds are debt obligations issued by a private company. Investment-grade, or "high-grade" bonds have a lower risk of default and higher ratings from credit rating agencies such as Moody's, S&P and Fitch. High-yield corporate bonds offer higher rates of interest but are considered to be at greater risk of default.

Buffered ETF: Exchanged traded funds that provide investors with the upside of a market index, capped to a certain percentage, while also providing downside protection on the first pre-determined percentage of losses. As opposed to a Managed Floor ETF, the investor absorbs losses beyond this pre-determined percentage.

Cash value: The value of a financial product, less any fees or penalties, when fully liquidated. For annuities, also see surrender value.

Certificate of deposit (CD): A bank issued savings product that earns interest on a lump sum investment for a specified period.

Claims paying ability: The financial strength and relative ability of an insurance company to pay claims on its issued annuity and other insurance contracts. Claims paying ability is evaluated by rating agencies such as AM Best, Moody's, Standard & Poors, and Fitch. Rating agencies are businesses that assess the creditworthiness of issuers of annuities and fixed income securities for investors. The likelihood the debt of issuers, such as corporations and governments, is repaid in whole or part, is expressed in ratings arranged in a credit quality scale.

Commutation: A feature that may be available after a contract has been annuitized where future payments are converted to a lump sum, calculated as the present value of the remaining payments based on the life expectancy of the annuitant.

Contingent deferred annuity (CDA): An insurance product that established a contract between the insurance company and the CDA purchaser whereby the insurer is obligated to make scheduled payments for lifetime of the purchaser once designated investments are depleted — the benefit is contingent on asset depletion.

Contract anniversary: The date the contract is issued.

Contract owner: The individual who owns the annuity contract and has the authority to make withdrawals, change beneficiaries and terminate the annuity.

Contract value: The full value of the annuity, not including any early withdrawal penalties that may apply. This may also be referred to as the "account value."

Contract year: The one-year period between contract anniversaries.

Corporate bond: A debt obligation issued by a private company. Investment-grade bonds have a lower risk of default and higher ratings from credit rating agencies such as Moody's, S&P and Fitch. High-yield corporate bonds offer higher rates of interest but are considered at greater risk of default.

Death benefit: The amount an annuity contract pays to the contract owner's named beneficiary or beneficiaries upon the death of an owner or co-owner.

Deferred annuity: A contract with an insurance company that promises to pay the owner a regular income or lump sum at some future date. Interest and capital gains in fixed and variable annuities are not taxed until monies are withdrawn.

Dividend return: The portion of the overall return of a stock attributable to dividends paid per share by the issuing company.

Duration: The length of time it takes for an investor to recover the price paid for a bond from total cash flows (principal plus interest). It is also a measure of the sensitivity of the bond's price to changes in interest rates. The prices of bonds of longer duration (e.g., 30-year Treasuries versus 10-year Treasuries) will experience greater changes when interest rates rise or fall.

Early withdrawal penalty: Also called a "surrender charge," this is a type of sales charge that may be assessed if you withdraw money from an annuity during the surrender period defined in the contract. This charge allows the insurer to cover issuing and maintenance costs for policies surrendered before such costs are recovered. Most surrender charge periods are three to seven years with the charge reducing by one percent per year until it reaches zero.

Enhanced death benefit: Standard annuity death benefits are generally equal to the current account value or the greater of the account value or amount invested (return of premium, or ROP). Enhanced benefits may use roll-ups, step-ups, or both to provide a higher level of protection for beneficiaries.

Exchange-traded funds: baskets of securities traded on an exchange, generally designed to provide exposure to a broad market index such as the S&P 500.

Exclusion ratio: The percentage of annuity payments that is not subject to taxes and is excluded from gross income. It is calculated by dividing the initial investment over the expected payment period, which for lifetime annuity payments is equal to life expectancy. For example, if a payment of $7,500 per year is made to a 65-year-old male annuitant with a 20-year life expectancy and the amount invested was $100,000, 66.7% of each payment is not subject to income taxes. This is calculated by dividing the annual payment that will recover the initial investment over 20 years ($5,000) by the $7,500 annuity payment. After 20 years, the $7,500 payment is fully taxable at ordinary income rates.

Federal Deposit Insurance Corporation (FDIC): The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by Congress to maintain stability and public confidence in the nation's financial system. To accomplish this mission, the FDIC insures deposits; examines and supervises financial institutions for safety, soundness, and consumer protection; makes large and complex financial institutions resolvable; and manages receiverships. The standard insurance amount is $250,000 per depositor, per insured bank, for each account ownership category.

Fees: Most fixed annuities do not charge explicit fees, except for optional benefits, but are spread products. Variable annuities typically have a few different fees:

- Mortality & expense risk (MER) fees, which cover costs related to distributing the product.
- Administrative fees, which cover costs associated with managing the product over time.
- Investment management fees, which are paid to the professional investment management firms that create and manage the subaccounts offered in the annuity.
- Fees for optional benefits, which pay for additional death benefits, principal protection, or income guarantees.

FIA spread: The percentage subtracted from the index change before interest is credited to the FIA. For example, if the index increases by five percent and there is a two percent spread, the interest credited to the contract will be three percent. Spreads do not reduce the contract value if the index change is negative.

Financial goals: Financial priorities that impact the objectives investors set for how to save or spend money during important life stages.

Financial professional: A qualified person who can help investors understand their options and make financial decisions to work toward financial goals.

Fixed annuity: A tax-deferred insurance contract that promises to pay the buyer a guaranteed rate of interest on their contributions and provides a lifetime income stream in retirement. Interest is credited by the insurer based on what they think they will earn on their general account investments.

Fixed indexed annuity (FIA): A FIA is a tax-deferred insurance contract that provides principal protection in down markets and an opportunity for growth. FIAs credit a guaranteed interest amount, with the opportunity to earn additional interest based on positive changes in the value of one or more market indexes, such as the S&P 500.

Free withdrawals: An annual percentage of the amount invested that can be withdrawn from the annuity without penalty each year. The penalty-free withdrawal amount can vary between insurers, but 10 percent is common.

General account: The account of the insurer (i.e., annuity issuer) where premiums invested in annuities are deposited and from which the insurer funds business operations. The general account aggregates all funds rather than holding dedicated amounts for specific policies. Fixed annuities and fixed indexed annuities are general account products, and most variable annuities offer a fixed account option that invests in the general account. Registered index-linked annuities may also utilize both general and separate accounts to invest premium depending on the structure.

Guarantee minimum accumulation benefit (GMAB): A benefit that guarantees the account value will equal some fixed percentage (typically 100%) of premiums, minus any withdrawals, as long as the contract remains in-force and the account value does not decrease to zero as a result of withdrawals, after a minimum period of time, usually 10 years.

Guaranteed minimum income benefit (GMIB): A benefit offered in variable annuities that guarantees the contract owner can annuitize the contract and receive annuity payments calculated against the greater of the actual account value or guaranteed benefit base. As with an immediate annuity, there is no cash value after annuitization and payments are made for the life or lives of the annuitant(s).

Guaranteed lifetime withdrawal benefit (GLWB): A benefit offered in variable, fixed indexed and RILAs that allows the contract owner to withdraw a set amount each year. Withdrawals continue for the life of the owner, or the owner and a spouse in the case of joint benefits, regardless of whether there is still account value in the product. Amounts are calculated using the benefit base and are withdrawn from the account value if there is still account value in the annuity. If the account value becomes zero due to withdrawals and/or market performance, the contract enters the settlement phase and the insurance company continues to make payments until the owner(s) die.

Immediate annuities: Also referred to as single premium immediate annuities (SPIAs), these are insurance contracts where a lump sum is invested and the insurance company agrees to make periodic income payments for life, a specified period, or the longer of the two. SPIAs have no cash value beyond the insurer's obligation to make the periodic payments under the terms of the contract.

Investable assets: Assets that can be easily liquidated, such as bank accounts, stocks, bonds, mutual funds and annuities.

Joint life benefits: Annuity income benefits that are issued on two people, usually spouses, and continue to pay to the second person after the first dies. Available as an annuitization option and with most guaranteed lifetime withdrawal and guaranteed lifetime income benefits.

Lifetime income: Periodic income payments from an annuity that continue for the life, or lives, of one or more owners. Lifetime income is available through annuitization, or through living benefits such as guaranteed lifetime withdrawal benefits and guaranteed lifetime income benefits.

Liquidity: The relative ease with which an investable asset can be converted into cash without affecting its market price.

Living benefits: Optional benefits offered on some annuities which provide benefits while the contract owner is still alive. Examples include GMAB, GMIB, and GLWB.

Managed floor ETF: Exchanged traded managed outcome funds that use options strategies to provide investors with the upside of equity markets while providing a measure of downside risk. As opposed to a buffered ETF, the investor is protected against losses beyond a pre-determined percentage.

Market index: A hypothetical portfolio of investment holdings that represents a segment of the financial market. The value of the index is calculated using the prices of the underlying holdings.

Market risk: The chance an investor could lose money because of market downturns.

Market volatility: Also referred to as "market ups and downs," the way stocks, bonds and other market investments change in value, sometimes very quickly.

Maturity: The date a financial agreement ends, triggering repayment of principal with interest.

Moneyness: A term describing the relationship of an option's strike (exercise) price with its spot (market) price. "In the money" options have a strike price greater than the spot price, whereas "out of the money" options have strike prices below their spot prices.

Mortality pooling: Also called "mortality credits," in a large group of annuitants, the investments of those who die earlier than expected contribute to the overall pool and provide higher payments to survivors. The mortality credit increases significantly with age (when more individuals in the group are likely to die) and hedges longevity risk, creating a return that would be difficult to match using other financial products or approaches.

Open-end mutual fund: A collective investment vehicle that buys and sells stocks, bonds, and options and can issue unlimited new shares, priced daily based on the net asset value of the securities held in the portfolio.

Option: The right to buy or sell a security at an agreed upon price for a defined time period.

Participation rate: The percentage of the increase in the index value that is credited to the annuity at the end of a selected time period.

Principal protection: Embedded or optional features in an annuity that guarantee the contract will return no less than the amount invested. All fixed and fixed indexed annuities contractually provide 100% principal protection. This is governed by the terms of the contract (FIAs return a minimum of 87.5% of principal and must be held to maturity for 100%) and subject to the claims paying ability of the issuer. Variable annuities can provide principal protection through GMABs, and RILAs provide partial principal protection using options strategies. Principal protection for beneficiaries in variable annuities can also be achieved through return of premium death benefits. Non-annuity products and solutions can also provide, but not guarantee, a level of principal protection using options strategies.

Probate: The formal legal process that occurs when a decedent leaves assets to distribute, such as bank accounts, real estate, and financial investments. The probate process involves gathering assets, satisfying debts, and distributing remaining amounts to beneficiaries. Amounts invested in annuities are generally paid directly to named beneficiaries as death benefits and are not included in the probate process.

Purchase payment: Also called premium, this is the payment or series of payments that represent the investment in the annuity.

Qualified plan: An individual or employer-sponsored retirement plan that offers individuals the opportunity to save for retirement on a pre-tax basis — contributions and earnings are not taxed until withdrawn. Individual retirement plans such as individual retirement accounts (IRAs) must meet the requirements of the Internal Revenue Code, and employer-sponsored plans such as 401(K) plans must also meet the requirements of the Employee Retirement Income Security Act (ERISA). Investments made with money that has already been taxed are referred as “non-qualified.”

Registered index-linked annuity (RILA): An insurance contract providing a tax-deferred, long-term savings option that limits exposure to downside risk and provides the opportunity for growth.

Required minimum distribution (RMD): The amount you are required to withdraw annually from a qualified retirement account, such as an IRA, starting at age 72.

Return dilution: The limited participation in the returns of outperforming stocks when held in a widely diversified portfolio. In other words, one or two stocks with very high returns may not contribute much to overall returns in a portfolio of 50 different securities.

Return of premium death benefit (ROP): Pays beneficiaries the greater of the contract value or the total amount invested upon the death of the contract owner(s).

Roll-up: An annuity feature that increases the value of a benefit each year, independently of the contract value, on either a simple or compound basis. For example, a 4% guaranteed lifetime withdrawal benefit with a roll-up feature might increase the benefit base by 5% per year, compounded annually. The annual withdrawal amount would then be the greater of 4% of the account value OR 4% of the compounded benefit base when withdrawals begin. Similarly, a death benefit with a roll-up feature would pay beneficiaries the greater of the current account value or the roll-up value upon the death of the contract owner. Amounts calculated using roll-up percentages do not represent contract or cash value. They are only used to calculate benefit amounts, and those amounts are only accessible through the terms of the benefits in which they are used. Roll-ups generally terminate when benefit payments begin.

Separate account: A fund created by the insurer, separate from the company’s general account, that is used for investing variable annuity and other holdings (such as pensions) in open-end funds and other investments.

Sequence of returns risk: The potential for a market downturn early in retirement, which can have a disproportionately negative impact on long-term account balance of a retirement portfolio if withdrawals are already being taken.

Spread: The difference between the interest the insurance company earns on its investments and the interest credited to the annuity. Fixed and fixed indexed annuities are often referred to as “spread products.” The difference covers the insurance companies operating costs and profit.

Step-up: An annuity feature that increases the benefit base to equal the current account value. Step-ups generally occur on contract anniversaries and may be based on the anniversary value or the highest value the contract attained at certain points during the prior year, e.g., the highest value on any day the stock market was in session during the prior year. Step-ups may continue after benefit payments begin, provided there is contract value that has not been paid out.

Subaccount: A segregated account maintained by an insurance company to hold mutual fund-like investments for use in variable annuity and variable life products. Assets held in segregated accounts are not subject to the claims of the insurance company's creditors in the event of bankruptcy.

Surrender value: The cash value of the annuity less any early withdrawal penalty, market value adjustment, charges or fees.

State guaranty associations: State guaranty associations provide coverage (up to the limits spelled out by state law) for resident policyholders of insurers licensed to do business in their state.

Systematic withdrawal plan (SWiP): The withdrawal of fixed amounts from a portfolio of investable assets on a regular, periodic basis (monthly, quarterly, annually) for supplemental retirement income. The dollar amount of withdrawals typically begins as a defined percentage of the portfolio value (e.g., 4%) and is adjusted annually for inflation.

Treasury security: A debt obligation issued by the United States Department of the Treasury, including bills, notes and bonds of varying maturities that pay interest on a semi-annual basis.

Trigger: A method of crediting interest to an FIA where the contract is credited with a stated rate of interest if the change in value of the underlying index is positive over the specified time period.

Trust: A legal entity that holds asset for beneficiaries. The terms of the trust dictate the method and timing of the distribution of assets.

Variable annuity (VA): An annuity with an account value tied to the performance of an investment portfolio. The value of the annuity, and payments from the annuity, can increase if the portfolio performs well and decrease if the portfolio loses money.

Variable income plan: The withdrawal of a set percentage amount from a portfolio of investable assets on a regular, periodic basis (monthly, quarterly, annually) for supplemental retirement income. The dollar amount of withdrawals will vary based on investment returns and the reduction in portfolio value from withdrawals, effectively resulting in a "raise" when the portfolio performs well and a "pay cut" when it does not.

Important Disclaimers

- For Financial Professional Use Only. Not For Use with Consumers.
- All financial professionals, including securities licensed agents, must be licensed under state law to sell any type of annuity.
- This handbook is provided for informational and educational purposes only. The information presented in this handbook is not intended to constitute financial, legal or tax advice and should not be construed as such.
- The information presented in this handbook is provided on an "as is" basis. IRI makes no warranty, express or implied, regarding the accuracy, adequacy, completeness, legality, reliability or usefulness of any information presented in this handbook. In no event shall IRI be liable for any damages whatsoever arising out of, or in connection with, the use of the information presented herein.
- The information presented in this handbook has not been reviewed by the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA) or any other industry regulator.
- This handbook contains information pertaining to annuities, which are backed by the claims paying ability of the issuer and state guaranty associations, with the amounts of coverage varying by state. It also contains information about certificates of deposit (CDs), which are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank. The FDIC does not insure amounts invested in annuities.

Insured Retirement Institute

1717 K Street, NW, Suite 900
Washington, DC 20006

IRIonline.org 202-469-3000
@IRIonline