

Misconceptions about annuities stem largely from a lack of information. The key to dispelling annuity myths and breaking the mythology is to be educated. By taking a closer look at some of the myths, we can uncover the underlying benefits and product features of a product that has evolved, but at its core been around for centuries. Let's demystify your annuity.



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FINANCIAL NEWS YOU CAN USE

Demystifying Annuities

Here are 6 myths and realities you should know about Annuities:

MYTH #1: Annuities are expensive.

REALITY: Annuities may be more expensive than other investment options, but they also offer a variety of benefits that may be valuable to investors. Annuities are long-term, tax-deferred vehicles designed for retirement. As contracts with insurance companies, annuities can provide valuable death benefit protection for your heirs should you die prematurely. You can custom build some of today's unbundled annuities so you pay only for features and benefits that are important to you. So are the benefits worth the price? Yes, if things like tax-deferred growth potential, tax-free exchanges and death benefits for your heirs are appealing.

MYTH #2: Annuities provide no additional value.

REALITY: Many people argue that qualified money doesn't belong in individual annuities because you end up paying for the benefit of tax deferral. But what an investor is actually paying for are the additional benefits that an annuity can provide. Annuities offer guaranteed standard benefits as part of the contract, such as a death benefit. Death benefits provide investors with an opportunity to leave a guaranteed legacy for their heirs.

MYTH #3: Annuities are not good investments because gains, when withdrawn, are taxed at higher income tax rates than other investments.

REALITY: The truth is the long-term tax treatment is much more favorable than many people might believe, plus tax-deferred annuities have the added potential to accumulate significantly more



than vehicles that may be subject to taxation each year.

MYTH #4: Annuities are a poor asset to inherit, as they are subject to double taxation.

REALITY: The tax treatment of an annuity at the owner's death is often misunderstood. Many fear that because an annuity may be subject to both estate and income taxes upon the death of an affluent owner, its tax advantage is often sacrificed. Most people will never owe estate taxes unless their current estate and past gifts exceed \$5.34 million (2014). Annuities can have advantages over other investment types allowing beneficiaries to receive substantial sums with a fair measure of tax efficiency.

MYTH #5: If a trust owns an annuity, then the annuity loses its tax-deferred treatment.

REALITY: In a nutshell, if the beneficial owner of the trust is a person, then the tax-deferred treatment of the annuity has generally stood.

And it makes sense. Annuities are long-term vehicles designed for retirement, and the rules under the Internal Revenue Code 72(u) usually deny tax-deferred treatment for non-natural beneficial owners. However, a trust can generally retain its tax-deferred treatment if you can establish that the trust's beneficial owner is a person.

MYTH #6: Death benefits are not worth the money.

REALITY: Death benefits can actually add value to annuity contracts. All annuities provide a guaranteed minimum death benefit, usually the greater of contributions paid into the contract or the contract value at death. For example, if an annuity owner contributed \$200,000, never withdrew any money, and it is only worth \$150,000 at death, the beneficiary would receive the full \$200,000.

Annuities have been around hundreds of years, with the concept stretching all the way back to ancient Rome. Annuities have survived the Middle Ages, the American Revolution and the Great Depression. While the annuity sold throughout history has changed, the benefits haven't. Contact your financial representative today to discuss how an annuity can help you reach your goals in retirement.

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