RETIRE KEEPER · EDUCATIONAL GUIDE

The Annuity Guide

A plain-language, educational overview of how annuities work, based on information from FINRA, the SEC and the NAIC.

Inside this guide

1. What an annuity is
2. The main types: fixed, fixed indexed and variable
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> **About this guide.** Annuities can be complex. FINRA and the SEC encourage consumers to understand an annuity's features, costs and limits before buying one.[1,2] This guide summarizes those basics. It does not recommend any product.

Educational information only. Not tax, legal or investment advice. Products, features and availability vary by state and by insurer. Any guarantees are backed solely by the financial strength and claims-paying ability of the issuing insurance company. Annuities are not FDIC or SIPC insured. Sources on page 6.

1. What an annuity is

An annuity is a **contract between you and an insurance company**. You pay money in (a "premium"), either all at once or over time. In return, the insurer agrees to make payments to you, either starting soon or at a later date, under the terms of the contract.[1]

- **Immediate annuity:** income payments start soon after you buy.[1]
- **Deferred annuity:** payments, or the option to take them, start at a later date.[1]

Annuities have their own tax rules. Talk with a qualified tax professional about how they would apply to you.

Annuities are regulated by state insurance departments. Variable annuities are also securities, so the SEC and FINRA regulate them too.[1]

2. The main types

Type	How value is credited	Main thing to understand
Fixed	The insurer credits interest at a rate stated in the contract for a set period. The contract also states a minimum rate.[1]	The rate can change after the initial period. Compare the minimum rate with the current rate, and ask about any first-year "bonus" rate.[5]
Fixed indexed	Interest is credited using a formula linked to a market index. You do not invest in the index directly.[3]	Credited interest is limited by **caps, participation rates or spreads**, which the insurer may be able to change. You can lose money through surrender charges or fees.[3]
Variable	Your money goes into investment options (subaccounts), and its value rises and falls with them.[1]	You can lose money, including principal. Fees can include several layers, and optional riders cost extra.[1,2] Variable annuities are sold by prospectus.[2]

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3. Features and limits

Features to know

- **Income options.** Some annuities can provide payments for a set period or for life.[1]
- **Death benefit options** that can pass value to beneficiaries, sometimes at extra cost.[1]
- **Optional riders** that add features for an added charge.[1]

Limits to know

- **Complexity.** Features, riders and crediting methods can be hard to compare.[1]
- **Costs.** Fees, rider charges and commissions can reduce your returns.[1,2]
- **Limited access.** Surrender charges can apply for several years.[4]
- **Limited upside** in indexed products, because of caps and similar limits.[3]
- **Insurer risk.** Any guarantees depend on the insurer's claims-paying ability. Annuities aren't FDIC or SIPC insured.[1,2]

4. Fees, surrender charges and access to your money

Cost or limit	What it means
Surrender charge	A charge for withdrawing more than the contract allows, or cashing out, during the surrender period. The period can last several years, and the charge usually declines over time.[4]
Penalty-free withdrawals	Many contracts let you withdraw a portion each year without a surrender charge. The amount is set by the contract.[4]
Market value adjustment	Some contracts adjust the amount you receive on early withdrawals, which can lower your value in addition to surrender charges.[2]
Ongoing fees	Variable annuities can carry mortality and expense charges, administrative fees and fund expenses.[1,2]
Rider charges	Optional features, such as income or enhanced death benefits, usually cost extra each year.[1]
Taxes	Withdrawals and payments have tax consequences. Ask a qualified tax professional.
Annuitizing	If you convert to income payments, you generally can no longer take a lump sum.[4]

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5. Things regulators suggest you consider

FINRA and the NAIC suggest thinking through questions like these before buying any annuity:[1,4]

- When might you need to use this money, and how much access will you need during the surrender period?
- How much of your savings would be in the annuity?
- What are the total fees and charges, and what are you getting for them?
- Do you understand how the contract credits interest or value, and what can change?
- How financially strong is the insurer?

6. Seven questions to ask any agent

1. **Why is this annuity in my best interest?**[4]
2. **How long is the surrender period, and what is the charge each year?** How much can I withdraw each year without a charge?[4]
3. **What are all the fees, rider charges and adjustments?** What do they total per year, in dollars?[1]
4. **How exactly is interest credited?** What are the current caps, participation rates or spreads, and can the insurer change them?[3]
5. **What is stated in the contract, and what is only illustrated or "current"?**[5]
6. **How financially strong is the insurer?** Where can I check its ratings and complaint record?[5]
7. **How long is my free-look period, and how do I cancel?**[4]

> You can ask for a copy of the contract or a sample, and review it with a tax or legal professional before you sign.[5]

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7. An optional review

If you have questions after reading this guide, you can ask for an **optional review** with a licensed insurance agent. Whether to ask is entirely up to you.

What it is

- A conversation by phone or video, at a time you choose.
- A chance to ask questions about the topics in this guide.

What it isn't

- It isn't tax or legal advice. For those, talk with a qualified tax or legal professional.
- It isn't a commitment. You can stop at any time, and you can reply STOP to end texts.

How to ask for one: reply to the text or email that brought you this guide.

Checklist: what to know before any annuity decision

- ☐ The surrender period and the yearly penalty-free amount
- ☐ Every fee and rider charge
- ☐ How interest or value is credited, and what can change
- ☐ The insurer's ratings and complaint record
- ☐ The free-look period and how to cancel

Your right to cancel ("free look"). After you receive an annuity contract, state law gives you a set number of days to return it. The period varies by state, and your contract states it.[4,5] **Replacing** an existing annuity can start a new surrender period.[4]

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Sources

1. FINRA, "Annuities." https://www.finra.org/investors/investing/investment-products/annuities
2. U.S. SEC, Investor.gov, "Annuities." https://www.investor.gov/introduction-investing/investing-basics/investment-products/insurance-products/annuities
3. U.S. SEC, Investor.gov, "Updated Investor Bulletin: Indexed Annuities." https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/updated-investor-bulletin-indexed-annuities
4. National Association of Insurance Commissioners (NAIC), "Annuity Buyer's Guide." https://content.naic.org/sites/default/files/call_materials/lvb-formatted-naic-annuity-buyers-guide.pdf
5. NAIC, "What You Should Know Before Buying an Annuity." https://content.naic.org/sites/default/files/consumer-what-to-know-before-buying-annuity.pdf

Helpful resources

- Your state insurance department can confirm an agent's license, show an insurer's complaint record, and take complaints. Find yours at naic.org.
- FINRA Securities Helpline for Seniors: 844-574-3577.

Important disclosures. This guide is for general education only. It is not tax, legal or investment advice, and it is not a recommendation to buy any product. Annuity products, features, fees and availability vary by state and by insurer. Any guarantees are backed solely by the financial strength and claims-paying ability of the issuing insurance company. Annuities are not deposits, are not FDIC or SIPC insured, and are not guaranteed by any bank or federal agency. Consult a qualified tax or legal professional about your situation. Variable annuities are sold by prospectus, which should be read carefully before investing.

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