Annuity Products

In addition to traditional variable and fixed annuities, there are a number of other annuity products that can be used to save for retirement and provide an income stream during those years.

An **indexed annuity** is a fixed annuity that offers both a guaranteed minimum interest rate and a guarantee against loss of principal if held to term. Most indexed annuities are linked to the S&P 500 index. If the index moves up, the interest rate credited to the annuity is based on some portion of the index's increase. If the index moves downward, the contract guarantee provides at least the guaranteed minimum rate so the contract owner does not lose principal.

Like the indexed annuity, a **market-value adjusted (MVA) annuity** is also a fixed annuity product with a market-driven feature. However, instead of linking the annuity's interest rate to an index, the MVA annuity's interest rate remains fixed. The market-value adjustment feature only applies if the contract is surrendered before the contract period expires. For example, if an MVA annuity owner decides to surrender a contract early, a surrender charge and a market value adjustment will apply. If interest rates decreased during the contract period, the market value adjustment will be positive and may add to the surrender value of the contract. However, if interest rates increased during the time the contract was owned, the market value adjustment will be negative, which would increase the contract's surrender charge.

A **retirement income annuity** is a traditional deferred annuity that includes an additional feature—a decreasing term life insurance rider that provides term life insurance with a face amount that decreases each year the policy is in force. When the annuitant reaches retirement age (e.g., age 65), the decreasing term insurance death benefit expires and annuity payments begin providing retirement income. If, on the other hand, the annuitant dies before retirement, the term insurance death benefit is combined with the current value of the annuity and paid to the annuitant's beneficiary in the chosen settlement option.

A **deferred income annuity** (DIA) is a newer type of annuity that can provide lifetime retirement income for clients. With a DIA, the owner enters into a contract with an insurer and decides when he or she wishes to begin receiving income. The insurer then guarantees a set income for life. Note that there is a deferral period—the lifetime income stream will begin at least 13 months in the future. The purpose of deferred income annuities is simple and straightforward: to produce a guaranteed future income stream and to insure against outliving one's money. DIA purchasers are, essentially, buying retirement income *today* for down the road.

A **qualified longevity annuity contract** (QLAC) is a qualified version of a deferred income annuity. Certain qualified plans and IRAs can purchase and hold QLACs within the plan and exclude the value of these contracts from the account balance used to determine a person's required minimum distributions. In other words, by diverting a portion of their qualified plan funds to the purchase of a QLAC, participants will be able to avoid the required minimum distribution requirements on those funds, allow the funds to continue growing for an additional period, and then turn those funds into an income stream that will be payable for life.

QLACs cannot shelter qualified assets forever; they must have a required starting date and must provide that income payments will begin no later than this date, which is specified in the contract. A QLAC start date can be no later than the first day of the month following the owner's 85th birthday. The contract *can* allow the owner to select an earlier starting date.

In addition, income payouts must be for life; period certain only payouts are not allowed. Lifetime payouts from QLACs will meet the minimum distribution requirement.