YOUR DEFINITIVE GUIDE TO

IMMEDIATE ANNUITIES

Enjoy this easy-to-read guide about the immediate annuity: an insurance contract which guarantees income for life

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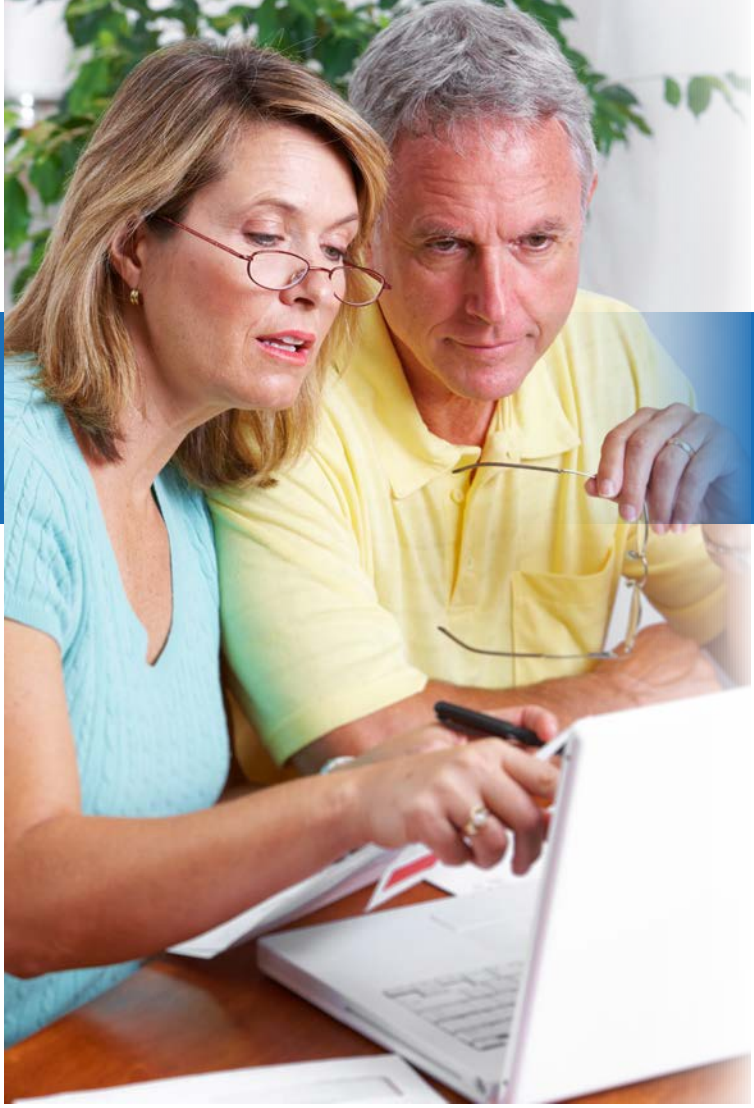


THE BASICS

What is an immediate annuity?

An **immediate annuity** is an insurance product that pays you guaranteed, fixed retirement income, often for as long as you live. You pay a lump sum of money to an insurance company, called a "**premium**", and in exchange the insurance company pays you fixed regular income. If you choose, you can include your spouse in the annuity or even have a beneficiary if any money is left over.

An immediate annuity can be compared to a life insurance policy – only in reverse. Traditional life insurance pays out a benefit after you have died, while an immediate annuity pays a regular benefit while you are alive.

Why buy an immediate annuity?

You need to make sure your money lasts as long as you do and be confident you can maintain your lifestyle in retirement. You might be surprised to learn just how much that can cost. Preserving your current standard of living during retirement may take nearly as much income as you earned while working.

With an immediate annuity, there's no guess work of how markets will fair or if your savings will last, the income stream is guaranteed and fixed. An immediate annuity can help you meet your anticpated expenses by increasing your monthly income. This can give you the freedom and security to enjoy your retirement the way you want, whether its traveling, having more time for hobbies, or relaxing with family and friends.

HERE ARE SOME OF THE CHALLENGES AND RISKS THAT IMMEDIATE ANNUITIES WERE DESIGNED TO ADDRESS:

PEOPLE ARE LIVING LONGER

The average life expectancy continues to rise and is at a record high of 78.7 years. That's great news, but it increases the possibility that you will live longer in retirement than you anticipated and will need more money than you have saved.

RETIREMENT SAVINGS ARE ERODING

We've been through turbulent economic times in recent years and many people have seen the value of their assets shrink due to falling house prices and stock market volatility. On top of that, the average American carries more debt than ever. Even the most carefully crafted retirement plan may need shoring up.

INFLATION

Since the government began tracking it in 1913, U.S. inflation has averaged 3.24% a year. The cumulative effect is to chip away at your buying power and make it harder for your money to last. At that rate, $100 today would be worth less than $50 in 25 years.

ESCALATING EXPENSES

The world seems more unpredictable than ever. Natural disasters, political changes and world crises can have sudden, surprising consequences causing certain expenses such as food and medical care to rise disproportionately. You'll want a margin of safety to help you ride out the unexpected.

What are the advantages of an immediate annuity?

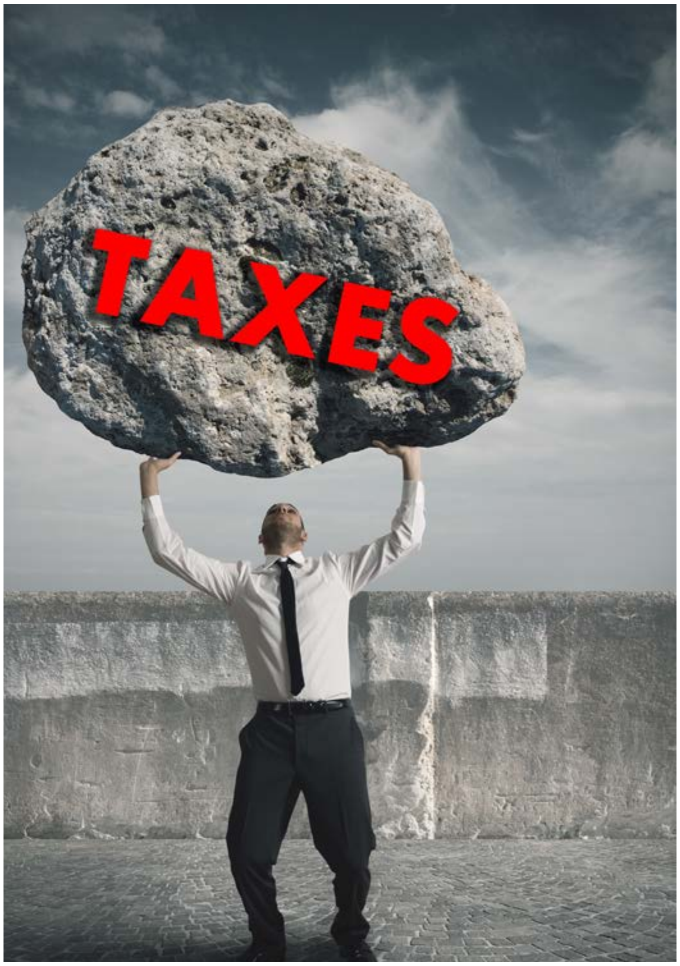
The biggest benefit of an immediate annuity has already been highlighted but cannot be over-emphasized: **peace of mind**. Your annuity will provide a safe and dependable income for the rest of your life. Even if you live well past your life expectancy an annuity will keep paying you.

THERE ARE OTHER ADVANTAGES AS WELL:

ADD STABILITY TO YOUR PORTFOLIO. You may have other assets that will fluctuate in value, so it can be helpful to own an immediate annuity to even out those fluctuations. Your annuity payments are automatic and guaranteed, so you can count on them no matter what happens to other parts of your portfolio even if the stock market tumbles.

TURN ASSETS INTO AN INCOME STREAM. You may have money in low-yield savings accounts, certificates of deposit, retirement accounts, or a company-sponsored 401(k). You can use any of these funds to purchase an immediate annuity, converting them into a steady income stream you can depend on. With retirement plan assets, the annuity payments can even satisfy your required minimum distributions.

MANAGE YOUR TAX BURDEN. Consult your tax advisor for specifics about your situation, but an annuity can help limit your tax burden by spreading the gains or earned interest over your lifetime.



If you buy an annuity with non-retirement funds, you don't pay tax on the portion of each payment that is a return of your initial premium. You just pay tax on a portion of each payment: the part that is considered interest. Your taxes are spread over the duration of your annuity.

Once your premium is returned in full, all of your payments are considered interest and become taxable as income. Many people find that this helps them defer taxes until they are in a lower tax bracket.

ADVANTAGES IN PROBATE. You can purchase an annuity with a guarantee period of refund certain. If you pass during the annuity's guarantee, these provisions can pay your beneficiaries in regular disbursements or as a lump sum. This can save your loved ones hassle and expense as these proceeds are generally not included in a probated estate.

FLEXIBILITY IN HOW LONG PAYMENTS LAST. Immediate annuities offer you a wide range of choices for how long payments will last. Options include establishing a set number of years for payments, or payments based on your life.

SAFETY OF INVESTMENT. When you buy an annuity from a high-quality insurance company, you're not relying on the stock market for income. While the stock market can provide great returns in good times, a bear market can be devastating to a retiree's holdings.

SUIT YOUR NEEDS AND CIRCUMSTANCES. You can use income from an annuity to cover your normal living expenses but may also structure it for other circumstances. These could include paying for care for someone who can't work, funding a divorce settlement, paying premiums on long-term care policies, or supporting charitable giving.

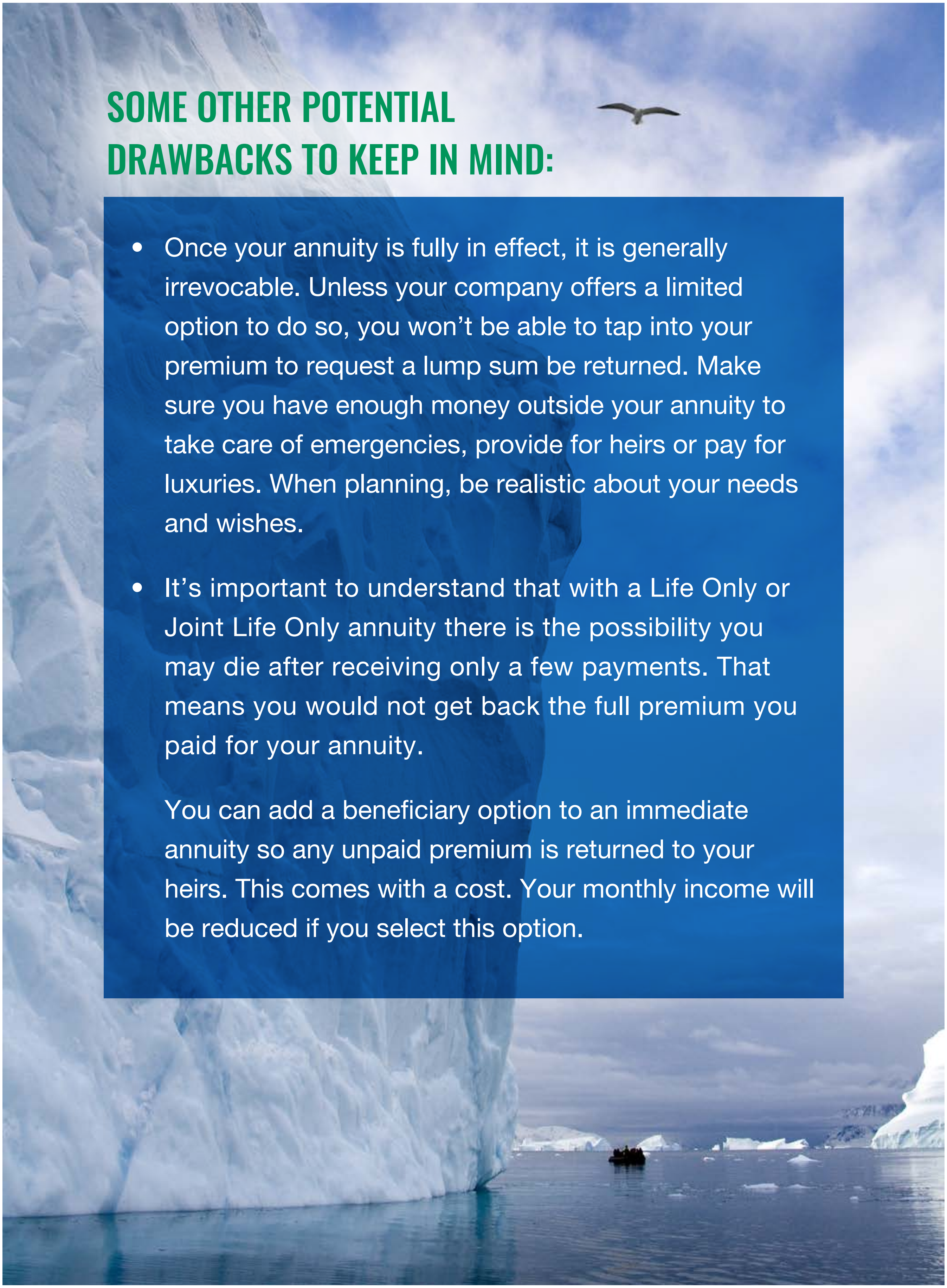
FREEDOM FROM HAVING TO MANAGE YOUR MONEY. While it is wise to review your financial plan yearly, an immediate annuity is pretty much "get it and forget it." There is no need to follow markets or track interest rates for this portion of your portfolio. Once your decision has been made and the annuity is established, your only work will be to check that your monthly payment arrived.

What are the risks and disadvantages of immediate annuities?

The biggest risk with an immdiate annuity is that the insurance company you buy from might fail. Because your annuity is meant to serve you for many years, it's especially critical that you choose a stable provider.

It's worth noting that although insurers with the best financial safety ratings may pay out less per month than those with the lowest ratings, you want to choose a strong company. Take care not to let higher payouts lure you into selecting a carrier with a lower rating.

You can view ratings from A.M. Best, Standard and Poor's, and Moody's for many insurance companies on our website, **ImmediateAnnuities.com**. If you have a question about these ratings, call us at **800-872-6684**. One of our annuity experts will be happy to help you.



SOME OTHER POTENTIAL DRAWBACKS TO KEEP IN MIND:

- Once your annuity is fully in effect, it is generally irrevocable. Unless your company offers a limited option to do so, you won't be able to tap into your premium to request a lump sum be returned. Make sure you have enough money outside your annuity to take care of emergencies, provide for heirs or pay for luxuries. When planning, be realistic about your needs and wishes.

- It's important to understand that with a Life Only or Joint Life Only annuity there is the possibility you may die after receiving only a few payments. That means you would not get back the full premium you paid for your annuity.

  You can add a beneficiary option to an immediate annuity so any unpaid premium is returned to your heirs. This comes with a cost. Your monthly income will be reduced if you select this option.

How do immediate annuities work?

In exchange for a lump sum payment, the insurance company agrees to provide you with a certain amount of regular income for life (or for a specific period of time if you choose that option.)

This agreement is sometimes called a *transfer of risk*. Basically, the insurance company assumes the responsibility of assuring your income, even if you live well past your life expectancy.

An insurance company can assume this responsibility because they have a large pool of people buying immediate annuities. This allows them to average out the chances that some people may live much longer than their life expectancy while some people may not.

WORDS TO KNOW

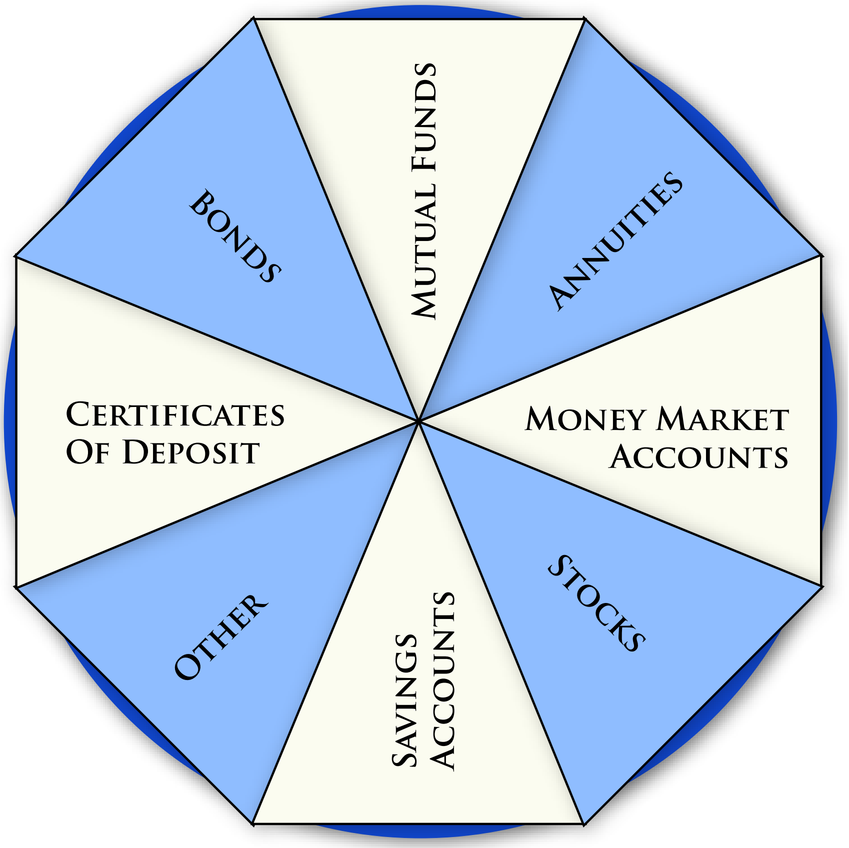
The **contract owner** is the person who buys the annuity, makes all the decisions and may exercise rights under the contract.

The **annuitant** is the person whose age determines the amount of the income payouts; often, this person is also the owner. But if not, this person makes no decisions about the contract and has no ownership rights in it.

The **beneficiary** is named by the owner and is the person who may receive any remaining benefits after the death of the owner or annuitant.

How does an immediate annuity compare with a certificate of deposit or mutual fund?

A **certificate of deposit** ("CD") is an account with a fixed interest rate for a fixed amount of time. At the date of withdrawal, known as the 'maturity date', you collect the full amount of your deposit plus your interest. Generally, until your CD matures the most you can withdraw is your earned interest. A CD is protected by the FDIC.



Investment Options

With an **immediate annuity**, you do not have an account value and there is no point in time when you get your premium back as a lump sum. Instead the income the insurer pays you is comprised of principal and interest. Your payments are usually a fixed amount lasting either for a period of time or the rest of your life.

With a lifetime annuity, the longer you live the more money you make. You can buy immediate annuities with a 'refund certain' option to ensure you don't lose money if you die earlier than expected. An immediate annuity is not protected by FDIC.

With a **mutual fund**, your return is based on how well or how poorly the assets in the fund – stocks or bonds – perform over time. If you withdraw principal and earnings from your fund, it's possible your account will dwindle to zero while you're still living. These instruments will fluctuate in value, and you might lose money. A mutual fund is not protected by FDIC.

A **savings account** accrues interest on a regular basis. You can withdraw from your savings account up to six times per month, but you can only take out what is in it. Because banks have been paying low interest rates in recent years, you might need to keep any withdrawals to a minimum if you don't want to run out of money. A savings account is protected by FDIC.

Who is the best candidate for an immediate annuity?

Most people who buy immediate annuities are at or approaching retirement age. An immediate annuity makes sense as a supplement to Social Security, adding some guaranteed lifetime income to your retirement plan's foundation.

But, immediate annuities aren't right for everyone. A financial advisor can help you evaluate your finances and goals to determine if an immediate annuity fits into your retirement plans.

FINANCIAL DETAILS

How much does an immediate annuity cost?

You pay for an immediate annuity with one initial lump-sum payment, called a premium. There are no ongoing costs or fees after that. The amount of money an insurance company will pay you is often referred to as the payout rate. Insurance companies update their payout rates monthly, bi-monthly, or even weekly. That's why it's important to shop around for the best rate.

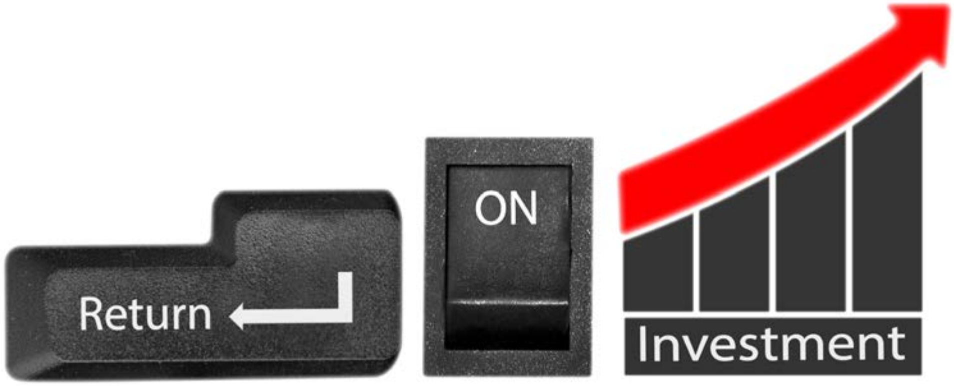
The two most important factors that affect the cost of an immediate annuity are your **age and gender** and **interest rates**.

The insurance company considers your **age and gender** in calculating your life-expectancy. Your life-expectancy is used to estimate how many payments the insurer will make to you. The younger you are, the longer the insurance company expects to make payments to you reducing your payout rate. Since women statistically outlive men, immediate annuities for women tend to cost more.

Interest rates also impact the price of an annuity. The insurance company invests your premium to generate earnings to make payments to you. The amount that an insurance company earns on its investments directly determines how much it will charge for an annuity. When interest rates are high, the insurance companies expect to earn more on their investments and can offer higher payout rates. When interest rates are low, the payout rates of immediate annuities generally go down.

Annuity Commissions:

Many people are concerned about sales costs when buying annuities. Insurance companies typically pay an agent around a 3% commission on the purchase of an immediate annuity. This is far less than the 7% often paid on index or variable annuities. Unlike other products, immediate annuities have no further costs or maintenance fees, and the monthly payment amounts quoted to you include the commission.



What is the rate of return on an immediate annuity?

When shopping for an immediate annuity, the quotes you get will not give you the investment's rate of return. Instead the quotes typically show the monthly income amount and **cash flow rate**. It's important to know that a cash flow rate is not an interest rate. The cash flow rate is the percentage of your premium that is returned to you each year.

The actual rate of return for an immediate annuity depends on the number of monthly payments the owner receives. Since many immediate annuities are lifetime-based, the effective rate of return depends how long the annuitant lives. So the longer one lives, the more income received and the higher the rate of return. But if the owner died early and without guaranteed minimum payments, then the rate of return could be low or even negative.

What does the insurer do with my money?

An insurance company invests the premiums it receives in a conservative manner so it can meet its obligations to its customers. Most commonly, insurers invest in bonds, mortgages, and real estate. They typically do not invest a large portion of their portfolio in stocks.

It's important to remember that the insurer is not just relying on your individual payment to fund your annuity. Insurance companies have very large, professionally invested and diversified portfolios that represent premiums from many customers who have bought all kinds of insurance products from them. If the company is on solid footing, any loss in their portfolio will be isolated and not affect your payments.

Can I use my IRA or 401k to pay for an immediate annuity?

Yes, funds in an IRA or 401k can be moved tax-free into an immediate annuity.

After the first year, payments from an immediate annuity funded with IRA or 401k are considered to satisfy required minimum distributions (RMDs) for the amount invested. So you won't need to include your immediate annuity in any future RMD calculations or withdrawals.

What are the tax implications of immediate annuities?

Your tax obligations with an immediate annuity depend on the type of money you use to purchase one. If you rolled over retirement money that had never been taxed from an IRA or 401(k), your full monthly payment would be taxable as income.

If you use non-retirement money to pay for your immediate annuity, the payments would be partly taxable. You won't have to pay tax on that part of each month's payment which represents a return of your original premium. But the interest or gains you receive beyond that is taxable.

In later years, if you live beyond your expected lifespan as calculated by mortality tables and have received your full premium back, all the money you get each month is taxable as income.

What happens to my money if I die or if my spouse dies?

It depends upon what sort of annuity and which features you choose. If you have a joint annuity, payments will continue to your spouse. Again depending on how you designed the annuity, the amount of the survivor's payments might be reduced by half (for example, if you bought a Joint & 50% Survivor annuity). With other annuity options, your beneficiaries may receive installment payments or a lump sum distribution after your death.

CUSTOMIZING YOUR ANNUITY

How do I customize my immediate annuity to fit my unique needs?

There are many ways to design an immediate annuity to suit your goals. You should consider how much money to put into an immediate annuity, how to receive payments, and what type of payout option best fits your situation.

How much money should I put into an immediate annuity?

In general, you won't have access to money you put into an immediate annuity except for the regular payments you receive. That means you need to do a reality check and make sure you still have enough money outside your annuity in case you have an unexpected expense or emergency. In other words, carefully calculate how much liquid net worth you'll have after paying for your immediate annuity. Will that be enough to cover discretionary and unexpected spending?

How should I receive my annuity payments?

Most buyers choose to receive their annuity payments monthly, but you can also choose quarterly, semi-annually and annually. Your payment frequency is written into your annuity contract and cannot change.

Insurance companies often let you choose to receive your payment by direct deposit into a bank account or paper check in the mail.

You can also have federal and state income taxes withheld from your payments, or receive your payment in full and settle your taxes as the end of each year. You can change your tax withholding at any time.

Period Certain & Single Life Immediate Annuity Options

Plan Name	Description
Single Life	Payments for your lifetime ending when you die.
Single Life with Period Certain	Payments for your lifetime or a fixed period of time, whichever is longer. If you die before the certain period ends, the rest of the payments in that period are made to your beneficiaries. If you live beyond the certain period, there is no death benefit.
Single Life with Installment Refund	Payments for your lifetime. The insurance company guarantees that the total payout will not be less than the amount you originally paid for your annuity. If you die before your payments equal the purchase price, the difference is paid to your beneficiaries in installments.
Single Life with Cash Refund	Payments for your lifetime. The insurance company guarantees that the total payout will not be less than the amount you originally paid for your annuity. If you die before your payments equal the purchase price, the difference is paid to your beneficiaries in a lump sum.
Period Certain	Payments are made for a pre-defined number of years only. Payments stop even if you are still living at the end of this period. To have income for as long as you live, you cannot choose a period certain annuity.

Joint Life Immediate Annuity Options

Plan Name	Description
Joint and Survivor Life	Payments last as long as either you or your spouse are alive. Payments to the survivor can stay the same or be reduced.
Joint and Survivor Life with Period Certain	Payments last as long as either you or your spouse are alive, or a fixed period of time, whichever is longest. If you both die before the certain period ends, the rest of the payments in the period are made to your beneficiaries. If one of you lives longer than the certain period, there is no death benefit.
Joint and Survivor Life with Installment Refund	Payments last as long as either you or your spouse are alive. The insurance company guarantees that the total payout will not be less than the amount you originally paid for your annuity. If you both die before your payments equal the purchase price, the difference is paid to your beneficiaries in installments.
Joint and Survivor Life with Cash Refund	Payments last as long as either you or your spouse are alive. The insurance company guarantees that the total payout will not be less than the amount you originally paid for your annuity. If you both die before your payments equal the purchase price, the difference is paid to your beneficiaries in a lump sum.

For More Information On Annuity Options Call 800-872-6684

Are there other features I should know about?

Yes, there are other options you can choose. These include:

Inflation protection

Are you worried that rising prices will cut into your purchasing power? There are two types of inflation protection you can add to an immediate annuity.

A **CPI Adjustment** changes your payments each year in accordance with fluctuations in the Consumer Price Index. The Consumer Price Index for Urban Consumers (CPI-U) measures the average change of prices paid for a variety of common goods and services.

Another type of inflation protection is an annuity with **Cost Of Living Adjustments** or **COLA.** This type increases its payments each contract year by a fixed, predetermined percentage. Generally this percentage is between 1% and 5% and compounds annually.

These inflation protection features lower your early annuity payments anticipating that the payments will increase over time. If you live a long time, you may end up making more money with an inflation protection feature than without. You cannot add this feature to a pre-existing annuity, you must select an inflation protection feature when you buy your annuity.

Cash Advances

Some companies have an added a limited liquidity option which allows you to access part of your premium. Generally, if the insurance company gives you a cash advance, they will reduce your future payments based on the amount you withdraw. This feature is not included in all immediate annuity contracts and often varies based on the annuity payout option you choose.

Can an immediate annuity be part of a larger strategy?

There is a type of annuity strategy, called a **split annuity**, that combines an Immediate Annuity with a Multi-Year Guarantee Annuity (MYGA). This strategy can provide you with tax-advantaged income while maintaining your original premium.

You divide your premium between the two annuities so that the MYGA grows back to the original amount while the immediate annuity provides you with income during this period. An immediate annuity pays out principal & interest, which can provide you with tax-advantaged income while your MYGA grows tax deferred.

Another type of strategy, called an **Annuity Ladder**, is a type of dollar-cost-averaging. You split your immediate annuity purchases over several years to lock different income rates.

Some people wait to buy an immediate annuity anticipating that payout rates will rise. Sometimes rates go up, but if they don't you may be missing out on months or even years of income while you wait for them to increase. Buying immediate annuities at different points in time ensures you don't lock all your money in at the lowest rate and instead enjoy a variety of payout rates.

Talk to us if you are interested in exploring these or any other annuity strategies.

WHEN IT'S TIME TO BUY

How do I buy an annuity?

When you're ready, the easiest way to buy your annuity is to call us at **800-872-6684**. We've been offering premier annuity buying services for over 30 years. Here's a quick breakdown of what to expect:

- We'll go through a quick application questionnaire with you on the phone.
- You'll get your prefilled application by secure overnight mail. We'll hightlight where you need to sign so it's easy to complete.
- Once you've reviewed and signed your application, you can return it in the included prepaid overnight envelope.
- Our annuity specialists will keep you up to date as your annuity is processed. Once your annuity is issued, you'll get a contract from the insurer and will start receiving guaranteed retirement income soon!

Since there are a lot of different companies that offer immediate annuities, it's important to compare payout rates and company ratings. If you haven't already, you can get free quotes from over 25 top-rated companies instantly at our website, **ImmediateAnnuities.com**.

What sort of restrictions are there?

Insurance companies typically require that you be younger than 85 to 90 years old to buy an immediate annuity, and some might have minimum age restrictions. Minimum premiums can begin at $5,000, while the maximum ranges by company from $500,000 to several million depending on the annuity option you choose. You can generally begin income payments the month after you purchase your annuity and are required to do so within the first 13 months.

Will I need a medical exam?

You are not required to answer any health questions or take a physical exam when you buy an immediate annuity.

What if I change my mind?

Most states have laws that give you a set number of days, usually at least 10, some up to 30, to look at the annuity contract after you buy it. If you decide during that time that you do not want the annuity, you can return the contract and get all your money back. This is often referred to as a right to return or "free look" period. The free look period should be prominently stated in your contract. Be sure to read your contract carefully during the free look period. Many people choose to have someone they trust review it for them as well.

CONCLUSION

Congratulations on taking an important step towards securing your future!

Peace of mind and financial confidence are so important to a happy, healthy retirement. For some people, an immediate annuity is the piece that fits this puzzle. Clients often tell us their immediate annuities give them the financial freedom to enjoy their retirement to the fullest.

This guide was designed to provide you with valuable information as you consider an immediate annuity, but if you have any questions or just want fast answers to your annuity questions, our team of annuity experts are happy to help you.

Or, if an immediate annuity seems like a good fit for you, to take the next step call us at **800-872-6684**. Our staff – one of the most experienced in the industry – is dedicated to helping you create the best retirement plan possible.

We know these decisions can be overwhelming at times and there is no question too small. We are here to serve you.

Wishing you a happy and secure retirement!

Hersh Stern and the team at ImmediateAnnuities.com

Hersh Stern

CEO, WebAnnuities Insurance Agency, Inc.

Publisher, Annuity Shopper Buyer's Guide

Hersh and his wife of twenty-five years, Laurie, scuba diving off Michaelmas Cay on the Great Barrier Reef (Queensland, Australia) in 2007.

ImmediateAnnuities.com is the website of **Hersh Stern**, founder of one of the nation's leading online annuity brokerage firms. From his offices near Princeton, New Jersey, Hersh and his company have been publishing the *Annuity Shopper Buyer's Guide* since 1986, offering leading edge annuity services to tens of thousands of consumers and corporations. Among its many corporate pension clients are companies like Bulova Watch, Coulter Corp., Gumps, McCall's, Richardson-Vicks, Tokio Marine, Velcro Corp., and Wickes Furniture.

During the past decade, **ImmediateAnnuities.com** has been rated the #1 consumer site for annuities by Google and Trustpilot and featured in numerous articles by the editors of CNN Money, Wall Street Journal, Kiplingers, and Washington Post. Please feel free to call Hersh at 800-872-6684 with any questions about annuities.

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