ANNUITY MYTHS & REALITIES

Today's Annuities Vs. Yesterday's Thinking

You may have noticed that certain financial pundits are determined to give annuities a bad rap. But some of the most prevalent objections concerning annuities are based on misinformation — or, in some cases, they're based on "conventional wisdom" that is simply outdated. Similar to the variety of features available in today's phones, annuities have evolved over the years.

While there are benefits and drawbacks to any investment vehicle, annuities can offer potential benefits and valuable guarantees. Let's take a look at some of the most common myths about annuities, as well as the realities about how annuities actually work.

*Guarantees are backed by the claims-paying ability of the issuing insurance company.

†Tax deferral offers no additional value if an annuity is used to fund a qualified plan, such as a 401(k) or IRA, and may be found at a lower cost in other investment products. It also may not be available if the annuity is owned by a "non-natural person" such as a corporation or certain types of trusts.

MYTH: Annuities are prohibitively expensive.

REALITY: Annuities can potentially be more expensive than other investment options, but they also offer a variety of benefits that may be valuable to investors.

Annuities can provide you with guaranteed* income options regardless of how long you live, and can provide valuable death benefits for your heirs. Plus, many of today's unbundled annuities can be custom built so you pay only for features and benefits that are important to you.

Are the benefits worth the price? That depends on you. If features like tax-deferred† growth potential, tax-free exchanges, income guarantees and death benefits for your heirs are appealing, then an annuity might be right for you.

MYTH: When I die, the insurance company will keep my money.

REALITY: **Provided you haven't annuitized your contract, annuities offer a guaranteed* death benefit that would pass on to your beneficiaries. This is usually the greater of contributions paid into the contract or the contract value at death.**

For example, if you contributed $200,000 to an annuity and never withdrew any money, and the contract was valued at $150,000 at death, the beneficiary would receive the full $200,000.

Another feature often uniquely available to annuity owners is the step-up. This feature, usually offered at an additional cost, locks in investment gains, if any, so your beneficiaries would receive the stepped-up amount, even if the market declines in the interim, so the legacy you leave actually has the opportunity to grow.

*Guarantees are backed by the claims-paying ability of the issuing insurance company and do not apply to the principal amount or investment performance of a variable annuity's separate account or its underlying investments.

MYTH: Annuities provide no additional value when held by a qualified plan or an IRA.

REALITY: **Annuities are not appropriate for these types of plans if the only benefit to the investor is tax deferral. However, annuities may be appropriate for qualified plans when tax deferral† isn't your only goal.**

Annuities also offer optional guarantees* that an investor won't receive as part of a qualified plan such as a 401(k) or IRA:

- A death benefit, which guarantees that money will pass to your heirs upon death.
- A living benefit, which can provide guaranteed income for life, no matter what happens in the market.

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Optional benefits are available for an extra cost in addition to the ongoing fees and expenses of the variable annuity.

Optional benefit availability varies by product.

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MYTH: Annuities are not good investments because gains, when withdrawn, are taxed at ordinary income rates, which are higher than long-term capital gains rates.

REALITY: The long-term tax treatment offered by annuities is much more favorable than many believe, and tax-deferred annuities have the added potential to accumulate more than vehicles that may be subject to taxation each year.

Also consider that when you retire, you may be in a lower income tax bracket, which can help minimize the effect taxes will have on your investment as you begin to take withdrawals. And, if you take smaller withdrawals over time, rather than a lump sum withdrawal, you may be able to reduce the amount you spend on taxes. Any assets not withdrawn during the distribution phase continue to potentially grow tax deferred† until withdrawn.

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MYTH: Annuities are a poor asset to inherit as they are subject to double taxation.

REALITY: Unless the current estate and prior gifts exceed $11.18 million (figure as of 2018), estate taxes are not generally applied.‡

To compensate for the threat of double taxation, the Internal Revenue Code provides an income tax deduction to the beneficiary for any transfer taxes paid by the estate on certain assets (i.e., annuities) deemed to be Income in Respect of a Decedent (IRD).

Although it may only be declared as an itemized deduction, IRD is not subject to the 2% floor that other miscellaneous itemized deductions must exceed. Thus, it is fairly easy for the beneficiaries to claim.

‡IRS Rev.

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MYTH: If a trust owns an annuity, the annuity loses its tax-deferred† treatment.

REALITY: A trust can generally retain its tax-deferred treatment if you can prove the owner of the trust is an actual person.

In a nutshell, if the beneficial owner of the trust is a person, then the tax-deferred treatment of the annuity has generally stood.

Questions, Comments, Concerns? Contact one of our experienced advisors today at (561) 689-1000 to learn more about how an annuity can benefit you.

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This document was compiled with materials from several insurance companies, including but not limited to Jackson National Life, Prudential, Pacific Life, New York Life, and Lincoln Financial Group.