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Annuities as an IRA Investment Option

****Annuity guarantees are subject to the claims-paying ability of the annuity issuer.***

A deferred annuity is one of several investment options you can choose from to fund your IRA. You might think that a deferred annuity isn't suitable as an investment option for an IRA, since both deferred annuities and IRAs generally provide for the deferral of income taxes on earnings until they're withdrawn. However, there are several reasons, aside from tax deferral, that may make a deferred annuity a sound funding choice for your IRA.

Common features of IRAs and deferred annuities

IRAs and deferred annuities share several common features. Both IRAs and deferred annuities:

- Provide for the deferral of income taxes on gains (interest, dividends, and earnings) within the account until withdrawn
- Offer varying degrees of creditor protection based on particular state law
- Are intended as long-term savings options
- Subject the account owner to early withdrawal penalties unless an exception applies

Many deferred variable annuities offer a variety of investment options called subaccounts within which you can allocate your premium payments. A variable annuity's subaccount choices will be described in detail in the fund prospectus provided by the issuer. However, with the exception of the guaranteed* subaccount, you assume all the risk related to subaccount performance, and while you could experience positive growth in the subaccounts, it's also possible that the subaccounts will perform poorly and you may lose money, including principal.

Nevertheless, many variable annuities allow you to reallocate among available subaccounts without cost or restriction. This feature provides you with investment flexibility, because each subaccount is typically based on a different investment strategy.

But, the common features shared by deferred annuities and IRAs do not necessarily make them mutually exclusive.

Income

Deferred annuities offer the opportunity to annuitize the account, which involves exchanging the cash value of the deferred annuity for a stream of income payments that can last for the lifetimes of the contract owner and his or her spouse. That can help in retirement by providing a steady, reliable income. But converting your account to an income stream means you're generally locked into those payments unless the annuity provides a commuted benefit option allowing you to "cash out" the balance of your income payments.

Another income option offered by some deferred annuities provides guaranteed* income payments without relinquishing the entire cash value of the annuity. The guaranteed* lifetime withdrawal benefit allows you to receive an annual income for the rest of your life without having to annuitize the annuity's entire cash value.

Some deferred annuities offer a rider that provides you with a minimum income equal to no less than your premium payments less prior withdrawals. With this rider, you are assured of receiving minimum income payments based on the premiums you paid into your annuity, even if the annuity's accumulation value has dipped below your investment in the contract due to poor investment performance.

Principal protection

Deferred annuities may offer protection of your principal. Fixed deferred annuities guarantee* your principal and a minimum rate of interest as declared in the contract when you buy the annuity. However, the interest rate the annuity pays may actually exceed the minimum rate and may last for a certain period of time, such as one year, after which the rate may change.

Deferred variable annuities also may offer principal protection through riders attached to the basic annuity (annuity riders typically come with an additional cost).

The guaranteed lifetime withdrawal benefit allows you to receive an annual income for the rest of your life without having to annuitize the annuity's entire cash value.

For example, a common annuity rider restores your annuity's accumulation value to the amount of your total premiums paid if, after a prescribed number of years, the accumulation value is less than the premiums you paid (excluding any withdrawals).

Death benefit

Another benefit offered by some deferred annuities is a death benefit guaranteed* to equal at least your investment in the contract. Most annuity death benefits provide that if you die prior to converting your account to a stream of income payments (annuitization), your annuity beneficiaries will receive an amount equal to your investment in the contract (less any withdrawals you may have taken) or the accumulation value, whichever is greater.

Why an annuity might not be a good idea

Fees: Some deferred annuities charge mortality and expense fees in addition to other fees that may be greater than fees charged in other investments. Specifically, deferred annuities may charge fees for a death benefit, minimum income rider, and principal protection.

Required minimum distributions: As an owner of a traditional IRA, you are required to take required minimum distributions (RMDs) beginning at age 70½. Deferred annuities outside of IRAs do not have this requirement. So buying an annuity within an IRA now adds the RMD requirement to the annuity.

Surrender charges: Deferred annuities come with surrender charges, which charge a penalty for taking withdrawals from the annuity prior to maturity. These surrender charges may make deferred annuities less liquid than some other types of investments. However, many deferred annuities waive surrender charges for withdrawals up to a certain amount, such as 10% of the account value; for RMDs; for withdrawals based on a guaranteed* minimum withdrawal rider; and if the annuity is annuitized into a stream of payments.

Tax deferral: Deferred annuities offer deferral of income taxes on gains and earnings of account values within the annuity. IRAs also offer tax deferral of gains and earnings. So, you are receiving no additional income tax benefit by investing in a deferred annuity through an IRA.

Is an annuity right for you?

Some deferred annuities afford benefits that may not be available in other types of investments, making annuities an option to consider for your IRA. However, most of these benefits come at a cost that can reduce your account value. Before funding your IRA with a deferred annuity, talk to your financial professional. You'll want to know:

- Does the annuity have surrender charges and if so, how much are the charges? Is there any amount I can withdraw from the annuity (such as required minimum distributions) without incurring surrender charges?
- Can the annuity decrease in value? Are there any options available in the annuity to protect my investment?
- What are the benefit options and what are their costs? Are there any other fees or charges that apply to the annuity?
- What is the financial strength of the company issuing the annuity?

If annuity benefits fit your financial plan, a deferred annuity may be a good option for your IRA.

Note: *Variable annuities are sold by prospectus. Variable annuities contain fees and charges including, but not limited to, mortality and expense risk charges, sales and surrender (early withdrawal) charges, administrative fees, and charges for optional benefits and riders. You should consider the investment objectives, risk, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity, can be obtained from the insurance company issuing the variable annuity or from your financial professional. You should read the prospectus carefully before you invest.*