Own Your NeXt

Your Guide to Annuity Solutions for a Secure Retirement

Annuities Explained: Your Path to Protected Income

If you are in or nearing retirement, it's natural to wonder whether your savings will last. Many people look for a way to supplement Social Security or a pension with protected lifetime income, often through an annuity. Yet annuities can feel confusing, and over half of Americans say they don't understand how they work or what benefits they provide[1].

This guide explains retirement income basics, how annuities work, and how they can help protect you from outliving your savings. That protection — income designed to last throughout your lifetime — is known as **protected income**.

Sources of Protected Income

There are only three sources of income that you cannot outlive: a Social Security check, a pension check, and an annuity. All others are considered probable income since they can go up or down based on the markets and other factors.

What is Protected Income?

Protected income is income you can rely on	Probable income is income that can vary
Social Security	Interest income
A pension	Stock dividends
An annuity	Alternative investments (options, gold, art)
	Rental income

What Is an Annuity?

An annuity is a financial product — offered by an insurance company — that helps you save for retirement and provides protected income for life. Think of it this way: you insure your home, your health, and your car; an annuity allows you to insure your retirement income.

[1] Source: *Protected Retirement Income and Planning Study (PRIP)*, LIMRA, 2024.

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How Annuities Work

1. You purchase an annuity from a life insurance company with a lump sum or a series of payments.
2. Your money can grow tax-deferred until you withdraw it.
3. You choose when income can begin — either immediately or at a future date.

Understanding Your Retirement Income

A simple three-step framework can help you determine whether your protected income will be enough to cover your retirement expenses.

1. **Add up the cost of your basic needs and expenses.**
   - **Needs** — essential expenses such as housing, food, and healthcare
   - **Wants** — lifestyle expenses such as travel, dining out, and gym memberships
   - **Wishes** — extra expenses such as charitable giving or maintaining a second home
2. **Add up your protected income sources.**
   - Social Security, pensions, and any other guaranteed income streams
3. **Subtract your total expenses from your protected income.**
   - If the result is positive, you have a surplus. If it is negative, you have a shortfall.

Retirement Income – Basic Monthly Expenses = Surplus or Shortfall

Types of Annuities

There are many types of annuities available today, each offering unique features and benefits to match a range of financial goals. Most annuities fall into four main categories: fixed annuities, fixed index annuities, registered index-linked annuities, and variable annuities.

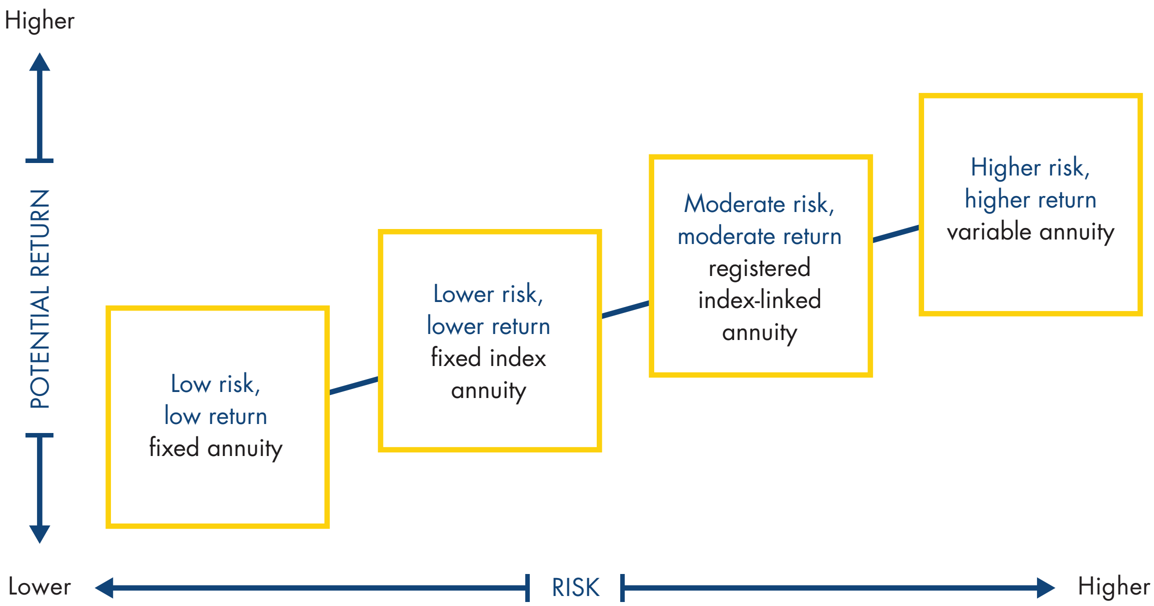
What Type of Annuity Fits Your Retirement Income Plan?

Annuity advantages	Fixed annuity	Fixed index annuity	Registered index-linked annuity	Variable annuity
Option for guaranteed income	✓	✓	✓	✓
Tax-deferred growth until you withdraw your money	✓	✓	✓	✓
Potential for market-like returns*		✓	✓	✓
A level of protection against market losses**	✓	✓	✓	
Beneficiary/family benefit (death benefit)	✓	✓	✓	✓

*These annuities do not directly participate in any stock market investments. They track the performance of a stock market index like the S&P 500.

**May offer a fixed return or principal protection of your original investment (principal). Protection does not apply to potential gains above and beyond your principal.

Risk-Return Profiles of Annuity Types



Annuity Payout Options

Annuities provide flexibility to align with when you need your income to start. The payout options generally follow one of two primary structures.

When Would You Like Your Income to Start?

Immediate annuity	Deferred annuity
Provides an income stream that begins within one year of purchase.	Earnings grow tax-deferred before converting to income.

Additional Payout Flexibility

A **guaranteed lifetime withdrawal benefit (GLWB)** provides additional (and optional) payout flexibility that can be added to select annuities. A GLWB rider guarantees you can withdraw up to a specified percentage of your total investment each year for the rest of your life — regardless of market performance or longevity. The percentage is determined by the age at which you take your first withdrawal.

Understanding Annuity Choices

This section provides key details about each type of annuity, helping you understand how they may align with your retirement goals and support informed discussions with your financial professional.

Fixed Annuities Predictable Returns for Steady Income

Why Consider This Annuity

Fixed annuities are appealing to those who want secure, predictable interest income that is not affected by market volatility.

How It Works

A fixed annuity offers a guaranteed interest rate for a set period — usually one to ten years allowing your savings to grow predictably. The rate is established when the contract is purchased, providing stability without exposure to market performance. At maturity, you may renew the contract at a new rate, withdraw the full account value (also known as “surrender”), or transfer the funds to another annuity.

Good to Know

Fixed annuities are a conservative option for those who prioritize stability over market-driven returns.

Fixed Index Annuities (FIAs) Growth Potential with Market Protection

Why Consider This Annuity

Fixed index annuities (also called an equity index annuity or index annuity) may be appropriate for individuals seeking higher growth potential tied to market performance while protecting principal.

How It Works

Interest is earned based on the performance of a market index, such as the S&P 500®. If the index declines, the annuity’s protection features are designed to help protect the principal from market losses (subject to the contract’s terms). FIAs typically guarantee a minimum interest rate between 0 and 1 percent.

Good to Know

Because upside is often limited by caps and spreads, FIAs may offer less growth than direct market investing, but typically more potential than a traditional fixed annuity.

Some FIAs offer an optional guaranteed lifetime withdrawal benefit (GLWB) rider.

Variable Annuities (VAs) Higher Growth Potential with Market Exposure

Why Consider This Annuity

Variable annuities may suit people who are comfortable with market volatility and seeking returns based on actual market performance.

Variable annuities offer greater growth potential by giving you access to investment options tied to market performance.

How It Works

Variable annuities invest in underlying subaccounts that may include stocks, bonds, or mutual funds. These investments provide the opportunity for higher returns. However, both your principal and earnings can fluctuate based on market performance.

Good to Know

Variable annuities do not protect your principal like a fixed annuity or fixed index annuity.

Variable annuities may include a guaranteed minimum death benefit and/or the option to convert the account into a stream of income at a future date, typically at retirement. Some variable annuities also offer a guaranteed lifetime withdrawal benefit (GLWB) rider for an additional fee.

Registered Index-Linked Annuities (RILAs) Protected Growth Balanced with Loss Protection

Why Consider This Annuity

RILAs may appeal to those who want some market growth potential with limited downside protection.

How It Works

A RILA is a variable annuity that tracks the performance of a market index such as the S&P 500®. When markets rise, the account value can increase — up to a pre-selected cap. They offer downside protection features such as floors or buffers to limit losses when markets decline. You choose the level of protection that matches your risk tolerance.

Good to Know

RILAs still carry some investment risk because they do not fully protect your principal. The annuity design offers more growth potential than a fixed annuity, and more protection than a traditional variable annuity.

Some RILAs also offer an optional guaranteed lifetime withdrawal benefit (GLWB) rider.

Qualified Longevity Annuity Contracts (QLACs) Plan for Income in Later Retirement

Why Consider This Annuity

A QLAC may be appropriate for people looking for a higher level of protected income in their later retirement years.

How It Works

A QLAC is a fixed annuity that converts funds from a traditional IRA or 401(k) into lifetime income payments that begin no later than age 85. Assets used to purchase a QLAC are excluded from required minimum distribution (RMD) calculations, which may reduce taxable income in earlier retirement years.

Good to Know

You may hold multiple QLAC contracts if their combined value does not exceed the IRS limit. Many QLACs allow remaining funds to be passed on to beneficiaries.

Long-Term Care (LTC) Annuities Combine Income with Long-Term Care Protection

Why Consider This Annuity

An LTC annuity can be beneficial for those concerned about the rising costs of long-term care, especially individuals who may not qualify for standalone LTC insurance.

How It Works

Some fixed annuities offer optional LTC benefits for an additional fee. These benefits may be used to pay for services such as assisted living, nursing homes, or memory care. Many LTC annuities include features that increase available benefits — for example, a multiplier that turns a $100,000 purchase into $300,000 in coverage.

To access benefits, you may need to meet specific health-related criteria, such as being unable to perform a specified number of activities of daily living (ADLs). Some contracts may also include a waiting period before benefits begin.

Good to Know

You maintain access to your account value, though withdrawals reduce LTC benefits proportionally. If you no longer need LTC benefits, you may transfer your funds, withdraw your account value, or convert it into a protected income stream.

Reminder: All annuities offer tax-deferred growth, a way to pass value to beneficiaries, and the option to convert assets into protected lifetime income (terms and costs vary by product).

Questions to Ask a Financial Professional

When evaluating whether an annuity is right for you, consider asking your financial professional the following questions:

- ☐ **Is an annuity appropriate for my financial goals?**
- ☐ **When can my income begin?**
- ☐ **What are the costs associated with this annuity?**
- ☐ **Will I still have access to my money?**
- ☐ **What happens to the annuity if I pass away?**

Turn Retirement Savings into Income You Can Count On

Annuities can help create reliable, guaranteed income for retirement, something most investments alone cannot provide. By offering protected income, the opportunity for tax-deferred growth, and options for predictable payouts, annuities can play an important role in helping you achieve long-term financial security.

More resources, tools and retirement income information are available at Limraconsumer.com.