UNDERSTANDING PROTECTED INCOME

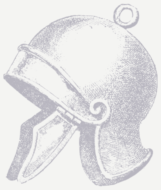
Your Guide to Annuity Solutions for a Secure Retirement

Alliance for Lifetime Income

ProtectedIncome.org

ANNUITIES: CENTURIES OF PROVEN RETIREMENT SECURITY

Annuities have been used in different ways for centuries, showcasing their value as an income source.



170–228 A.D.

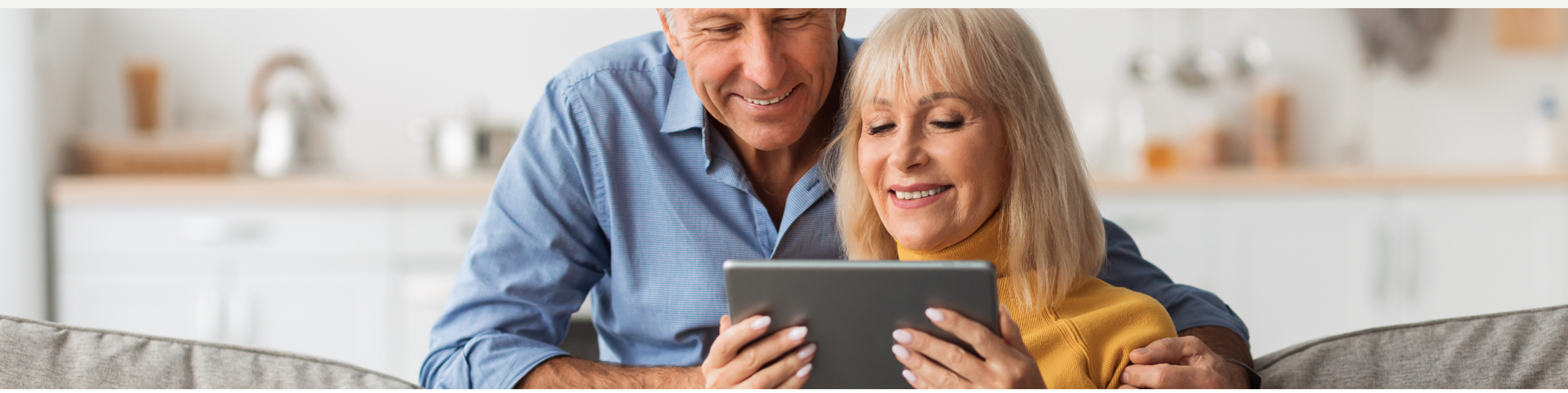
During the Roman Empire, annuities (*annua* in Latin) were used as payment to soldiers.

1790

Benjamin Franklin's will included $4,500 in annuities for Philadelphia and Boston which could not be withdrawn for 200 years. In 1990, the combined investment was worth $6.5 million.[1]

2024

Companies now have more flexibility to offer annuities within employee 401(k) plans under the Secure Act 2.0.



ANNUITIES EXPLAINED: YOUR PATH TO PROTECTED INCOME

If you are in or nearing retirement age, you may wonder if your savings will last your lifetime. Unsurprisingly, most people are interested in supplementing their Social Security or pension with another form of protected lifetime income—an annuity.

However, over half of Americans say they do not understand what annuities are, how they work, and the benefits they provide.[2] You are not alone if you don't know about or understand annuities, but you may be missing out on the only other source of protected retirement income.

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[1] New York Life.com, Did you know Ben Franklin established early annuity payments?

[2] Alliance for Lifetime Income, Protected Retirement Income and Planning study, 2024

RETIREMENT INCOME BASICS AND ANNUITIES

This guide will give you a better understanding of retirement income basics, the role annuities play, and the many benefits annuities offer. You will learn about one of the most important features of annuities: how they protect you from outliving your savings. This is known as **protected income**.

What is Protected Lifetime Income?

There are only three sources of income that you cannot outlive: your Social Security check, your pension check, and an annuity. All others are considered **probable income** since they can go up or down based on the markets and other factors.

Protected Income is Income You Can Rely On

- Social Security
- A Pension
- An Annuity

Probable Income is Income That Can Vary

- Interest income
- Stock dividends
- Alternative investments (options, gold, art)
- Rental income

What is an Annuity?

An annuity is an insurance product that can help meet various financial goals. One of the most important features is that annuities allow you to turn part of your savings into steady, protected income for the rest of your life. Think of it this way: you insure your home, your health, and your cars—annuities allow you to insure your retirement income.

How Do Annuities Work?

1. You purchase an annuity from a life insurance company. It can be through a lump sum or multiple payments.
2. Your money can grow tax-deferred until you withdraw it.[3]
3. You can convert your annuity into protected income for a specified period of time—or you can choose an option for payments to continue as long as you live.

[3] Qualified retirement plans, such as a 401(k) or traditional IRA, also offer tax-deferral.

HOW MUCH INCOME DO YOU NEED IN RETIREMENT?

A 3-Step Framework

1 **Identify the cost of your basic needs.** Start by prioritizing expenses into three categories:

- **Needs—**essentials such as the mortgage, utilities, and groceries.
- **Wants—**expenses for a comfortable retirement lifestyle (dining out or traveling). Note: it's fine to earmark special passions as a basic need.
- **Wishes—**extras, once basic expenses are covered (charitable giving, a second home, etc.)

Add your monthly expenses based only on your needs, plus any wants you can't live without.

2 **Add your protected income sources together:** (choose any that apply)

Social Security **+** *Pension* **+** *Annuity* **=** *Total Protected Income*

3 **Subtract your total expenses from your protected income.**

If the result is positive, you have a surplus. If negative, you have a shortfall.

Retirement Income **-** *Basic Monthly Expenses* **=** *Surplus or Shortfall*

When your retirement expenses and income are clear, you are better prepared to fund your lifestyle and address any shortfall. Before you make any sacrifices, let's look at how one couple protected their dreams with an annuity.

CASE STUDY: MEET NANCY AND CONRAD

Covering Basic Expenses with Protected Lifetime Income

Nancy and Conrad, age 65, are 40 years married and plan to retire next year in their Texas "horse country" residence. Their retirement dream is to travel the U.S, see national parks, and show their horses. They've been good savers and want to ensure they can retire while still enjoying their equestrian lifestyle.

Financials

Assets: $600,000 (stocks, bonds, mutual funds, CDs)

Protected Retirement Income (Joint Social Security) .... $ 3,400/month

Basic Expenses

- Mortgage, Utilities, Maintenance, Groceries: ($2,670/month)
- Health Insurance: ($500/month)
- Transportation: ($417/month)
- Care of two horses: ($583/month)

Total Basic Expenses .... –$ 4,170/month

Shortfall in Protected Income .... **-$ 770/month**

A Retirement Dream Realized

Solution: Nancy and Conrad used a portion of their savings to purchase an annuity (protected lifetime income).

- **Annuity Advantage:** the annuity provides an additional $818/month ($9,821/year) in protected income to supplement their Social Security and cover their shortfall. This takes care of the couple's basic expenses for a fullfilling retirement.[4]
- **Annuity cost:** $200,000, funded by a 33% portion of their $600,000 in assets
- **Remaining funds:** $400,000 in probable income (other investments) pay for their other wants and wishes

If an annuity makes sense for you, explore it further with your financial professional.

[3] Data sourced by CANNEX Financial Exchanges Limited as of June 5, 2020. The estimated annual income amount of $9,821 is for a single premium immediate annuity (SPIA). This is based on an average of the top five highest annual income amounts from 18 insurance companies that provided data to CANNEX Financial Exchanges Limited. The data reflects a joint life annuity with annual payments, with a premium of $200,000, for two annuitants, a male born on June 5, 1955, and a female born on June 3, 1955, both residing in Texas. This is for illustrative purposes only. Please contact a financial professional for information on costs and details on annuity options available to you. Expenses are based on state averages, U.S. Census Data and certain assumptions.

Is an Annuity Right for You?

If you've decided that an annuity might offer value to you, let's look at the different types and benefits they provide. Annuities come in a variety of different "flavors" to match a range of financial goals. This section allows you to explore the basics of each type and how they may align with your retirement needs.

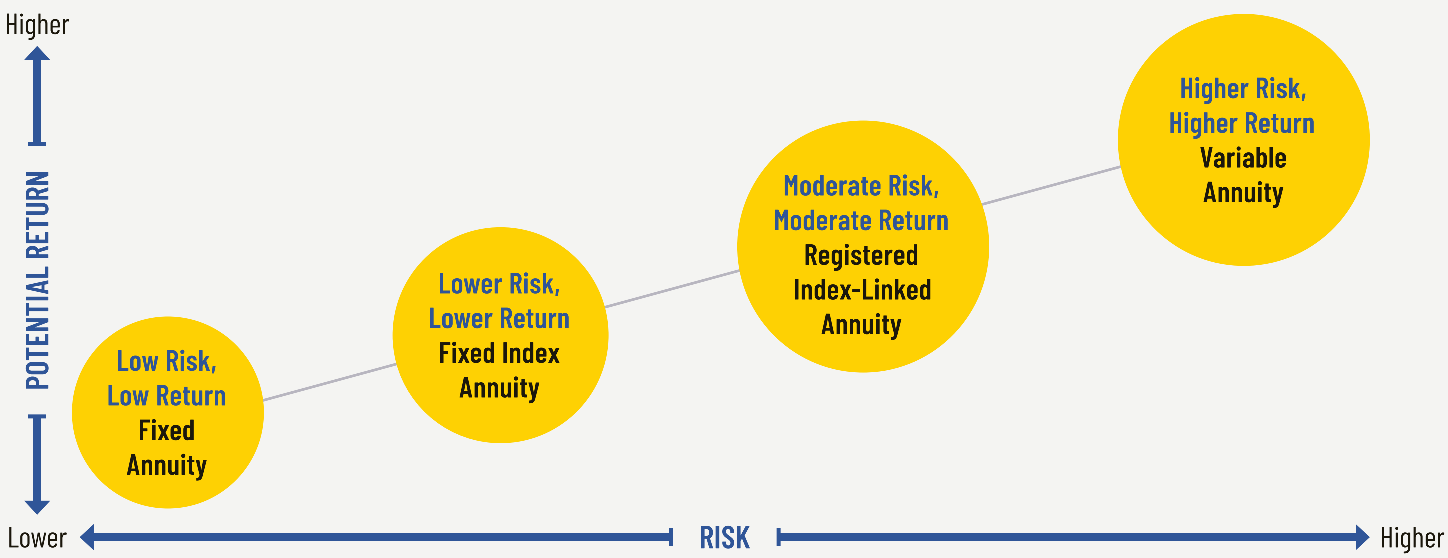
WHAT TYPE OF ANNUITY FITS YOUR RETIREMENT INCOME PLAN?

Now, let's dive into the details. While many annuity types have benefits in common, each has unique features—the most important are shown in the chart below.

Annuity Advantages	Fixed Annuity	Fixed Index Annuity	Registered Index-Linked Annuity	Variable Annuity
Option for guaranteed income for life	✓	✓	✓	✓
Tax-deferred growth until you withdraw your money[5]	✓	✓	✓	✓
Potential for market-like returns[6]		✓	✓	✓
A level of protection against market losses[7]	✓	✓	✓	
Beneficiary/family benefit (also called a death benefit)	✓	✓	✓	✓

[5] Qualified retirement plans like traditional IRAs also offer tax-deferral.
[6] These annuities do not directly participate in any stock market investments. They track the performance of a stock market index like the S&P 500.
[7] May offer a fixed return or principal protection of your original investment (principal). Protection does not apply to potential gains above and beyond your principal.

Let's examine the risk-return profiles of various annuity types.



WHAT TYPE OF ANNUITY FITS YOUR RETIREMENT INCOME PLAN?

Flexibility: When would you like your income to start?

Annuities offer you the flexibility to start taking income immediately or on a delayed (deferred) basis. It's your choice and depends on when you need income.

- **Immediate annuities** are just that—you can elect to turn your savings into steady income beginning right away, or within 12 months.
- **Deferred annuities** offer you the flexibility to delay payments while your money continues to grow in a tax-deferred manner.

Common Annuity Types

Below you'll find a basic description of common annuity types. Annuities are robust and sophisticated products so be sure to discuss them with your financial professional. If you would like more details, continue on to our Beyond the Basics section ahead.

Annuity Type	Why Consider This Annuity	How it Works
Fixed Annuity	Fixed annuities are appealing to those who want secure, predictable interest income that isn't affected by market ups and downs.	This annuity provides a "fixed" or guaranteed interest rate on your money for a specific time period (typically from 1–10 years). At contract maturity, you will have the option to renew, surrender, or move your money to a new contract with the same or other company.
Fixed Index Annuity (FIA)	Fixed index annuities may be right for those seeking higher rate of return than traditional fixed annuities.	Instead of a fixed interest rate, a FIA's growth is tied to a market index, like the S&P 500®. This type of annuity protects your initial investment from market losses while offering a chance for higher returns than a traditional fixed annuity.
Variable Annuity (VA)	Variable annuities are for people comfortable with market ups and downs who seek higher returns based on actual market performance.	Variable annuities allow you to invest in a combination of mutual funds, stocks, and bonds. While these offer growth potential, both your original purchase amount and returns will vary with market changes, meaning losses are also possible.
Registered Index-Linked Annuity (RILA)	RILAs may appeal to those who want some market growth potential while limiting their exposure to some losses.	RILAs track the performance of a market index, like the S&P 500. When the market goes up your account value can grow with it—up to a maximum percentage that you select. These growth limits are usually higher than what's available with traditional fixed or fixed index annuities. You choose how much market decline you're protected against, keeping in mind that some investment risk remains.

Other Annuities Worth Exploring

Annuity Type	Why Consider This Annuity	How it Works
Qualified Longevity Annuity Contract (QLAC)	A QLAC is a type of fixed annuity that may be appropriate for people looking for a higher level of protected income in their later retirement years.	A QLAC allows you to convert part of your retirement account, such as an IRA or 401(k), into a lifetime income stream that must begin no later than age 85. **Key feature:** funds used to purchase the QLAC are not subject to required minimum distribution (RMD) calculations.
Long-Term Care (LTC) Annuity	A LTC annuity can be beneficial for those concerned about the spiraling cost of long-term care.	LTC benefits are offered as an optional benefit on some fixed annuity contracts and may be used to pay for expenses related to nursing homes, assisted living facilities, memory care and similar needs. To claim benefits, you typically need to meet specific criteria related to your health and ability to perform daily living activities.

Reminder: ALL annuities provide tax-deferred growth, some type of benefit for your beneficiaries, and the option to convert your money to a stream of protected lifetime income.

BEYOND THE BASICS: UNDERSTANDING ANNUITY CHOICES

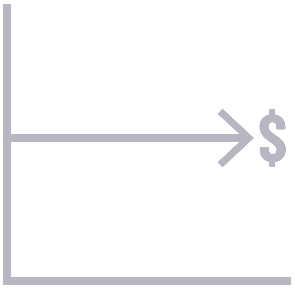
Want to know more about each annuity type? This section gives you essential details to help you make informed decisions with your financial professional.

COMMON ANNUITY TYPES

Fixed Annuities

Predictable Returns for Steady Income

If you're looking for a dependable income source that's not impacted by market ups and downs, a fixed annuity may be appropriate.



- **How It Works:** Fixed annuities offer a guaranteed interest rate on your money for a set period (usually 1–10 years), allowing your savings to grow steadily. The rate is set at the time the contract is purchased, providing stability without relying on market performance.
- **End-of-Term Options:** When the contract period ends, there are several available options. You can renew at a new rate, move your funds to a different annuity with the same or other company, or you can withdraw the full value your annuity has accumulated.
- **Good to Know:** These annuities provide stable, consistent growth and are a conservative choice for those who prioritize stable returns over market exposure.

Fixed Index Annuities (FIAs)

Growth Potential with Market Protection

For those who want a chance to grow their money based on market performance while safeguarding their initial investment, a fixed index annuity may be a good fit. (Also known as Equity Index Annuities or Index Annuities)

- **How It Works:** Fixed Index Annuities credit interest to your account based partly on the performance of a chosen market index (like the S&P 500®), without risking the money you initially contribute. Even if the index dips, your principal remains protected and intact.
- **Flexibility:** Some FIAs allow you to choose from a selection of indexes, other than the S&P. You'll also be offered options for participating in a portion of the index's growth.
- **Good to Know:** While your gains may be limited, FIAs typically offer a greater potential for higher returns than fixed annuities.

Variable Annuities

Higher Growth Potential with Market Exposure

Variable annuities offer greater growth potential through a mix of investment options that are aligned with the stock exchange. If you are comfortable with market variances, seeking tax-deferred growth, and/or a beneficiary benefit, variable annuities may be right for you. (Also known as VAs or variables)

- **How It Works:** Variable annuities let you invest in various underlying investments known as subaccounts, which include stocks, bonds, or mutual funds. These investments offer a chance for higher returns and carry a higher risk of losing money. Both your initial contribution and growth will vary with market performance.
- **Important to Know:** Unlike other annuities, variable annuities don't protect your initial investment from loss, so your account value can rise or fall with the market.

Registered Index-Linked Annuities (RILAs)

Protected Growth Balanced with Loss Protection

Those seeking higher returns than fixed annuities, and a degree of protection against losses, may find value in the blend of growth and safety offered by RILAs. (Also known as buffered or structured annuities)

- **How It Works:** RILAs allow for greater participation in the performance of selected market indexes, like the S&P 500, with options to limit your losses if the market drops. You can set a level of protection that aligns with your own risk tolerance, allowing you to control your exposure to possible market declines.
- **Additional Benefits:** Like other annuities, RILAs offer tax-deferral and income options.
- **Good to Know:** While you can balance growth potential with a level of protection from market dips, there is still some risk of loss since RILAs don't fully protect your initial investment amount.

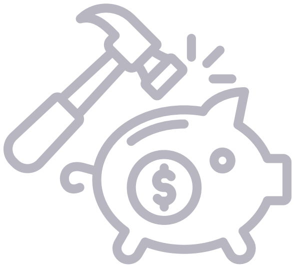
OTHER ANNUITIES WORTH EXPLORING

Qualified Longevity Annuity Contracts (QLACs)

Plan for Income for Your Later Years

If you are looking for a higher level of income in your later retirement years, you may consider a QLAC to help secure financial stability when you may need it most.

Qualified Longevity Annuity Contracts (QLACs) — cont'd



- **How It Works:** A QLAC is purchased using money from traditional retirement accounts like IRAs or 401(k)s. You are allowed to delay income payments until age 85.
- **Unique Features:** **QLACs are exempt from required minimum distributions (RMDs).** The IRS mandates that you begin taking withdrawals from traditional retirement accounts once you reach a certain age. Assets used to purchase a QLAC are exempt from annual RMDs and this approach could potentially lower your taxable income in earlier retirement years. It is also possible to purchase multiple QLAC contracts, provided the combined total amount does not exceed $200,000.
    - Multiple contracts can have different income starting dates which allows for a greater level of income planning.
    - Beneficiary/Family Benefit—Contracts vary but many QLACs offer the flexibility to leave any remaining funds to your beneficiaries.
- **Important to Know:** It's always best to consult your CPA and financial professional when considering a QLAC for tax-related goals.

Long-Term Care (LTC) Annuities

Combine Income with Long-Term Care Protection

A LTC annuity can help if you're concerned about the rising costs of long-term care services like assisted living and nursing homes. These policies can also serve as an option for those who can't qualify for a stand-alone LTC policy due to health issues or age.

- **How It Works:** LTC coverage is available as an option with some fixed annuities for an additional charge; your purchase may be by single or periodic payments. Many LTC annuities offer ways to increase your funds to cover LTC costs. For example, a "multiplier" feature may increase your $100,000 purchase to $300,000 in benefits. These LTC benefits provide a set monthly payment for a specified number of years.
- **Benefit Access:** Depending on the contract, in order to access LTC benefits, you may need to meet certain conditions. Common criteria include whether you need help performing several activities of daily living (ADLs)—bathing, dressing, toileting, etc. Some contracts stipulate a waiting period before benefits are available to you.
- **Good to Know:** You always retain access to your account value, but withdrawing assets will proportionally reduce your LTC benefits. If you decide you no longer need the LTC coverage, you have several options. You can move your funds to a different annuity with the same or other company, you can withdraw the account value, or you can convert it to a protected income stream (any of these options would terminate all LTC coverage).

BRINGING CLARITY TO ANNUITIES

64% of consumers said annuities are the most difficult financial product to understand because of how they are described.[8]

[8] Language Simplification Study, Alliance for Lifetime Income, 2019–2021

One reason annuities can be confusing is that the language used is often complex and technical. The Alliance for Lifetime Income learned that the current jargon makes most consumers feel **confused** and **disengaged**. In response, ALI created a plain-language **Annuities Language Glossary** to help you better understand a beneficial retirement income option.

Your next best step is to talk with your financial professional about annuities. Here are a couple of conversation starters:

Are there costs to an annuity?

Will I have access to my money?

What happens to my annuity when I am deceased?

When can I start taking income?

See more valuable tools, resources, and expert insights at ProtectedIncome.org

- Check Off the Basics: a guide to planning for essential expenses in retirement
- **Calculate Your Retirement Readiness:** The Retirement Income Security Evaluation (RISE) Score helps you determine any gaps between your expected retirement income and monthly expenses and offers a measure of your financial security.
- **Read:** The Many Benefits of Annuities
- **Read:** Is an Annuity Right for You? Starting the Retirement Income Conversation (with your financial professional)
- **Read:** Debunking Annuity Myths
- **Watch:** Your Money Map with Jean Chatzky for expert insight on retirement, money, and living your next chapter

Is an annuity right for your retirement goals?

Contact a financial professional to learn more today!

Annuities are purchased in a contract you make with an insurance company. Investments in annuity contracts may not be suitable for all investors. Contract and optional benefit guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company. Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½. Some income guarantees offered with annuities take the form of optional benefits known as riders and carry charges in addition to the fees and charges associated with annuity products. As in all investments, there is no guarantee that any investment, including annuities, will achieve its objectives, generate positive returns, or avoid losses. The recipient should not construe any of the material contained herein as investment, legal, tax, accounting or other advice. The recipient should not act on any information in this document without consulting its investment, legal, tax, accounting and other professionals.

About The Alliance for Lifetime Income

The Alliance for Lifetime Income (ALI) is a non-profit 501(c)(6) consumer education organization based in Washington, D.C., that educates Americans about the value and importance of having protected income in retirement. Our vision is for a country where no American has to face the prospect of running out of money in retirement. The Alliance provides consumers and financial professionals with unique educational resources and interactive tools to use in building retirement income strategies and plans. The Alliance's Retirement Income Institute houses the leading retirement scholars and experts who create evidence-based research and analysis, with practical ideas and actions to help protect retirees. We believe annuities—one of only three sources of protected lifetime income—can be an important part of the solution to increasing retirement security in America.