Annuity Guide

What to look for when you already own or want to buy an annuity.

A Y-UFinancial Guide

How annuities work, what they cost, and what to check before you act.

An annuity is a contract with an insurance company. You put money in, it grows tax-deferred, and later the insurer pays it back as income or a lump sum. The details of each contract determine how it works for you, so this guide covers the basics and the questions worth asking.

HOW ANNUITIES WORK

1. **You pay the insurer, in one deposit or over time.**
2. **The money grows tax-deferred while it stays in the contract.**
3. **You take it out as income, a lump sum, or both. Gains are taxed as ordinary income.**

THE MAIN TYPES

TYPE	HOW IT GROWS	WHAT TO WATCH
Fixed	A set interest rate for a stated period.	The rate can reset after the first period, and surrender charges may apply.
Indexed	Linked to a market index, with limits on the gain.	Caps, participation rates, and spreads limit what you earn.
Variable	Invested in funds you choose.	Value can fall with the market, and fund and contract fees add up.
Income (immediate)	Turns a lump sum into regular payments.	Usually cannot be undone. A life-only payout leaves nothing for heirs.

THE ADVANTAGES AND THE TRADE-OFFS

AREA	ADVANTAGE	TRADE-OFF
Taxes	Growth is tax-deferred until you take money out.	Gains are taxed as ordinary income. Withdrawals before age 59½ can add a 10% penalty.
Protection	Some contracts protect principal or guarantee income for life.	Guarantees depend on the insurer's claims-paying ability. Fees and inflation can erode value.
Access	Many contracts allow a yearly withdrawal without a surrender charge.	Larger or early withdrawals can trigger surrender charges, often for several years.
Family	Beneficiaries generally receive the contract outside of probate.	Heirs can owe income tax on the gains, and a life-only payout leaves nothing.

COMMON SURPRISES

What owners often wish they had known

Income base vs. balance
A rider's guaranteed income may rest on a separate figure, not on the cash you can actually withdraw.

Medicare and Social Security
Withdrawals can raise your Medicare premiums and make more of your Social Security benefit taxable.

Bonus offers
A bonus often comes with a longer surrender period or lower rates, so compare the full contract terms.

Gains come out first
In a post-tax annuity, withdrawals are usually taxed as gain before you get your own money back.

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For educational purposes only. Not tax, legal, or investment advice, and not a recommendation to surrender any annuity. Surrender charges, free withdrawal limits, fees, and payout options vary by contract and carrier. Guarantees rely on the claims-paying ability of the issuing insurance company. Consult your own tax, legal, and financial advisors.
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Four things to check before annuity distributions.

Most people plan for saving. When it is time to take the money out, these four areas decide how efficient your plan truly is.

AREA	WHAT TO KNOW	QUESTION TO ASK
Taxes	Gains are taxed as ordinary income. Money transferred from an IRA or other pre-tax account is fully taxable when withdrawn, and required distributions begin at a set age.	How will my withdrawals be taxed, and when do required distributions begin?
Market	Fees and inflation can wear down growth. Variable contracts can lose value, and indexed contracts limit gains.	What does my annuity earn after fees and inflation?
Care	Most annuities have no care benefit. Some waive surrender charges for care, and many do not.	Could I reach my money without a penalty if I needed care?
Legacy	What your family receives depends on your payout choice and your beneficiary designation. A life-only payout ends at death.	What does my beneficiary receive, and how is it taxed?

BEFORE YOU BUY

Your checklist

- ✓ Know what the money is for: income, growth, or protection.
- ✓ Know when you will need it, and how long the surrender period lasts.
- ✓ Get every fee in writing, including rider charges.
- ✓ Check the insurer's financial strength ratings.
- ✓ Ask for an illustration that separates guaranteed from non-guaranteed values.
- ✓ Read the contract during the review period your state allows.

IF YOU ALREADY OWN ONE

Where to start

- → Find your surrender schedule and today's charge.
- → Confirm how much you can withdraw each year without a charge.
- → List every rider and what it costs each year.
- → Confirm your payout option and your beneficiaries.
- → Know whether it is pre-tax or post-tax money.
- → Ask how much access and flexibility you have with your annuity if your needs change.

NEXT STEP

Schedule your review

A Y-UFinancial specialist will call to schedule your review. Bring your questions and, if you own an annuity, your contract or latest statement, so the specialist can go through the details of your situation with you.

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