



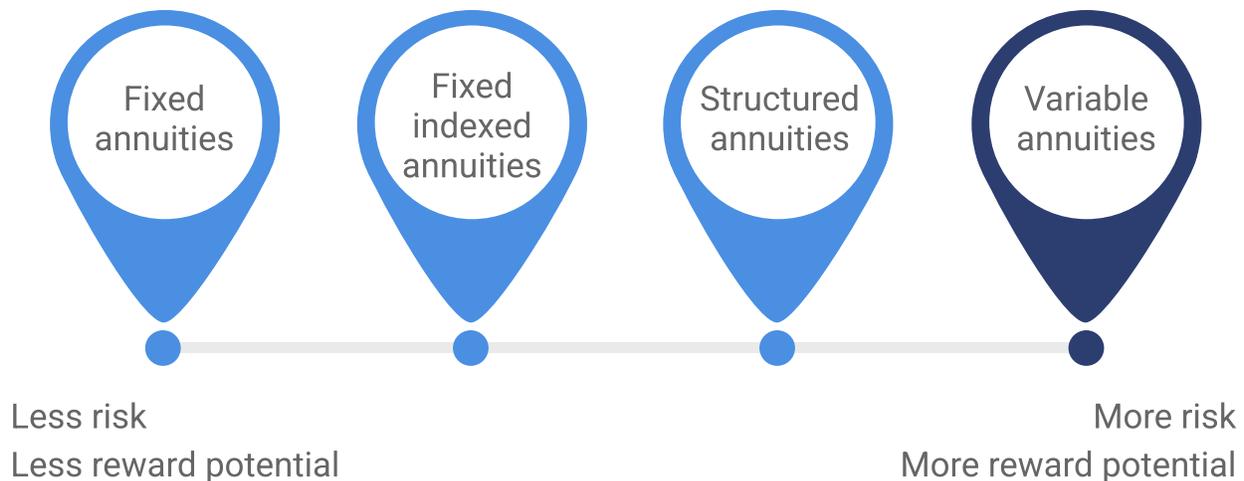
# Annuity Fast Facts: Variable Annuities

## **ANNUITY FAST FACTS**

A series to create increased awareness of annuities by providing market color, friendly tips, and interesting stats at-a-glance.

A deferred annuity is a long-term tax deferred investment issued by an insurance company and purchased through a qualified professional.

There are four main types:



## **VARIABLE ANNUITIES**

Variable annuities offer tax-efficient growth potential with a choice of investment funds.

## Did you know?

With a variable annuity, investors can move between a more aggressive approach to a more conservative one, depending on their outlook of the market and current needs, without incurring capital gains each year. A single variable annuity contract typically offers more than **100** investment funds to choose from, and the flexibility to reallocate money from one fund to another within the contract, rather than sell one to buy another.

This tax efficiency is why variable annuities can be useful in adjusting portfolio exposure to equities over time.

## Reminder

If a variable annuity is held in a tax-advantaged retirement plan, the investor will get **no additional tax advantage** from the variable annuity. Given the retirement plan itself is tax deferred, the variable annuity is taxed like any other asset within that retirement account.

## Key feature

Most variable annuities include or offer a death benefit for a fee, which guarantees the value of the investor's original investment (adjusted for any withdrawals) to listed beneficiary(ies) upon the investor's death – regardless of the account value.

## Friendly tip

Investors can also buy a variable annuity with enhanced death benefits, such as one that includes an annual percentage increase in the death benefit value or one that automatically locks in a death benefit value equal to the highest account value upon any policy anniversary date.

- Variable annuities allow investors to consider their investment decisions independently from immediate tax concerns.
- For example, if \$100,000 of premium is invested in a variable annuity and then the market falls, reducing the account value to \$80,000 at the time of the policy holder's death, the insurance company will pay the beneficiary the full \$100,000 that was invested.
- Enhanced death benefit options always incur additional costs and should be thoroughly evaluated before adding to a contract.

## Interesting fact

During the years following the tech crash of 2000-02, and then again after the financial crises of 2007-09, variable annuity companies paid out hundreds of millions of dollars in guaranteed death benefit claims.<sup>1</sup>

## Know that variable annuities:

- Are complex and subject to risk, including the potential for significant losses
- Can be expensive relative to other investments
- Are not FDIC insured and any guarantees under a variable annuity contract are backed by the issuing insurance company and subject to its claims paying ability
- Are considered a long-term investment, typically carrying penalties (such as a surrender charge) if money is withdrawn during the stated surrender period
- Come with an additional 10% federal tax penalty for withdrawals prior to age 59½

## READ ON

Our previous [article on variable annuities](#) explains how they work and the role they play in an investment portfolio. Find it, along with our complete library of articles and videos on [simon.io/engage](https://simon.io/engage)

<sup>1</sup> Federal Reserve Bank of Chicago, [How Much Risk Do Variable Annuity Guarantees Pose to Life Insurers?](#), Chicago Fed Letter, 2017



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