Types of Annuities

Fixed Annuity

Insurance company will pay the annuitant a guaranteed interest rate.

Pros:

- Principal Protection
- Predictable Returns
- Tax Deferred Growth
- Guaranteed Income Payments

Cons:

- Low Rate of Return
- Early Withdraw Penalties
- Low Liquidity

Variable Annuity

Insurance company will pay annuitant based on the performance of their portfolio, typically consisting of mutual funds held in Sub Accounts.

Pros:

- Potential for Higher Returns and Payments
- Tax Deferred Growth

Cons:

- May Lose Principal Investment
- Higher Fees
- Early Withdraw Penalties
- Low Liquidity

Fixed Indexed Annuity

Insurance company will pay the annuitant based on the performance of a specific market index, such as the S&P 500.

Pros:

- Opportunity for Growth When Markets Perform Well
- Can't Go Below 0% Return
- Tax Deferred Growth

Cons:

- Yield or Rate Cap to Limit Growth Upside
- Early Withdraw Penalties
- Low Liquidity

Annuity Time Frames: Immediate vs Deferred

Immediate: annuitants will start receiving monthly, quarterly, or annual payments immediately after purchasing the annuity.

Deferred: annuitants will invest a lump sum or annual/monthly premiums for a fixed duration of time, known as the accumulation phase. Once the time duration has been met, the annuity enters the annuitization phase and the annuitants will begin receiving scheduled payments.