BrightCover Solutions · retirement

A PLAIN-ENGLISH GUIDE TO

Annuities

A contract with an insurer for protected growth or retirement income, so a bad market year does not get to pick your retirement date.

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IN SHORT

What an annuity gives you

- Protected accumulation
- Predictable retirement income
- Tax-deferred growth

> A retirement plan you understand

Benefits, guarantees and availability vary by state and are governed by the contract. Nothing in this guide is a rate or a quote: interest rates, caps, charges and surrender periods are set by the contract you are actually offered.

PART 1 OF 5

What an annuity actually is

An annuity is a contract with an insurance company, designed for long-term goals: usually protecting money you have already saved, turning it into retirement income, or both. It is a retirement tool, not a magic account. You choose an amount, and only money meant for a long-term goal belongs in one; emergency savings should stay where you can reach them.

The contract then sets the rules. The type of annuity decides how interest is credited, whether the value can fluctuate, and what the insurer promises. Growth is generally tax-deferred, which means tax is postponed until money comes out, not that the growth escapes tax. Later you choose how to receive the money: withdrawals, scheduled payments, or an income stream that can last for life, depending on the contract.

The plain-English version is that an annuity can move selected retirement risks from you to an insurer, and you give up some flexibility in exchange. Every guarantee in the contract depends on the financial strength and claims-paying ability of the company that issues it.

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Why the timing of a downturn matters

Retirement changes the question from how much can this grow to how much can I depend on, and for how long. Three risks arrive together. A downturn can land at the wrong time, just as withdrawals begin. Savings may need to support twenty or thirty years of income. And the paycheck stops while the bills do not, with Social Security and pensions not always covering healthcare, housing and family goals.

The arithmetic of a loss is the part people underestimate. An account that falls by a fifth has to gain a quarter just to get back to where it started, and withdrawals taken while it is down make the climb longer. That illustration leaves out fees, taxes and inflation, and it is not a market prediction. It simply shows why a decline close to retirement costs more than the same decline twenty years earlier.

PART 3 OF 5

Not every annuity works the same way

Start with what you want the money to do, not with a product name. A fixed annuity, including the multi-year kind, credits a declared interest rate for a set period. It is built for stability, with contractual minimums and tax-deferred accumulation. The tradeoff: the renewal rate can change once the initial period ends, and taking money out early may trigger charges.

A fixed indexed annuity credits interest by reference to an external market index without investing in it directly. The contract value is protected from direct index losses, a down

period may simply credit nothing, and interest once credited is generally locked in. The tradeoff: caps, spreads, participation rates and formulas limit how much of the index's gain is credited.

An immediate or income annuity exchanges a lump sum for payments that begin now or at a later date. It can create predictable income for one life or two, for a set period or for life. The tradeoff: access to the original lump sum can be limited once income begins.

Other kinds exist. Variable annuities and registered index-linked annuities can lose value and may be securities. Before any conversation goes further, confirm exactly which type is being discussed and which licences, disclosures, risks and fees apply to it.

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Who it suits, and who it does not

An annuity may be worth exploring if protection and predictability matter most to you: you want retirement income you can plan around, you worry about market losses close to retirement, the money is set aside for a long-term goal, you value contractual protection more than unlimited upside, and you already hold enough accessible savings for emergencies.

It does not suit money you may need in full soon, and it does not suit anyone who wants direct market ownership and all of the upside. It is also the wrong move when you do not understand the surrender schedule, when a replacement of an existing contract offers no clearly documented benefit, or when the recommendation conflicts with the rest of your plan. An annuity is not for every person or every dollar.

The most important question is what job this money should perform inside your complete retirement plan. An annuity should solve a defined problem, not replace an account because of fear.

PART 5 OF 5

Five questions to ask before you move money

What is guaranteed by the contract, and what can change? How long is the surrender-charge period? How much can I take out each year without a surrender charge? Which caps, spreads, participation rates, riders, fees or adjustments apply? And how does this fit with Social Security, pensions, investments, taxes and my emergency funds?

A good recommendation becomes clearer, not more confusing, when you ask for details. Ask for the disclosure, the surrender schedule, the rate terms, the rider costs and the insurer's information in writing, and do not sign until you can explain the contract back in your own words. In a review with BrightCover that is the test applied before any application is started.

QUESTIONS

Annuities, answered plainly

Can I lose money in an annuity?

It depends on the type and on what you do. Fixed and fixed indexed annuities generally protect the contract value from direct market losses, but withdrawals, surrender charges, market-value adjustments, taxes or other provisions can reduce what you receive. Variable annuities and registered index-linked annuities can lose value.

Does a zero percent floor mean I can never lose anything?

No. In a fixed indexed annuity, a zero percent index-crediting floor generally means a negative index period will not create negative index interest. It does not remove surrender charges, possible market-value adjustments, rider costs, taxes or the effect of withdrawals, all of which are set out in the contract.

Is annuity income tax-free?

Generally, no. Growth is typically tax-deferred, and the taxable amounts are recognised when money is distributed. How it is treated depends on how the contract was funded and how the money is received, so consult a qualified tax professional before deciding.

Can I access my money?

Many deferred annuities permit limited withdrawals each year. Larger or earlier withdrawals may trigger surrender charges, adjustments, taxes or penalties, which is why emergency savings should stay outside the contract. Review the exact contract before you commit money to it.

What happens when I die?

Many annuities include beneficiary provisions, but the value and the payment options depend on the contract and on whether income has already begun. Ask how the death benefit works during both the accumulation years and the payout years before you sign.

WHERE TO GO FROM HERE

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30 minutes is usually enough to know whether this is right for you, and it costs nothing. If the answer is no, that is a fine answer.

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About this document. Written by Franca Adetunji, a licensed insurance producer in Arizona, serving families across the United States and Canada. Arizona resident producer licence #21146396.

This is general educational information about how an annuity commonly works. It is not a recommendation, not advice about your particular situation, and it does not create a client relationship.

Annuities are long-term insurance contracts. This page is educational and is not individualised investment, legal or tax advice. Rates, charges and surrender periods vary by state and by contract. Withdrawals may be subject to ordinary income tax and, if taken before age fifty-nine and a half, to an additional federal tax penalty. Speak to a qualified tax professional before making a tax decision.

Policy features, costs, exclusions, riders, availability and underwriting vary by carrier, state and individual circumstance. Nothing here is a guarantee of coverage, of a payout, or of any financial outcome.