

Annuities Checklist

Over the past several decades, as the responsibility for providing retirement income has shifted from employers and government –sponsored Social Security benefits to individuals, many people have turned to fixed annuities to provide both protection from market volatility and a guaranteed income stream.

If you're considering an annuity as part of your overall financial strategy, it's a good idea to work with a financial professional who is knowledgeable about annuities and retirement income strategies. Here is a checklist of some important points to discuss with a financial professional before purchasing an annuity.

What is an annuity?

What type of Annuity would be suited for my situation?

Do I understand the fees or costs associated with the annuity?

What happens if I die before or soon after I start receiving income payments?

What if I need to access the principal in my annuity?

How long will I be able to receive income from my annuity?

How stable is the insurance company issuing the annuity?

For additional information about annuities read below:

Annuity defined: An annuity is a contract you purchase from an insurance company. For the purchase payments (premium) you give to the insurance company, you receive a guarantee in return, either in the form of a guaranteed interest rate or guaranteed income in retirement. When you're ready to receive income, an annuity offers a variety of guaranteed payout options.

Different types of annuities:

Immediate Annuity: With an immediate annuity, you provide a lump sum purchase payment to the insurance company and begin receiving regular income payments almost immediately.

Deferred Annuity: With a deferred annuity, you make one or multiple purchase payments over a long period of time. Subject to the terms of your contract, you can begin drawing regular income payments after a number of years — like after you retire when you may need the supplemental income. With a deferred annuity, taxes on your interest are deferred until you receive money from the contract.

Fixed Annuity: A fixed annuity earns a steady or "fixed" interest rate for a specified period of time and, depending on the payout option you select, can provide steady income payments over a period of time, including your lifetime.

Fixed annuities can provide stability, protecting you from market fluctuations; however, they do not typically offer substantial growth potential. If you are looking for the protections afforded by a fixed annuity with the opportunity for better long-term interest credits, you may be interested in a fixed index annuity. Fixed index annuities provide interest credits based on positive changes in an external market index, without actually participating in the market.

Variable Annuity: A variable annuity will have fluctuating interest rates and will offer varied income payments. Variable annuities offer the potential for growth, or loss, based on market fluctuations. Comprised of professionally managed portfolios, some variable annuities allow you to choose from multiple investment options, while others have a predetermined mix of investments. Like fixed annuities, taxes are deferred on your interest until you begin receiving money from the contract, but unlike fixed annuities, variable annuities are invested in the market and have the potential to lose money as a result of market declines.



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What are the fees associated with an annuity?

Each type of annuity has a different fee structure. All annuities contain certain insurance-related fees and charges and because they are long-term contracts, there may also be charges or penalties for taking money out early, and, if you're under the age of 59½, a 10 percent federal additional tax. Fees and charges for annuities may include, but are not limited to:

- Mortality and expense fees – these are generally priced into the product, and not an explicit charge to the consumer, to pay for the management, sales commissions, administrative expenses and insurance guarantees.
- Sub account fees – cover the expense to manage the assets in a variable annuity portfolio
- Rider fees and early withdrawal fee – there are typically additional costs associated with the various riders that may be available with an annuity, and most annuities have a penalty or surrender charge for withdrawing funds early.

There can be additional fees tied to the annuity, so consider consulting with a financial professional to help ensure you understand all of the fees associated with the annuity you are considering, including any one-time fees or charges.



What happens if I die before or soon after I start receiving income payments?

If you pass away before you begin to receive scheduled income payments, your beneficiary(ies) will receive a death benefit. Even if you pass away after income payouts have begun, it's still possible your beneficiary will receive a death benefit. The value and the manner in which your beneficiaries can receive the death benefit may vary based on the product selected and insurance company that issues it.



What if I need access to the principal in my annuity?

While annuities are designed to be long-term income products for retirement, most offer options that allow you to withdraw a percentage of your contract value each year up to a certain limit, without annuitizing the contract. However, withdrawals can reduce the value of the death benefit and excess withdrawals above the restricted limit may incur surrender charges. A financial professional can help you understand your options with regard to early withdrawals.



How long will I be able to receive income from my annuity?

Annuities pay income in a variety of ways. Sometimes the income payment is guaranteed for life, and can even cover a spouse's life. Others pay only until the account value is depleted, or through a specific time period. A financial professional can help you understand the payment schedule for the annuity you are considering, and can help ensure you get the payment option suitable to your needs.



How stable is the insurance company issuing the annuity?

All annuity guarantees are backed by the financial strength and claims-paying ability of the issuing insurer. Factors such as the size of the company, the length of time it has been in business and its investment profile are all considerations that you should carefully discuss and research with your financial professional.

This material is designed to provide general information on the subjects covered. Pursuant to IRS Circular 230, it is not intended to provide specific legal or tax advice and cannot be used to avoid tax penalties or to promote, market or recommend any tax plan or arrangement. You are encouraged to consult your personal tax advisor or attorney.

Withdrawals will reduce the contract value and other benefits under the contract. Withdrawals that exceed any free withdrawal amount during the surrender charge period will be subject to a surrender charge. All withdrawals are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% additional tax.

Any transaction that involves a recommendation regarding funds currently held in or to purchase a security, including variable annuities, can only be initiated by an individual holding a state or federal securities registration (Registered Investment Advisor or Registered Representative). If your financial professional does not hold the appropriate registration, you should consult with one regarding that transaction.

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