Frequently Asked Questions

Fixed Annuities
General Questions

Q: What is an annuity?
A: An annuity is a contract between you and an insurance company in which you pay the insurer a lump-sum payment or a series of payments. Your money is invested and accumulates on a tax-deferred basis. In return, the money is returned to you either in a lump sum, through periodic withdrawals, or as a guaranteed income stream for a specified period of time.

Q: What does it mean to annuitize?
A: To annuitize is to convert the accumulated value of an annuity into a stream of income. The payments may be a fixed amount, for a fixed period of time or for a lifetime.

Q: What are the benefits of an annuity?
A: Tax-deferred growth. You will not pay current income taxes earned in an annuity while it accumulates as long as funds are not withdrawn or distributed. Also, when you withdraw funds (typically at retirement), you may be in a lower tax bracket.
Bypassing of probate. In the unfortunate event of an annuity owner's death, the beneficiary will receive the annuity proceeds.
Monthly income options. If you annuitize your contract and select a "life" payment option, the insurer makes payments to you as long as you live. There are other payment options available.

Q: Can I move the funds in my qualified retirement plan from one contract to another contract without paying taxes?
A: Yes. Depending on your situation, this can generally be accomplished through a transfer or direct rollover.

Q: What is a transfer?
A: A transfer is a method of moving qualified funds from one trustee to another without triggering a taxable event. Transfers often occur between two financial institutions but they can also be between contracts or accounts at the same institution. To qualify as a transfer:
-It must be between "like kind" plans (e.g. Traditional IRA to Traditional IRA, TSA (Tax Shelter Annuity) to TSA, and
-There must be no constructive receipt of the funds. In other words, the check must be payable and directed to the receiving financial institution as trustee.

Q: What is a direct rollover?
A: A direct rollover is a method of rolling certain distributions from a qualified retirement plan or TSA to another kind of qualified retirement plan (e.g. TSA to a Traditional IRA, 401k to a Traditional IRA). To qualify as a direct rollover:
-The funds distributed must be an "eligible rollover distribution" which can generally be described as a distribution you receive upon a qualifying event such as retirement, termination of employment, attainment of age 59 1/2, or disability. Regulations specify certain items that are not considered eligible rollover distributions (e.g. required minimum distributions),

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-The receiving qualified retirement plan must allow rollovers from other parties, and
-The funds must be transferred directly from one financial institution to another for your benefit. In other words, the check must be payable and sent to the receiving financial institution as trustee.

Q: What is a 1035 exchange?
A 1035 exchange is the exchange of an insurance contract for another that meets all the requirements of Section 1035 of the Internal Revenue Code (IRC 1035). When a contract is exchanged under IRC 1035, the gain or loss of the exchanged contract is transferred to the new contract. Requirements for non-taxable treatment include:
-The owner and the insured/annuitant on both contracts must be identical.
-The contract being exchanged must be in force. If the contract is maturing, the 1035 exchange must be signed prior to the maturity date.

Q: How do I change the beneficiary on my client's annuity contract?
A: The Annuity Service Request Form 3575 can be used to request a change of beneficiary. This form must be signed by the owner or joint owners and sent to the home office.

Q: What is the difference between a deferred and an immediate annuity?
A: The key difference is that a deferred annuity is a long-term vehicle, designed to accumulate assets over time. When you are ready to receive income, usually at retirement, you can convert your savings to a steady stream of income that meets your needs. Immediate annuities are designed to begin making annuity payments right away or within a short time afterward. In addition, deferred annuities may be purchased with a lump sum or multiple contributions. An immediate annuity is usually purchased with a single lump sum contribution.

Q: How does an annuity work?
A: An annuity is a contract between an individual (the contract owner) and an insurance company. The contract owner makes a single premium payment or a series of payments to the insurer, and receives a payout on a regular basis in return for the premiums paid. Depending on the type of annuity, the payout may start immediately (immediate annuity) or at a later date (deferred annuity). With a deferred annuity, the interest earned accumulates on a tax-deferred basis until the payout period. The parties to an annuity contract are the insurance company, the annuitant (the person whose life expectancy is used to determine the payout of an annuity) and the contract owner. The contract owner is the person who purchases the annuity, and is usually the same person as the annuitant.

Q: Is an annuity like life insurance?
A: No. Life insurance provides money after you die to those who rely on you for their financial well-being. An annuity is designed to address the risk of outliving your resources, so it provides money for you.

Q: Can my client exchange part of their annuity contract to another annuity contract?
A: Your client should be able to make a partial exchange of your existing annuity to another annuity. However, we strongly advise you to consult a tax advisor, as many insurance contracts have rolling surrender charges applied to additional payments that were made and the partial exchange amount may still have a surrender charge penalty. Also, some insurance companies may not allow partial exchanges.

Q: What IRS reporting is required for annuity owners?
A: Unless withdrawals are made, or an annuitization option elected, there is no tax reporting on deferred annuities.

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Q: What kinds of dollars can be used to buy annuities?
A: Dollars from maturing CDs, money market funds, checking and savings accounts, mutual fund accounts, stocks and bond funds, IRA rollovers, etc. can all be used to purchase an annuity.

Q: Will an annuity be tied up in probate proceedings?
A: No — as long as the owner designates a "named" beneficiary other than his or her estate, the beneficiary will receive the annuity dollars without the delay, expense and hassles of probate proceedings.
Q: Is an annuity identical to an IRA?
A: No. Although an annuity is often used as the funding vehicle for an IRA, many annuities are purchased with after-tax dollars that are not deductible. Also, with annuities, there are not government-imposed limits on how much an individual can contribute to an annuity.

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