How Does an Annuity Work?

An Annuity - is an investment contract between you and an insurance company, and how it works is - you accumulate funds over time (or invest a lump-sum) then in return they provide you with a guaranteed steady stream of payments for either a pre-determined number of years, or over your entire lifetime and you cannot outlive the money.

An annuity is a good idea - if you are nearing retirement and you've accumulated some saving, and you're looking for a financial strategy to roll-over your 401k or IRA, and at the same time protect your savings from market volatility , then an annuity may be the perfect solution for you.

Guaranteed Income

Annuities are designed to provide a guaranteed income, and the way this works is by converting your funds (with interest) into regular payments to you that can last for a specified period of time, or continue over the span of your whole life, even after your funds are long exhausted.

- **Fixed Annuities** - offers the "Peace of Mind" of having a source of income with predictable ongoing payments that's agreed upon at the signing of the contract.
- **Variable Annuities** - payments vary, depending on the performance of investments in the Sub-account .

In general, *a fixed annuity* has calculable payments that can be determined ahead of time. However *a variable annuity* does have the potential for a higher accumulation and payments, but that's dependent upon the performance of the underlying portfolio of investments.

Annuity Basics

If you're nearing retirement and need to ensure that you have enough monthly income to meet your living expenses after you've stopped working and getting a paycheck, then you should consider if an annuity is a good fit for you.

- Annuities guarantee payments over a long period of time.
- An annuity can be smart investment against outliving your savings.

The income-gap in Retirement

Annuities offer a solution to bridge the "gap-in-income" by providing a savings vehicle that can provide a person (or couple) a steam of income in additional to social security, which can help fill-in the "income-gap" after people have decided to leave the workforce.

A tax deferment feature - allows you to contribute money to your account without being taxed on the money, which maximizes growth potential of the funds up until you withdraw the funds.

Annuities Vs Stocks

The risks associated with investing in Stocks is significantly higher, than a fixed annuity, but if you're younger, then you are likely able to invest in stocks, and still have time to recover from a big-loss in a volatile market (in the long run), but if you are older, an annuity may provide you more safety and predictability than stock market investing.

Are Annuities a Safe Investment

By and large, annuities are a safe investment. However, it's important to purchase them from a well-established insurance company with a good reputation, because an annuity is not like a certificate of deposit, and is not insured by (FDIC) Federal Deposit Insurance Corporation. The amount of protection varies from state to state, and most states also require insurance companies to meet financial standards intended to keep them solvent.

In two states (FL & TX) your annuity investment money is protected from creditors and frivolous lawsuits. Most other states do provide limited protections, and in federal bankruptcy cases, the law provides some small protections for annuity against creditors.

All insurance companies that sell annuities must belong to the guaranty associations in the states where they operate. For information about your state's guaranty association, you can find links to all state associations on the website of the National Organization of Life & Health Insurance Guaranty Associations.

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