SIMON

Getting Started with Annuities

Retirement is a relatively new reality. Previous generations didn't often plan for living 20–30 years without a paycheck.

Today we do.

Annuities can be designed to help clients pursue financial security and address retirement planning needs, including:

- Having enough money for a lifetime
- Paying for rising healthcare and living costs
- Supplementing income from social security and pensions

What Is an Annuity?

An annuity is a long-term tax-deferred investment issued by an insurance company that can be tailored to meet unique needs.

It has two distinct phases:

Accumulation Phase

An investor funds an annuity with a lump sum or a series of payments, which grows tax-deferred with the power of triple compounding:

1. The principal earns interest
2. That interest earns interest
3. The money that would have otherwise been paid in taxes earns interest

There are several types of annuities to choose from—all of which offer different levels of upside potential and downside protection.

Distribution Phase

Every annuity can be turned into a stream of lifetime income—with taxes due when withdrawals are made, either by:

- Annuitization, where the account value is converted into a series of periodic income payments;

OR

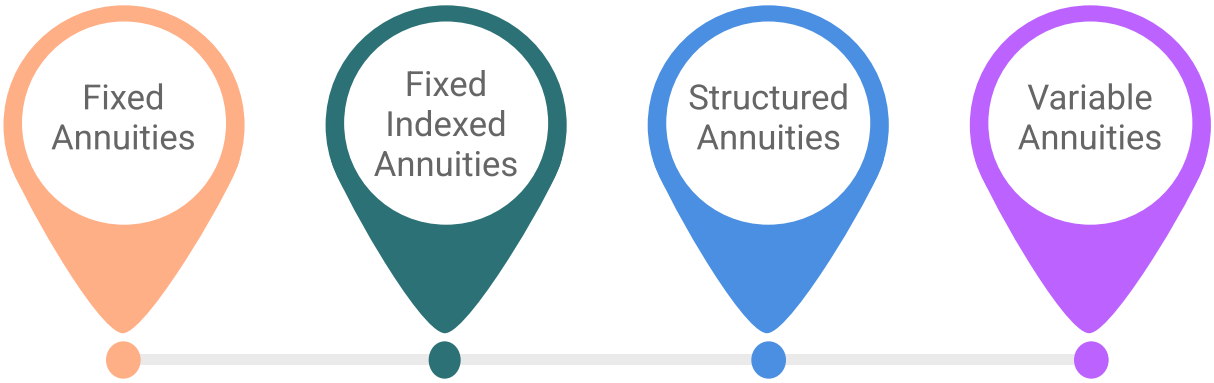
- Adding an income benefit to the annuity contract, usually for a fee, which allows an investor to take systematic withdrawals for life regardless of the account value

Annuities are increasingly flexible in addressing a variety of retirement goals. Of course, with increased flexibility comes increased complexity.

Investors should carefully review an annuity contract's offering document, disclosure document, and buyer's guide for contract details, including risks, fees, and charges. This helps ensure that the annuity aligns with their needs and goals.

Choices

With the availability of so many flexible features, the annuity market offers diverse investment solutions for a range of objectives. We'll walk through four common types of annuities to help highlight the key features of these solutions.



Less risk
Less reward potential

More risk
More reward potential

Fixed Annuities

- A guaranteed annual rate of return
- Full principal protection

Fixed Indexed Annuities ("FIA")

- More growth potential than fixed annuities
- Returns based on the performance of an index
- Full principal protection

Structured Annuities

- Typically offers greater upside potential than FIAs
- Returns based on the performance of an index
- Partial protection against market losses

Variable Annuities

- Participation in an underlying portfolio of selected funds
- Subject to full market risk

	Fixed Annuity	Fixed Indexed Annuity	Structured Annuity	Variable Annuity
Tax-deferred growth	■	■	■	■
Protection against market losses	Full	Full	Partial	
Guaranteed interest rate	■			
Uncapped growth potential				■
Upside based on an index/indices		■	■	
Upside based on investment funds (e.g., mutual funds)				■

This overview is intended as general background information, for educational purposes only, and should not be used as a primary basis to make a decision to purchase an annuity contract. This material does not reflect a specific annuity contract and no person should consider investing in an instrument on the basis of this overview. Actual annuity contracts may differ materially from the general overview provided.

With any annuity, there are key benefits and considerations, such as:

Optional features & add-ons

Optional features may be useful to add on to an annuity contract, but are also potentially subject to fees, requirements, and other limitations. Examples include:

- Guaranteed Lifetime Withdrawal Benefit – A benefit that is designed to generate a specific level of guaranteed lifetime income without annuitizing
- Death Benefit – A benefit that is designed to generate a payment to a designated beneficiary in the event of the annuitant's death prior to the annuitization date

Contract guarantees

Annuities are not FDIC-insured.* All references to guarantees arising under the annuity contract, including optional benefits, are subject to the claims-paying ability of the carrier.

With structured and variable annuities, an investor's principal is subject to market risk, which may be significant.

Charges and fees

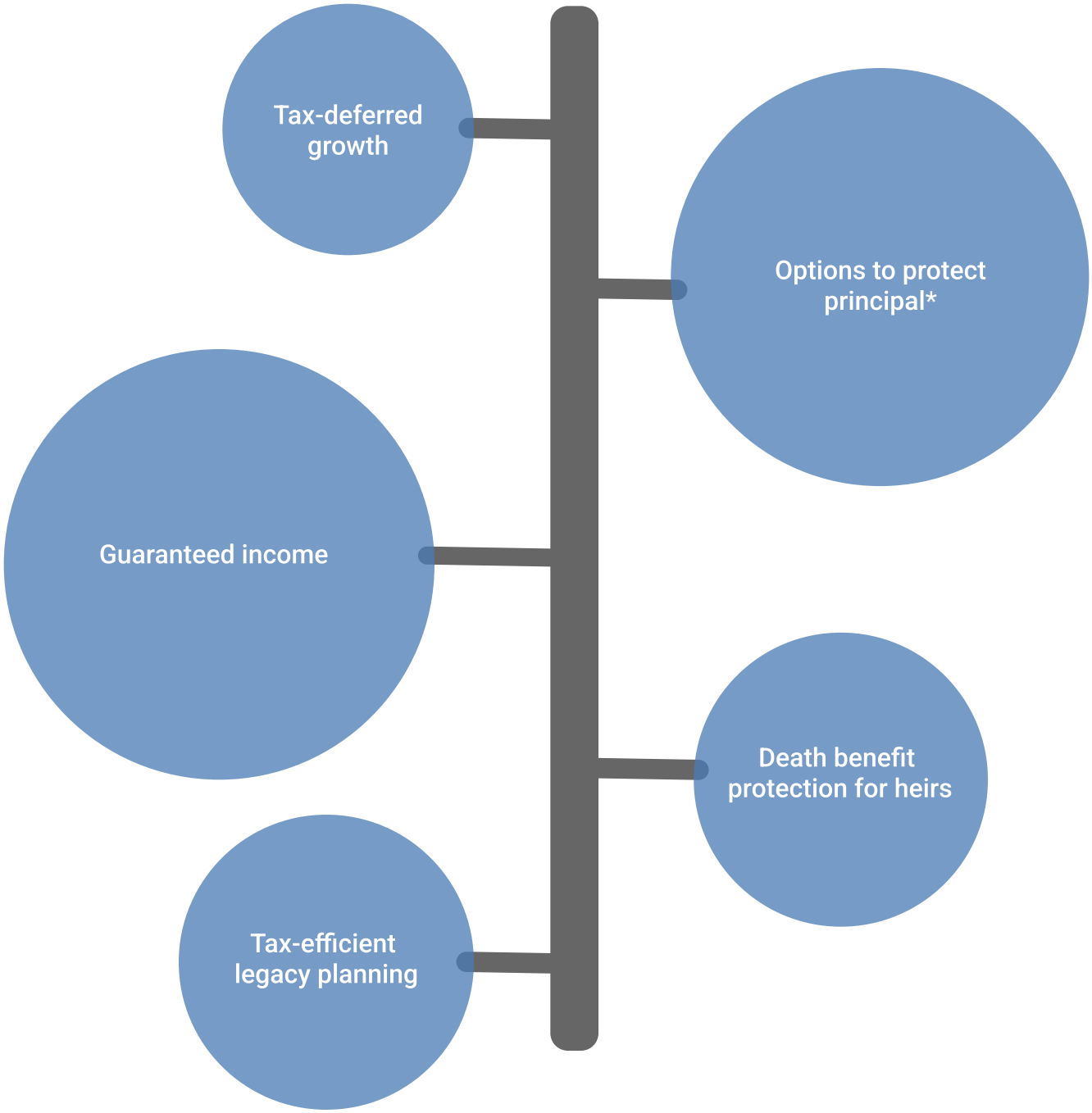
Early withdrawals or surrender during the surrender charge period may trigger surrender charges, fees, or tax penalties, and may be subject to negative adjustments, which can reduce the account value or the actual withdrawal amount. For this reason, an investor should be prepared and able to hold an annuity through the full length of the surrender charge period.

Withdrawals and distributions of taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty.

** However, each state may have a state guarantee fund that can reimburse annuity policyholders for some losses.*

Why now?

Annuities offer choice and personalization that may help in forging a path towards financial security in retirement. They can provide:



** Variable annuities are subject to market risk and do not provide any form of principal protection. All guarantees and protections are subject to the claims-paying ability of the issuing insurance company.*

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