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The Broker's Bridge to Success!

Q & A for Annuities

Q: What is an Annuity?

A: An annuity is a financial product that pays out a fixed stream of payments to an individual, and these financial products are primarily used as an income stream for retirees. Annuities are contracts issued and distributed (or sold) by financial institutions, which invest funds from individuals. They help individuals address the risk of outliving their savings. Upon annuitization, the holding institution will issue a stream of payments at a later point in time.

Q: Are there different types of Annuities?

A: Yes, there are several different types – see below

- Annuities can also begin immediately upon deposit of a lump sum, or they can be structured as deferred benefits. An example of this type of annuity is the immediate payment annuity in which payments begin immediately after the payment of a lump sum.

- Deferred income annuities are the opposite of an immediate annuity because they don't begin paying out after the initial investment. Instead, the client specifies an age at which they would like to begin receiving payments from the insurance company.

- Annuities can be structured generally as either fixed or variable.

- Fixed annuities provide regular periodic payments to the annuitant.

- Variable annuities allow the owner to receive greater future cash flows if investments of the annuity fund do well and smaller payments if its investments do poorly. This provides for less stable cash flow than a fixed annuity but allows the annuitant to reap the benefits of strong returns from their fund's investments.

- While variable annuities carry some market risk and the potential to lose principal, riders and features can be added to annuity contracts (usually for some extra cost) which allow them to function as hybrid fixed-variable annuities. Contract owners can benefit from upside portfolio potential while enjoying the protection of a guaranteed lifetime minimum withdrawal benefit if the portfolio drops in value.

- Other riders may be purchased to add a death benefit to the agreement or to accelerate payouts if the annuity holder is diagnosed with a terminal illness. The cost of living rider is another common rider that will adjust the annual base cash flows for inflation based on changes in the CPI.