This report is designed to help better understand fixed annuities. Also, to balance the numerous reports and articles that only focus on the downside of annuities.

To begin with, there are a number of different types of annuities. Generally, the annuities that are written about in the press are referring to variable annuities. Those annuities are vastly different than the annuities described in this report. The type of annuities described in this report are fixed annuities and compare to other fixed investments such as CD's, high grade bonds and the like.

Variable annuities generally have loads and fees and your principal is not guaranteed. On the other hand, fixed annuities generally do not have loads or fees (unless there is a benefit for the fee) and your principal is protected.

There are three basic types of fixed annuities:

Traditional Fixed
Multi-Year Guarantee Fixed (MYGA)
Fixed Indexed

The three types will be discussed in more detail later in the report. First, here are the features they hold in common and how they compare to other like investments.

Liquidity:

The annuity generally allows for 10% penalty free withdraws of the accumulated value after the first year. So, at any time the owner can take money from the annuity (monthly, quarterly, semi-annually or annually at will).

Extended care waiver: To help ease the strain of certain unforeseen events, an extended care waiver is available for no additional charge. If the owner is confined to a nursing home or other long-term care facility after the completion of the first contract year for at least 90 consecutive days, early withdrawal charges may be waived on withdrawals up to a full surrender.

Terminal illness waiver: Provided that the diagnosis is rendered more than one year after the contract effective date, up to 100% of the account value can be withdrawn without deduction of an early withdrawal charge, if the owner or joint owner is diagnosed by a physician as having a terminal illness with a prognosis of 12 months or less. This rider may be used only once.

At death of the owner, generally, the accumulated account value (without charges) will be paid to named beneficiaries without probate.

Compare this to:

Bond - the only liquidity is the coupon (interest). In addition, if interest rates riseand the bond is liquidated prior to maturity for nursing home, terminal illness or death, it is likely that the bondwill have to be sold at a discount or loss of principal.

CD – a CD is liquid only at maturity for a designated period of time, usually 30-60 days. Surrender charges are not waived for nursing home confinement, terminal illness or death.

Bottom line:

A fixed annuity is liquid 365 days a year and for life's emergencies. Unlike similar investments.

Taxes:

An annuity grows tax deferred until you take money out of the account. If the annuity is a non-IRA annuity, then the interest is withdrawn first and taxed, the principal is returned, or withdrawn, without tax. If the annuity is an IRA, then all pre-tax contributions and interest earned are taxed. Any withdraw prior to 59 ½ is subject to a 10% excise penalty on taxable interest or IRA withdrawal.

The result of this tax arrangement is that the owner has full control over when taxes are paid. As explained before, withdraws can be made at anytime from the annuity account, or the account can be left to grow and defer taxes at will. The exception is IRA annuities where Required Minimum Distributions (RMD) are made after the owners age 70 ½.

At maturity, the annuity can stay in the account or be tax free exchanged via IRS Code 1035, or if it's an IRA custodian to custodian transfer.

Compare this to bonds; non-municipal bonds such as T-Bill's and corporate bonds would be subject to Federal Income tax at maturity or as interest is paid every quarter. So, even if the income is not needed, taxes are forced to be paid. For example, if a 10 year T-bill was owned to maturity at the end of the 10th year, a large income tax bill would be generated. Even if the owner does not need the income.

Municipal bonds are Federally income tax free and state if they are bonds issued from your resident state. However, the coupon (interest paid) will be added to making Social Security taxable, even if the interest is not needed.

CD's are similar in that year to year the interest income is received as 1099 income, unless it is an IRA CD, even if the interest is not taken or spent. For many CD holders they are forced to pay income tax on income they never used.

The bottom line:

Fixed annuities allow the owner to determine when to pay taxes or at a minimum only creates income tax when income is taken from the account. The owner is in control.

Safety:

A fixed annuity guarantees the owners money. The guarantee is by the insurance company issuing the annuity. In addition to the company guaranty, there is a guaranty association that protects consumers in the unlikely even an insurer becomes insolvent and is unable to honor its commitments. There are generally limits on the amounts the guaranty association will cover. For example, in the state of Connecticut it is $500,000 and in Massachusetts it is $100,000.

Bonds and CD’s have a similar guaranty. The bond is backed by the issuing company or governmental agency. For example, if it is a municipal bond, then the state that issues the bond is backing the bond. If it is a T-bill, then the federal government backs the bond. If it is a corporate bond,then the corporation issuing the bond guarantees it. A CD is guaranteed by the bank and ultimately by FDIC (up to a limit) if the bank goes under.

The bottom line:

A fixed annuity has similar, or better, safety when compared to other similar investments.

Returns:

Historically, fixed annuities have returned 1-3% more than CD’s or bonds. For example, as of this writing, the interest paid of 5 year contracts are as follows:

1% - CD according to bankrate.com
1.51% - 5 year T-bill
2.7% - 5 year Multi-Year Guarantee Fixed (MYGA)

In addition to the above, a fixed index annuity (FIA) has historically returned 1-2% more than a traditional fixed annuity; or more information on FIA’s, review the Annuity Advantage brochure. For example, for the 5 year period of 2009-2013 an FIA (with a 6% cap) would have averaged 4.8%.

The bottom line:

Fixed annuities, on average, have given investors greater returns which is more money in the owners account.

Special Features of Fixed Annuities:

Fixed annuities have special features that bonds, CD’s, mutual funds, stocks or any other investments do not offer.

The first is guaranteed lifetime income. With retirees living longer than ever before, the threat of outliving retirement assets is greater than ever before. Fixed annuities can offer peace of mind in a life long income.

Fixed annuities offer this in one of two ways. First, the owner can convert their account (principal and interest) to an income that will last as long as they live (either single or married) or for a certain period of time. Whatever the owner chooses, they can set up the income so that at minimum the total account value will go to the owner or to a named beneficiary.

Second, fixed annuities offer riders that guarantee an income benefit. The benefit is based on a benefit value that is growing at 5-10% (depending on the contract) and then pays out a benefit as a percentage of the benefit value. The benefit can be illustrated to demonstrate exactly what the lifetime income would be.

A second special feature of fixed annuities is the ability for couples to use annuities to created protected income from the nursing home when planning for Medicaid. This is a planning option ONLY offered with annuities.

The Bottom Line:

Fixed annuities are more liquid than similar investments so the owner can get to their money easier. An annuity allows the owner to take control of when they pay taxes on earned interest. They are as safe, if not more, as similar investments and offer, historically, better returns than similar investments.

In addition, fixed annuities offer owners the ability to have peace of mind in knowing they will have a lifelong retirement income and a way for couples to protect an income from nursing home expenses.