



Avoid Costly Annuity Mistakes

Tips to Maximize Your Retirement Savings

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Understanding Fixed Annuities

Fixed annuities are a powerful tool to help your money grow and provide financial security, but understanding how they work—and their potential risks and rewards—is essential for making informed decisions.

This guide is designed to help you navigate common mistakes and get the most out of your annuity. We've broken down complex concepts into plain language, so you can gain a clear understanding of how annuities work and how to maximize their benefits.

Beyond the basics, this guide will also uncover some lesser-known advantages of annuities that may surprise you.

If you have any questions while reading, the representative who provided this guide is available to assist.

Let's dive in!



Exploring 1035 Annuity Exchanges

Is Upgrading Your Annuity the Right Move?

If you own an annuity, you may have been approached about exchanging it for a new model or one with updated features. A 1035 exchange can help you achieve these objectives by allowing you to transfer the accumulated funds from your current annuity to another without triggering a taxable event. This means the earnings on your original investment can continue to grow tax-deferred until you withdraw the funds.

However, to benefit from the tax deferral, certain conditions must be met:

1. The old annuity contract must be exchanged directly for a new one. Funds should be transferred by your current annuity company to the new one.
2. The exchange must be between compatible products:
 - From one annuity to another annuity.
 - From a life insurance contract to another life insurance or annuity contract.
 - Note: You cannot exchange an annuity contract for a life insurance contract.

Why Consider a 1035 Exchange?

Before deciding to exchange your annuity, consider the following key questions:

1. **How secure is my annuity investment?** The safety of your funds depends on the financial stability of the issuing insurance company, not a government agency. Exchanging your annuity to a company with stronger financial health might provide greater security.
2. **How does the current interest rate compare?** Some annuities offer attractive initial rates that are only guaranteed for a short period, such as one or two years. If your current renewal rate is lower than competitive options, an exchange could be worth exploring.
3. **Does my current annuity lack new benefits?** Many newer annuities offer features like guaranteed interest rates, bonuses, death benefits, long-term care riders, and income guarantees. If these align with your goals, a new annuity might better suit your needs.



Costs and Consequences to Consider

An annuity exchange may appear beneficial, but it's crucial to weigh the associated costs and long-term effects:

1. **What will the exchange cost me?** While the exchange defers taxes, other costs may arise. Assess whether fees, charges, or surrender costs will outweigh the benefits of higher interest rates or additional features.
2. **How do surrender provisions compare?** Surrender charges can significantly impact the value of an exchange. Understand whether the new contract's surrender charges or timeframes differ from your existing contract.
3. **Do I need or want the new features?** Carefully evaluate whether the added benefits of the new annuity align with your needs. For instance, a long-term care rider may not be necessary if you already have sufficient coverage.

Important Notes

A 1035 exchange provides tax deferral, not tax exclusion. The cost basis of your original annuity carries over to the new one, meaning taxes on gains are deferred but not eliminated.

If you're considering an exchange, consult the representative who provided this guide. Their contact information is on the final page, and they can help you determine if an exchange is the right move for your financial situation.

Tax Rules for Annuity Payments

Understanding how annuity payments are taxed can help you maximize their value in retirement. Federal tax rules allow you to recover your initial investment, known as your "cost basis," tax-free over time, while the remaining portion of each payment, representing earnings, is subject to income tax.

The Internal Revenue Code Section 72(b) governs this process, ensuring that your contributions to a non-qualified annuity, made with after-tax dollars, are returned to you tax-free. Here's how it typically works:



- **Tax-Free Portion:** A percentage of each payment reflects the return of your original investment.
- **Taxable Portion:** The earnings beyond your cost basis are taxed at your income tax rate, which can range from 10% to 37%, depending on your total retirement income.

Example: Taxation in Practice

Consider a 60-year-old retiree who invests \$300,000 into a deferred fixed annuity. The retiree starts receiving monthly payments of \$1,500 at age 65, with an assumed federal tax rate of 24% in retirement. Based on a 20-year life expectancy:

- Approximately 80% (\$1,200) of each payment is tax-free, representing the return of the cost basis.
- The remaining 20% (\$300) is taxable, resulting in \$72 in federal income tax per payment.

If the retiree lives beyond the projected 20 years, all payments beyond that point become fully taxable since the cost basis has been fully recovered.

Key Considerations

Early Death: If the annuity holder passes away before recovering their full cost basis, the remaining amount can often be deducted on the final tax return.

Tax Deferral: Earnings grow tax-deferred until withdrawn, providing potential for compounding growth.

Policy Variables: Factors such as your health, age, and payment structure will affect the taxable and tax-free portions of your payments.



Annuities with Market Participation

A Balanced Approach to Growth and Protection

Retirement planning is all about finding the right tools to match your goals. For those seeking the balance between market-linked growth potential and principal protection, equity-indexed annuities (EIAs) offer a compelling option.

What Are Equity-Indexed Annuities?

Equity-indexed annuities are designed to combine the best of both worlds:

- **Growth Potential:** Your earnings are tied to the performance of an equity index, such as the S&P 500, Dow Jones, or Russell 2000.
- **Principal Protection:** Unlike direct stock market investments, your principal is safeguarded against market downturns.

If the retiree lives beyond the projected 20 years, all payments beyond that point become fully taxable since the cost basis has been fully recovered.

How Do Equity-Indexed Annuities Work?

Your interest rate is determined by a percentage of the index's growth, known as the participation rate. For example:

- If the S&P 500 gains 20% in a year and your annuity has a participation rate of 50%, your credited interest rate would be 10% (before fees).
- Some annuities include rate caps, meaning the maximum interest rate may be limited, typically to 10% or less.



Even if the market experiences a downturn, EIAs offer market risk protection, ensuring that your account value doesn't fall below a guaranteed minimum (usually 75% to 100% of your premium).

Key Considerations Before Choosing an EIA

While equity-indexed annuities offer attractive features, it's essential to understand their limitations and costs:

1. **Surrender Fees:** Early withdrawals may incur significant penalties, typically declining over 5 to 15 years.
2. **Tax Penalties:** Withdrawals before age 59½ are subject to income taxes and a 10% penalty.
3. **Varying Features:** Minimum interest rates, participation rates, and caps differ across providers. Some offer minimum guarantees as low as 0%.
4. **Fees and Expenses:** Asset management fees, maintenance costs, and other charges can reduce your account value.
5. **Loans and Withdrawals:** While some contracts allow penalty-free withdrawals, they may reduce your downside protection.
6. **Company Stability:** The guarantees depend on the claims-paying ability of the issuing insurance company. Research the financial strength of the provider before committing.

Is an Equity-Indexed Annuity Right for You?

An EIA might be a great fit if you're looking for:

- A way to participate in market growth without risking your principal.
- Tax-deferred growth to maximize your retirement savings.
- Guaranteed income for life

However, these annuities are best suited for long-term investors who don't need immediate access to their funds.

Learn More

Equity-indexed annuities can be a valuable addition to your retirement strategy, but it's crucial to understand the details before making a decision. For tailored guidance, contact your financial advisor or the representative who provided this guide.

How Annuities Can Reduce Taxes on Social Security Benefits

Did you know that up to 85% of your Social Security income could be subject to taxes? While Social Security was tax-free before 1984, today many retirees find themselves paying taxes on their benefits. The good news? Annuities can help

Why Social Security Benefits Are Taxed

The IRS calculates the taxability of Social Security income based on your total income from all sources. This includes wages, investments, and other retirement income. If your total income exceeds certain thresholds:

- **Single taxpayers:** \$25,000 adjusted gross income (AGI).
- **Married taxpayers filing jointly:** \$32,000 AGI.

Any income above these thresholds increases the likelihood that your Social Security benefits will be taxed.

How Annuities Can Help

Annuities offer a unique advantage: income earned within an annuity grows tax-deferred. Because this income is not reported on your current tax return until it's withdrawn, it doesn't count toward the IRS thresholds for taxing Social Security benefits.

By sheltering enough income in an annuity, you may be able to lower your taxable income below the thresholds, reducing or even eliminating taxes on your Social Security benefits.



Take Action

If you're wondering how this strategy could work for you, it's essential to consult with a qualified tax advisor or financial professional. They can analyze your specific situation and determine the potential tax savings.

To explore your options, bring a copy of your most recent tax return (including Schedule B) to your financial advisor or the representative who provided this booklet. They can help you understand how annuities fit into your overall tax strategy.



Secure Lifetime Income with Fixed Immediate Annuities

Imagine receiving steady, predictable monthly income for life—without the hassle of managing investments or worrying about market fluctuations. With a fixed immediate annuity, you can turn a lump sum premium into reliable cash payments that help you live comfortably in retirement.

How Do Fixed Immediate Annuities Work?

When you purchase a fixed immediate annuity, you make a one-time premium payment to an insurance company. In return, the company starts sending you monthly payments right away. These payments are split between:

- **Income:** Interest earned on your premium.
- **Principal:** A return of your original investment.

You can customize the payment duration to suit your needs, choosing lifetime payments or a set number of years. If you opt for lifetime payments, the insurance company guarantees income for as long as you live—even if you outlive your life expectancy.

Key Considerations:

- Payments are typically higher the older you are when you begin receiving income.
- Maintenance fees, contract charges, or premium taxes (depending on your state) may reduce your payouts.
- You may choose to provide for heirs by electing lower payments that continue to beneficiaries until the total premium is returned.

Is a Fixed Immediate Annuity Right for You?

A fixed immediate annuity might be the perfect fit if:

- You're a retiree needing additional monthly cash flow.
- You have no heirs or aren't concerned about leaving an inheritance.
- You've set aside other funds to provide for your heirs.
- You want simplicity: no need to manage investments or worry about maturities and rollovers.

Enhanced Payout Table

Here's an example of what you could expect with a \$100,000 premium:

Age	Monthly	Total Lifetime Payout (Assuming Life Expectancy)
65	\$525	\$189,000 (20 years)
70	\$610	\$183,000 (15 years)
75	\$750	\$135,000 (10 years)

Note: Actual payouts depend on the insurance provider, interest rates, and life expectancy assumptions.

Why Choose a Fixed Immediate Annuity?

- **Lifetime Security:** No matter how long you live, payments keep coming.
- **Peace of Mind:** Simplified finances—no market risk or portfolio management.
- **Flexibility:** Tailor payments to your needs, whether for a specific term or your lifetime.

Annuities and Long-Term Care

A Financial Safety Net

Did you know that over half of people over 65 will require long-term care at some point? Unfortunately, Medicare doesn't typically cover these expenses, leaving many to face the high costs of in-home care or nursing facilities, which average \$7,756 per month.





Options for Covering Long-Term Care

When it comes to paying for long-term care, individuals typically rely on one of these methods:

1. **Out-of-Pocket Payments:** This can quickly deplete savings, leaving families financially vulnerable.
2. **Long-Term Care Insurance:** Available only to those in good health who plan ahead.
3. **Medicaid:** Requires strict income and asset limits, often leading to significant financial sacrifices.

How Annuities Can Help

Annuities offer a strategic way to protect your assets while planning for long-term care needs. By placing funds in an immediate annuity that complies with Medicaid rules, you may:

- **Convert Assets into Income:** Annuity payouts can be structured to meet Medicaid qualifications.
- **Preserve Wealth:** Avoid exhausting your savings or spending down assets to qualify for assistance.
- **Meet State-Specific Rules:** Certain states allow exempt annuity payouts, helping you qualify for Medicaid without losing everything.

Take Action

Long-term care planning requires careful consideration of Medicaid regulations, which vary by state. Consulting a knowledgeable advisor can help you understand how annuities fit into your overall strategy to protect your assets and secure care.

Ready to learn more? Reach out for tailored advice on how to make annuities work for you.





Summary

Planning for retirement and protecting your annuity assets is essential to ensure financial stability for yourself and your loved ones. By understanding the tools available and making informed decisions, you can maximize the benefits of your hard-earned savings.

Key Takeaways:

1. **Tax Efficiency with Annuities:** Annuities can help reduce or even eliminate taxes on your Social Security benefits while providing tax-deferred growth, allowing you to keep more of your retirement income.
2. **Lifetime Income Security:** Fixed immediate annuities offer guaranteed monthly payments that can last for life, providing peace of mind and steady cash flow regardless of market fluctuations.
3. **Market Participation with Protection:** Equity-indexed annuities offer growth potential tied to market performance while safeguarding your principal, striking a balance between opportunity and security.
4. **Planning for Long-Term Care:** Annuities can play a crucial role in shielding your assets while ensuring you're prepared for the high costs of long-term care. When structured correctly, they may even help you qualify for Medicaid benefits without depleting your savings.

Why You Need the Right Advisor

Navigating these complex options is easier with the help of a knowledgeable advisor who can:

- Answer your questions and anticipate potential challenges.
- Highlight opportunities tailored to your unique financial needs.
- Provide expert guidance on estate planning and retirement strategies.

With thoughtful planning and sound advice, you can make the most of your resources, secure your future, and provide for your family's well-being.