THE RETIREMENT GROUP LLC

PARTNERS IN RETIREMENT

Variable Annuities

Funding Your Future

What is a Variable Annuity?

- An insurance-based contract between you and the issuer
- You pay premiums with after-tax dollars
- Your money is invested as you select
- Earnings accumulate tax deferred
- Earnings are taxed as ordinary income when withdrawn

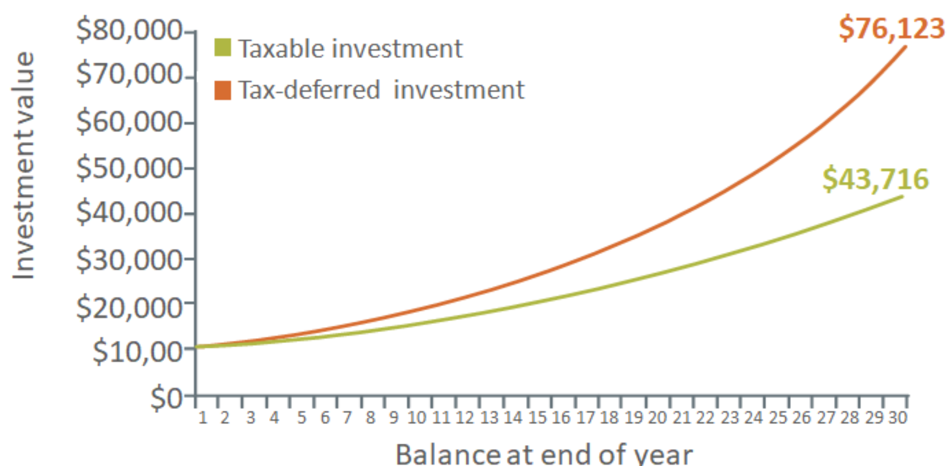
This is basically how a variable annuity works: You pay after-tax dollars to the issuer, your money is invested in accordance with your specifications, and any earnings accumulate tax deferred. At some point, the issuer pays out the principal and any earnings to you or to your beneficiaries. Earnings are taxed as ordinary income when they're withdrawn. Withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax unless an exception applies.

Why Buy a Variable Annuity?

- To receive tax-deferred growth for savings and a dependable stream of income for life
- To save for a specific purpose
- To supplement other sources of retirement income
- To maintain financial independence

The primary features of annuities are tax-deferred growth for savings and a steady stream of income that can last for the rest of your life. These characteristics allow annuities to be used for many purposes. You can use an annuity to save for any specific purpose or long-term goal, such as providing a legacy for your heirs or making a charitable gift.

If you annuitize, which we'll talk about later, a variable annuity can provide a source of lifetime income, even if you live to a very old age. The income and savings provided by an annuity may help you remain financially independent, so that you won't be dependent upon your children for financial help or care-giving. For example, you can use the annuity income to pay for your own long-term care expenses, rather than rely on your children for care. But one of the primary benefits of an annuity is its tax-deferred growth.



- Assumptions:
- $10,000 initial investment
- Tax rate 28%
- Growth rate 7% (after-tax growth rate 5.04%)
- Annual end of period compounding

This hypothetical example is for illustrative purposes only, and its results are not representative of any specific investment or mix of investments. Actual results will vary. Taxable investment assumes earnings are taxed as ordinary income and is not reflective of possible lower maximum tax rates on capital gains and dividends which would make the taxable investment return more favorable thereby reducing the difference in performance between the accounts shown. Applicable annuity charges are not reflected in this illustration. Had they been included, the return of the annuity would be lower. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison.

Here's an illustration of the advantage of tax-deferred earnings growth over earnings growth that's taxed every year. Let's assume you make a lump-sum investment of $10,000 that will compound annually at the end of the year, and you're in the 28% income tax bracket. Let's also assume all investments earn 7% each year in income.

If you invest that money in an alternative that's taxed each year, in 30 years you'll accumulate a total of $43,716.

But if you invest that money in a vehicle that allows tax-deferred growth, in 30 years you'll accumulate $76,123--more than you'd have earned investing the same amount for the same length of time in an alternative that's taxed annually. Why? Because the money that's not going to taxes keeps compounding, and as Albert Einstein is reputed to have said, "compound interest is the greatest mathematical discovery of all time." While the annuity's earnings accumulate tax deferred, they are subject to income tax when you withdraw them.

Of course, annuities aren't the only choice that offers tax-deferred growth potential; retirement plans such as 401(k)s and individual retirement arrangements (IRAs and Roth IRAs) do that as well.

Feature	Annuities (Nonqualified)	401(k)s and Traditional IRAs	Roth IRAs
Tax-deferred earnings	✓	✓	✓
Tax-deductible or pretax contributions		✓	
Unlimited contributions	✓		
*Guaranteed minimum death benefit	✓		
RMDs		✓	
*Tax on withdrawals	✓	✓	
*Guaranteed lifetime income	✓		
*Fees and charges	✓	✓	✓

*Guarantees are subject to the claims-paying ability and financial strength of the issuer. The earnings portion of annuity withdrawals is subject to income tax at ordinary income tax rates. Pretax or tax-deductible contributions and pretax earnings are subject to income tax at ordinary tax rates when withdrawn. Annuities, particularly variable annuities, may impose higher fees, charges, and expenses than the other plans.

So how do annuities stack up against 401(k)s, IRAs, and Roth IRAs?

First, annuities are a financial product sold by or through an insurance company. On the other hand, IRAs and Roth IRAs are personal savings plans, while 401(k)s are savings plans for employees offered by their employers. IRAs, Roth IRAs, and 401(k)s can be funded with a number of different investments, including stocks, bonds, mutual funds, and annuities. But you can also own an annuity separate and apart from your IRA, Roth IRA, or 401(k). In any case, annuities, IRAs, Roth IRAs, and 401(k)s share some common features and some different characteristics as well.

The earnings within each of these vehicles grows tax deferred, meaning you don't have to pay income taxes on the growth within these plans until they're withdrawn. Unless an annuity is held within a 401(k) or IRA, annuity premium payments are made with after-tax dollars, similar to a Roth IRA. Only 401(k)s and IRAs offer tax-deductible or pretax contributions.

There's no limit on the amount you can contribute to annuities, while the other plans have specific limits on how much you can contribute to each. Annuities often provide a guaranteed minimum death benefit to your heirs, which none of the other plans provide, unless they're funded by annuities or, in the case of 401(k)s, life insurance.

You generally are obligated to take required minimum distributions from your 401(k)s and IRAs after you reach age 70½, but there's no such requirement for annuities and Roth IRAs. As long as you satisfy specific requirements, withdrawals from Roth IRAs are not subject to income tax.

However, all distributions of pretax contributions and earnings from 401(k)s and IRAs are taxed as ordinary income. Only the earnings portion of annuity distributions is subject to income tax.

Here's what may be one of the most important distinctions between annuities and other retirement plans: an annuity can be annuitized, or converted into a stream of payments you, or you and your spouse, can't outlive. While it's entirely possible that the funds you accumulate in an IRA or 401(k) could last for your entire life, there's generally no guarantee--it's possible you could outlive your funds.

Each of these plans has some fees and charges that can differ based on the investment vehicle selected. Annuities, particularly variable annuities, may impose higher expenses than 401(k)s, IRAs, and Roth IRAs.

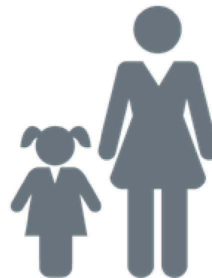
There are different types of annuities, which we'll discuss briefly, but there are some basic characteristics common to most types of annuities.

The **owner**:
- Purchases the annuity
- May make withdrawals
- Receives annuitization payments if elected

The **issuer**:
- Issues the annuity
- Accepts the premiums
- Promises* to pay the annuity benefits

*Guarantees are subject to the claims-paying ability of the annuity issuer.

The **annuitant**:
- Provides the measuring life for determining annuity payouts
- Typically, the annuitant is also the owner



The **beneficiary**:
- Is named by the owner
- Receives the remaining benefits, if any, at the owner's death

There are generally four parties to any annuity contract. The **owner** usually purchases the annuity, pays the premiums, and names the beneficiary (if any) in the event of death. The owner can make withdrawals from the annuity or surrender it, and is generally the party who receives the payments if the annuity is annuitized.

The **issuer** of the annuity contract is generally an insurance company. The issuer accepts the premium payments, invests them in accordance with the annuity contract, and promises to pay whatever benefits the annuity contract stipulates.

The **annuitant** provides the "measuring life" used to determine the amount of the payments if they're made for life, called annuitization. Typically, the annuitant is also the owner of the annuity.

The **beneficiary**, named by the owner of the annuity, receives the proceeds of the annuity if the owner dies before annuitization, or receives the remaining benefits (if any, depending on the annuitization option chosen) at the time of the owner's death.

Immediate vs. Deferred Annuities

Immediate Annuities

- Typically purchased with a single lump-sum premium
- Payouts begin within one year of purchase

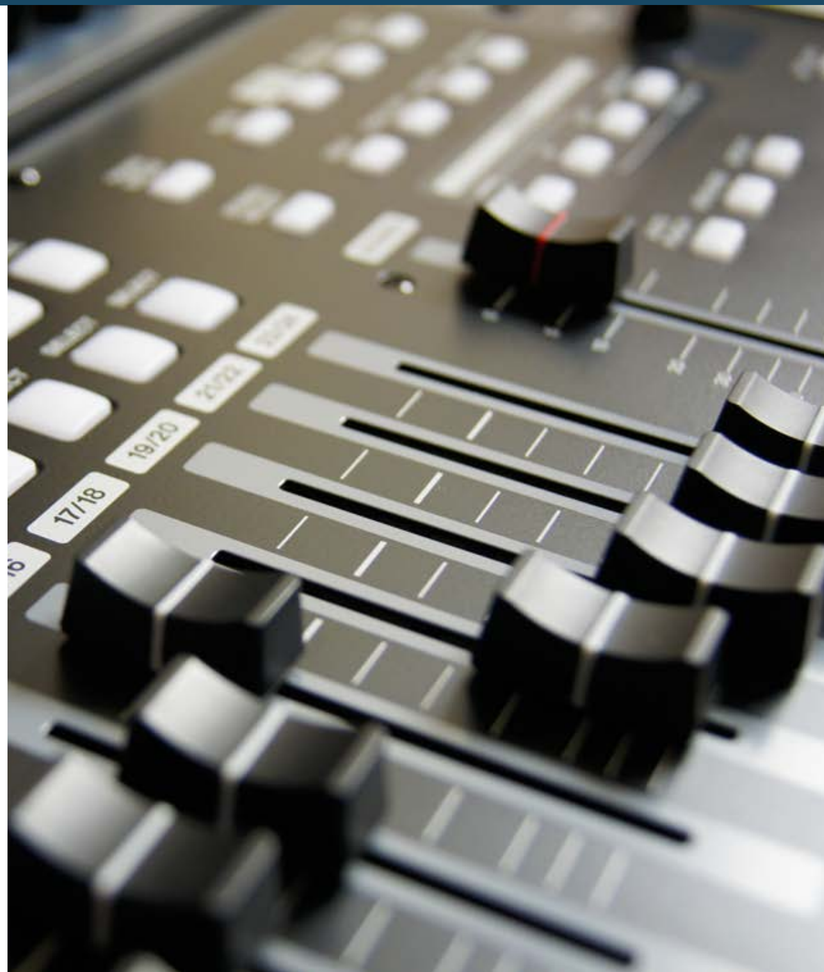
Deferred Annuities

- Typically purchased with periodic payments
- Payout begins at some future date, allowing time for tax-deferred growth

Annuities are classified as either immediate or deferred annuities. These terms simply refer to when the distribution phase of the annuity begins.

Immediate annuities convert a lump sum of cash into an income stream. They are typically purchased with a single payment, and the distribution period usually begins within a year of the purchase.

Deferred annuities may be purchased with a single lump-sum premium payment, or with a series of periodic payments. The distribution period begins some time in the future, which allows any earnings to grow on a tax-deferred basis. However, you may be able to make withdrawals at any time, as we'll discuss later. There are different types of deferred annuities as well.



- You pay premiums to an insurance company
- You can allocate premiums to investment choices ("subaccounts") offered by issuer
- If subaccounts perform poorly, you may lose principal
- Payments to you
- Payments to your beneficiary

Typically, you make a single or multiple payments, called premiums, to an insurance company.

Variable annuities generally offer you a wide variety of investment choices, called subaccounts. Generally, you can allocate premiums to subaccounts specializing in different investment options, including:

- Government securities
- Corporate bonds
- High-yield bonds
- Common stocks

A balance between stocks and bonds

You can also transfer funds among subaccounts without incurring commission charges or triggering a taxable event. These subaccounts are generally not accessible to the issuer's creditors.

With the exception of a subaccount in which the issuer guarantees a minimum rate of interest, variable annuities don't offer any guarantees on the performance of their subaccounts. You assume all the risk related to those investments. In return for assuming a greater amount of risk, you may experience a greater potential for growth in your earnings. However, it's also possible that the subaccounts will perform poorly, and you may lose money, including principal. You should consider purchasing a variable annuity only if you're willing to assume the risk inherent in investing.

Your subaccount earnings grow tax deferred until you withdraw them or begin taking annuitization payments. (Withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax.)

Most variable annuities also provide a death benefit to the beneficiaries you name in the contract. What are some variable annuity death benefit options?

Guaranteed Death Benefit

Annuities can provide guaranteed* death benefits to your named beneficiaries.

- If death occurs before annuitization, full repayment of premiums
- If death occurs after annuitization, some payout options continue payments to your beneficiary

Annuities are considered a form of insurance. It's not surprising, then, that both fixed and variable annuities can provide a guaranteed death benefit when you die.

If you die before the annuity is annuitized, your named beneficiary will generally receive at least 100% of the premiums that you've paid, less any withdrawals you may have taken. Or, you can structure the contract to pay your beneficiary the cash value of the annuity at the time of your death. Death benefit proceeds are not subject to probate, and so are paid to your beneficiary without delay.

If you die after annuitization has started, both fixed and variable annuities offer several annuitization options that may be available to your named beneficiary after your death. We'll explore these in more detail in a few moments when we look at the different annuitization options available to you. Let's look now at the fees and expenses associated with annuities.

*Guarantees are subject to the claims-paying ability and financial strength of the annuity issuer.

- Annual contract fee
- Mortality, expense risk and sales charge
- Subaccount costs include investment management fees and operational costs
- May charge surrender fees

Annuities typically charge an annual contract fee.

Variable annuities generally assess a mortality and expense risk charge that compensates the issuer for some of the guarantees (such as the guaranteed death benefit) and sales charges associated with your annuity. And variable annuity subaccount costs include investment management fees and operational expenses.

Variable annuities may charge surrender fees if you withdraw some or all of your investment in the early years of the contract, usually in the first 5 to 10 years. However, most variable annuities offer you the opportunity to withdraw a certain amount or %age of the contract value each year without incurring surrender charges. Now let's see what happens when you withdraw money from an annuity.

Taking Money out of an Annuity

- Withdraw principal and/or earnings (withdrawal of earnings prior to age 59½ may be subject to 10% additional tax)
- Select a guaranteed* income option of a fixed or variable amount over a specific period of time or for life (annuitization)

Generally, you can take disbursements from an annuity in one of two ways:
You may withdraw money at your own discretion, but most variable annuities have surrender or early withdrawal charges that may be assessed during the early years of the annuity. Also, variable annuity withdrawals of earnings made before age 59½ may be subject to a 10% income tax. These withdrawals can be taken at either regular or irregular intervals, and may be of either fixed or varying amounts. Just as you may decide how to allocate your funds among the various subaccounts to a variable annuity, you can choose the subaccounts from which you will make withdrawals.

You can also elect at some point to annuitize the annuity, which is the term used when you convert the annuity to periodic income payments. You can elect to receive a fixed or a variable amount for each payment, which you can receive monthly, quarterly, semiannually, or annually. You can elect to receive payments for a fixed time period, for your lifetime, or for your lifetime and the lifetime of another person. Unless your annuity contract stipulates otherwise, you can let your earnings accumulate tax deferred for as long as you wish. Now let's look more closely at what happens if you elect to annuitize.

*Guarantees are subject to the claims-paying ability and financial strength of the annuity issuer.

Annuitizing a Variable Annuity

- Fixed annuities convert to a stream of guaranteed* fixed payments
- Variable annuity options:
  - Convert to guaranteed* fixed payments
  - Take variable payments
  - Combination fixed and variable payments
- Once annuitized, you usually can't invest further or take other withdrawals

Generally, annuitizing converts your annuity into a stream of payments. With a variable annuity, you can convert the current value of your account into a stream of guaranteed fixed payments. You'll receive periodic payments on a schedule of your choosing.

As an alternative, you can choose to receive variable payments, where the amount you receive will depend solely on the performance of the subaccounts underlying your annuity. Or you may choose a combination payment consisting of a fixed portion and a variable portion.

Once you annuitize, you generally can't change your mind--you're no longer allowed to invest further in the annuity, make any other withdrawals, or select a different payout option. Let's look at some of the factors affecting your annuitization payments.

*Gurantees are subject to the claims-paying ability and financial strength of the annuity issuer.

Factors Affecting Annuitization Payments

- The cash value of your account
- The performance of your underlying investments
- The age and gender of the annuitant
- The payout option you choose

If you choose to convert a variable annuity to a stream of guaranteed fixed payments, the cash value of your account at the time you annuitize will affect the amount of your payments. The larger the cash value of your annuity, the larger your payments will be, all other factors being equal. Bear in mind that if you choose this annuitization option, you'll probably lose any further control over the investments underlying your annuity.

If you choose any payout option other than a stream of guaranteed fixed payments, the amount of your payments will be determined by the performance of the subaccounts underlying the variable annuity.

You may remember that the annuitant provides the "measuring life" used to determine your payment amounts. Among other things, these tables take into account gender differences (women generally live longer than men) and individual life expectancies. All other factors remaining constant, the younger the annuitant, the smaller the annuity payments since the life expectancy is longer.

The payout option you choose will also affect the amount of your annuitization payments. Generally, all other factors being equal, the longer the payout option, the smaller each payment will be. Let's take a look now at some of the payout options that may available to you.

Variable Annuity Payout Options

- Payments for life
- Payments for a specified period
- Payments for life with term certain
- Refund life
- Joint and survivor life

You may be offered a variety of payout options if you annuitize. When you select a payout option, you should bear in mind that your choice is irreversible, unless the contract provides otherwise, so think carefully about the option you want.

You can elect to receive payments for your lifetime. With this option, payments stop at your death, even if you didn't live long enough to recoup your full account value. You can choose to receive payments only for a specified period. If you die before the end of the period, your named beneficiary will receive the payments for the remainder of the period. If you outlive the specified period, however, neither you nor your beneficiary will receive any payments once the period has ended. Or, you can select the payments for life with term certain option, in which case you will receive payments for life or for a guaranteed time period, whichever is longer. With this option, if you die before the time period has elapsed, your beneficiary will receive the remaining payments.

*The amounts of your payments may vary with the performance of your underlying investments.

The refund life option provides you with payments for life, but if you die before you've received the total balance of the annuity, the remaining balance will be paid to your named beneficiary, either in a lump sum or in installments. The joint and survivor life option provides two persons--first one and then the second--with income. When the first person dies, the second person continues to receive the payments (or some portion of them) for life, or for a specified time period. Because this option may first pay you, and then your designated survivor, for life, it generally provides payments for a longer period of time than the other options do. For this reason, the periodic payments might be lower than those possible under other options.

It's important to remember that, with the exception of the fixed payment for life option, variable annuity payout amounts will fluctuate with the performance of your underlying investments. Should your selections perform well, you may experience higher returns than you would with a fixed annuity. However, if your investments perform poorly, this may be reflected in smaller payments, and you could lose money. Now, let's look at how withdrawals and annuitization payments are taxed.

*Guarantees are subject to the claims-paying ability and financial strength of the annuity issuer.

- Income tax imposed at ordinary income tax rates on earnings portion of withdrawals or payouts
- Withdrawals are considered to be made from earnings first; annuitization payments are part return of principal and part earnings
- With certain exceptions, an additional 10% premature distribution tax imposed on distributions made prior to age 59½

For federal income tax purposes, the portion of any withdrawal or payout that's considered earnings will be taxed as ordinary income. Generally, withdrawals are considered to be coming from the earnings portion of the annuity first, then from the principal. If you annuitize, however, each payment is considered to be partially a return of your principal investment and partially a distribution of earnings on that investment. Typically, the portion of a variable annuity payment to be excluded from income taxation is determined by dividing the investment in the annuity contract by the number of years over which it's anticipated the annuity will be paid. As a result, the payout option you choose may affect the determination of your annual exclusion.

With a few exceptions, in addition to the ordinary income tax on the withdrawal, a 10% premature distribution tax will be imposed on distributions you take from your annuity prior to the date you reach 59½ years of age.
Gifting an annuity may also have tax consequences for the annuity owner and, generally speaking, the value of an annuity contract is includable in a deceased owner's gross estate. Your state may also impose taxes on annuities. Because taxation of annuities can be complicated, you should consult your advisor with any tax questions you may have. Now, let's look at some options that can be added to variable annuities.

Guaranteed Withdrawal Benefit Rider

Guarantees minimum account value available for systematic withdrawals.

Guaranteed Minimum Accumulation Rider

Guarantees minimum account value after a prescribed number of years.

Guaranteed Lifetime Withdrawal Rider

Guarantees lifetime income payment without annuitization.

*Guarantees are subject to the claims-paying ability and financial strength of the annuity issuer.

Aside from the common features found in most variable annuities, often annuity issuers offer added benefits in the form of riders. Most riders are available at a cost--from as little as .1% to 1% or more of the annuity's value each year. Riders and their availability differ from one issuer to the next and aren't necessarily available on all variable annuities.

Common variable annuity riders generally offer guarantees not found in the basic variable annuity policy. These guarantees include restoration of your premium if the annuity's cash value falls below that amount due to poor investment performance.

You may be able to access this amount either through periodic withdrawals (the guaranteed withdrawal benefit rider), or in a lump sum after a stated number of years (the guaranteed accumulation benefit rider), or you can receive a guaranteed income for a fixed period of time or for the rest of your life without annuitization (guaranteed lifetime withdrawal benefit).

These are just some of the common riders that may be available with your variable annuity. Now let's review some of the important highlights regarding variable annuities.

Variable Annuity Highlights

- You may invest all at once or over time.
- You may invest an unlimited amount.
- You may choose the subaccounts in which you invest
- Your earnings grow tax deferred until you withdraw them (withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax).
- You may choose to convert the annuity to a guaranteed* lifetime income stream.
- You may benefit from higher potential earnings growth, or you may suffer a loss of principal.

Let's take a final minute to review the highlights of variable annuities.

You may invest in a variable annuity all at once or over time. A variable annuity may be either an immediate or a deferred annuity. And, unlike 401(k)s or IRAs, you may invest an unlimited amount.

You may choose the subaccounts in which you want your premiums invested. You designate the portion of your premiums you want allocated to each subaccount, and you may transfer funds from one subaccount to another without penalty or tax consequence.

Your earnings grow tax deferred until you withdraw them. When you do withdraw them (or receive annuitization payments), the earnings are taxed as ordinary income. Withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax. One of the options you will have is to convert the annuity into a guaranteed lifetime income stream.

Depending on the performance of the underlying investment subaccounts you've chosen, you may experience substantial growth in your earnings. Of course, you may also experience a loss; with the exception of the guaranteed subaccount, the annuity issuer offers no guarantees concerning the performance of the underlying investments you choose. Further, any guarantees made by the issuer are subject to the issuer's claims-paying ability.

Important Information about Variable Annuities

- Variable annuities are long-term investments suitable for retirement funding and are subject to market fluctuations and investment risk including the possibility of loss of principal. Variable annuities contain fees and charges including, but not limited to, mortality and expense risk charges, sales and surrender (early withdrawal) charges, administrative fees, and charges for optional benefits and riders.

- Variable annuities are sold by prospectus. You should consider the investment objectives, risk, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity, can be obtained from the insurance company issuing the variable annuity, or from your financial professional. You should read the prospectus carefully before you invest.

Securities offered through FSC Securities Corporation (FSC), member FINRA/SIPC. Investment advisory services offered through The Retirement Group, LLC. FSC is separately owned and other entities and/or marketing names, products or services referenced here are independent of FSC. 5414 Oberlin Dr #220 San Diego, CA 92121 Phone: 800-900-5867

This material was provided by Broadridge Investor Communication Solutions, Inc. and does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

For more Financial information, check out this resource...

Lump Sum vs. Annuity

North-West Regional Office
Bishop Ranch 3,
2603 Camino Ramon
San Ramon, CA 94583
Phone: 1-800-900-5867

Mid-Atlantic Regional Office
933 Pickering Drive
Yardley, PA 19067
Phone: 1-215-778-9129

Mid-West Regional Office
10733 Sunset Office Drive
Suite 225
St. Louis, MO 63127
Phone: 1-314-858-9090

South-West Regional Office
1980 Post Oak Blvd.
Suite #1500
Houston, TX 77056
Phone: 1-281-241-9886

Disclosure: Securities offered through FSC Securities Corporation, member FINRA/SIPC. Investment advisory services offered through The Retirement Group, LLC. a registered investment advisor not affiliated with FSC Securities Corporation. This message and any attachments contain information, which may be confidential and/or privileged, and is intended for use only by the intended recipient. Any review, copying, distribution or use of this transmission is strictly prohibited. If you have received this transmission in error, please (i) notify the sender immediately and (ii) destroy all copies of this message. Office of Supervisory Jurisdiction: 5414 Oberlin Dr #220, San Diego CA 92121