



Duane E. Lee, II
Cannon Financial Institute,
CFP®, AIFA CWS®, CTFA®,
CRSP®,
Executive Vice President
649-4 South Milledge Ave.
Athens, GA 30604
706-353-3346
dlee@cannonfinancial.com
www.cannonfinancial.com

Variable Annuities



Inside Workbook:

What Is a Variable Annuity?	2
Why Buy One?	3
Two Types of Growth	4
Annuities vs. 401(k)s / IRAs	5
Putting Money In	6
Subaccounts	7
Guaranteed Death Benefit	8
Taking Money Out	9
Payout Options	10
Tax Consequences	11

Prepared for:
Duane's Instructor Corner

What Is a Variable Annuity?



A variable annuity is an insurance-based contract between you and the issuer.

How a variable annuity works

- You pay premiums to the annuity issuer
- Issuer invests your money in accordance with your specifications
- Earnings accumulate tax deferred
- Earnings are taxed as ordinary income when distributed

Some key terms defined

- **Owner**--Usually purchases the annuity, pays the premiums, and names the beneficiary in the event of death. The owner can make withdrawals from the annuity or surrender it, and is generally the party who receives the payments if the annuity is annuitized.
- **Issuer**--Generally an insurance company. The issuer accepts the premium payments, invests them in accordance with the annuity contract, and promises* to pay whatever benefits the annuity contract stipulates.
- **Annuitant**--Provides the "measuring life" used by actuarial tables to determine the amount of the payments if the annuity is annuitized. Typically, the annuitant is also the owner of the annuity.
- **Annuitization**--The conversion of an annuity into a stream of payments.
- **Beneficiary**--Named by the owner of the annuity, the beneficiary receives the proceeds of the annuity if the owner dies before annuitization, or receives the remaining benefits (if any, depending on the annuitization option selected) at the time of the owner's death.
- **Accumulation phase**--The time period when premium payments are made and earnings accrue.
- **Distribution phase**--The time period when money is taken out of the annuity, either through withdrawals or annuitization.
- **Immediate annuities**--Are typically purchased with a single lump-sum payment, and the distribution period usually begins within a year of the purchase.
- **Deferred annuities**--Most often purchased with a series of periodic payments. The distribution period begins some time in the future, which allows any earnings to grow on a tax-deferred basis.

**Guarantees are subject to the claims-paying ability of the issuer.*

Why Buy a Variable Annuity?



Reasons to buy

- To provide tax-deferred savings and a dependable income for life
- To save for a specific purpose
- To supplement other retirement income
- To maintain financial independence

Possible annual retirement expenses

- | | |
|---|----------|
| 1. Enter projected income in year prior to retirement | \$ _____ |
| 2. Multiply by .80 | X .80 |
| 3. Result | \$ _____ |

Taking 80 percent of your anticipated income is a very simple way of estimating possible annual expenses in retirement. Obviously, your actual expenses will depend on your individual circumstances.

Estimated annual retirement income

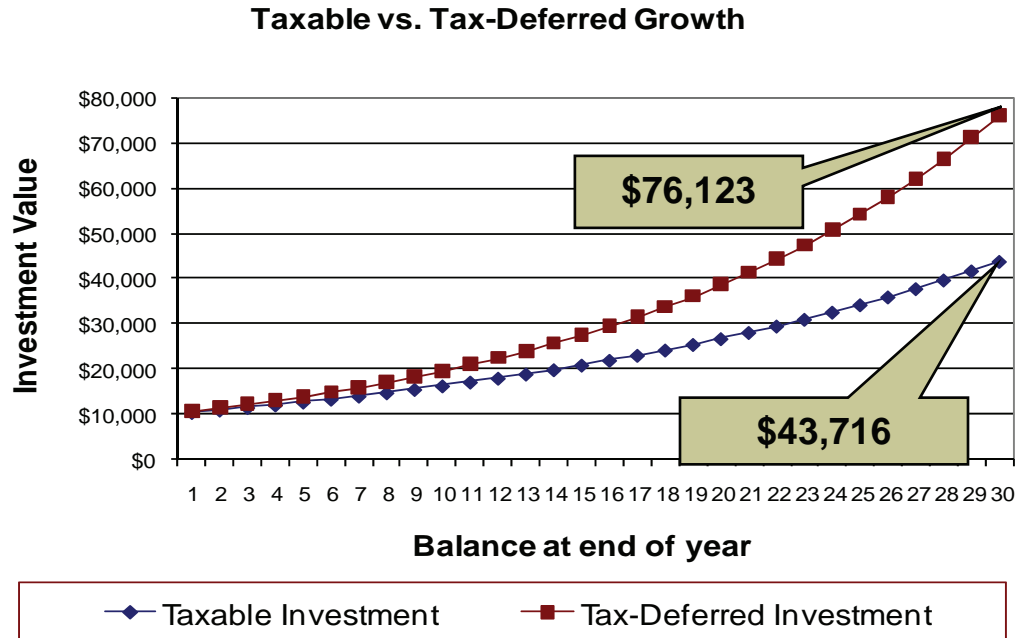
- | | |
|--|----------|
| 4. From Social Security | \$ _____ |
| 5. From traditional employer pension plan | \$ _____ |
| 6. From other employer-sponsored retirement plans
(e.g., 401(k) and IRAs) | \$ _____ |
| 7. Other retirement income | \$ _____ |
| 8. Total | \$ _____ |

Difference (line 3 - line 8)	\$ _____
-------------------------------------	----------

Will your estimated retirement income meet your anticipated expenses?

If not, a variable annuity can help you "bridge the gap."

Taxable vs. Tax-Deferred Growth



Assumptions:

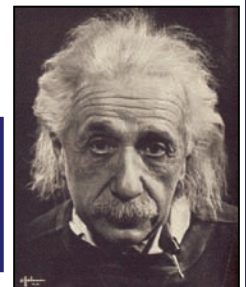
- 1) Lump-sum investment of \$10,000.
- 2) Earning 7 percent a year compounding annually.
- 3) You are in the 28 percent federal income tax bracket.

This hypothetical example is for illustrative purposes only, and is not representative of any specific investment or mix of investments. Actual results will vary. Taxable investment assumes earnings are taxed as ordinary income and is not reflective of possible lower maximum tax rates on capital gains and dividends which would make the taxable investment more favorable thereby reducing the difference in performance between the accounts shown.

Applicable annuity charges are not reflected in this illustration. Had they been included, the return of the annuity would be lower. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison.

Your variable annuity earnings grow tax deferred. As a result, you have the potential to accumulate more money than you could with similar investments that are taxed each year. Why? Because the money that's not going to taxes keeps compounding.

"Compound interest is the greatest mathematical discovery of all time."
 -- attributed to Albert Einstein



Philippe Halsman, *Albert Einstein*, silver gelatin print 1947, © Halsman Estate

Annuities vs. 401(k)s and IRAs

Annuities	401(k)s and Traditional IRAs	Roth IRAs
Generally funded with after-tax dollars	Can be funded with before-tax dollars	Funded with after-tax dollars, but qualified distributions are tax free
Unlimited contributions	Limited contributions	
Can elect a death benefit	Generally no death benefit guaranteed	
Higher costs and fees generally apply	Costs and fees typically lower depending on the investments chosen	
No lifetime required minimum distributions (RMDs)	Required minimum distributions (RMDs) after age 70½	No lifetime required minimum distributions (RMDs)
Can be converted to a guaranteed lifetime income stream*	Although funds accumulated in a 401(k) plan or an IRA could well last for your life, there's generally no guarantee	Although funds accumulated in a Roth IRA could well last for your life, there's generally no guarantee

*Guarantees are subject to the claims-paying ability of the annuity issuer. The earnings portion of annuity withdrawals is subject to income tax at ordinary income tax rates. Pretax or tax deductible contributions and pretax earnings are subject to income tax at ordinary tax rates when withdrawn.

Note: Employers can allow 401(k) participants to make after-tax Roth 401(k) contributions. Qualifying distributions from Roth 401(k) accounts are free from federal income tax, but Roth 401(k) accounts are subject to lifetime RMD requirements.

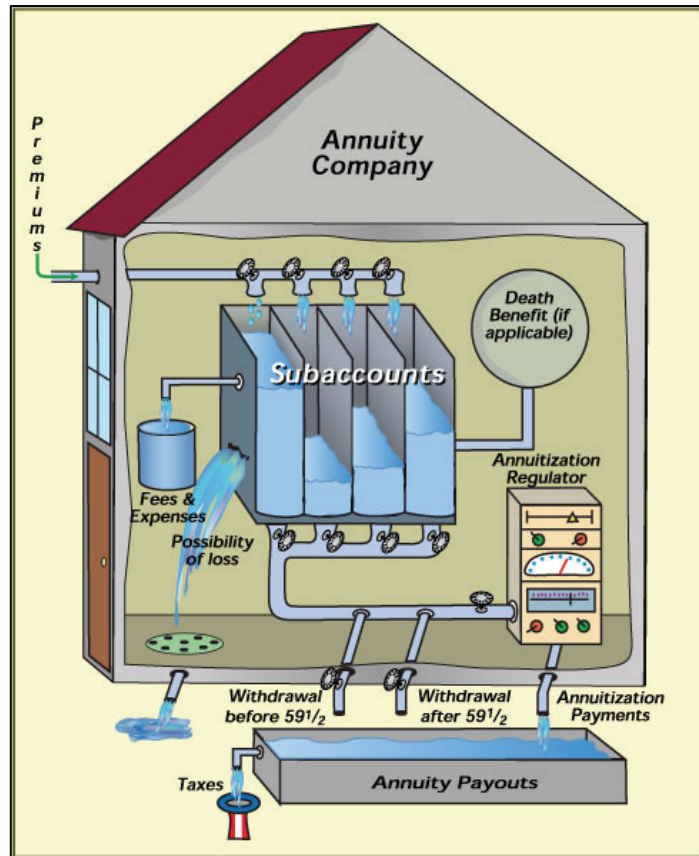
Of course, annuities aren't the only choice offering tax-deferred growth potential; retirement plans such as 401(k)s and individual retirement arrangements (IRAs) do that as well.

And, in general, 401(k)s and IRAs have more tax advantages. So, it makes sense to take full advantage of these other plans before considering an annuity. But not everybody can. And even if you can, 401(k)s and IRAs both have annual contribution limits. However, anyone can purchase an annuity and invest an unlimited amount in it.

Here's what may be one of the most important distinctions between annuities and other retirement investments: An annuity can be converted into a stream of payments that can last for your lifetime, or for the lifetimes of you and your spouse--no matter how long you live. While it's entirely possible that the funds you accumulate in an IRA or 401(k) could last for your entire life, there's generally no guarantee--it's possible that you could outlive your funds.

Notes

Putting Money in a Variable Annuity



Note: Variable annuities are long-term investments suitable for retirement funding and are subject to market fluctuations and investment risk including the possibility of loss of principal. 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.

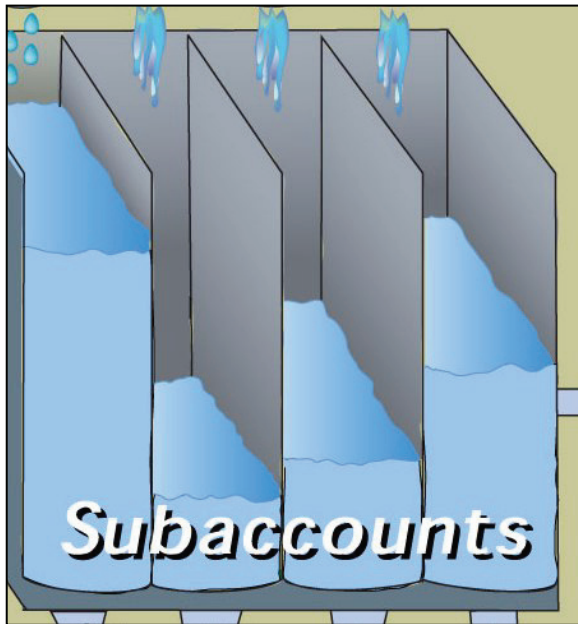
Variable annuities are sold by prospectus. You should consider the investment objectives, risk, charges, and expenses and its underlying accounts company carefully before investing. The prospectus, which contains this and other information about the variable annuity, can be obtained from the insurance company issuing the variable annuity, or from your financial professional. You should read the prospectus carefully before you invest.

- You can allocate premiums to investment choices (“subaccounts”) offered by the issuer
- You can reallocate funds among subaccounts without incurring commission charges or triggering a taxable event
- Earnings are tied to the performance of the underlying subaccounts you choose
- If your subaccount choices perform poorly, you may lose money, including principal

Variable annuity expenses

- An annual contract fee
- A mortality and expense risk charge that compensates the issuer for some of the guarantees that may be associated with the annuity
- Subaccount costs may include investment advisory fees and operational expenses
- May charge surrender fees if you withdraw some or all of your investment in the early (5 - 10) years of the contract

Variable Annuity Subaccounts



A variable annuity's subaccount choices will be described in detail in the fund prospectus provided by the issuer.

Typical subaccount fund choices

- Government securities
- Corporate bonds
- High-yield bonds
- A balanced subaccount (made up of both stocks and bonds)
- Common stocks
- A growth and income account
- A guaranteed subaccount (in which the issuer guarantees* a minimum rate of interest)

**Guarantees are subject to the claims-paying ability of the issuer.*

With the exception of a guaranteed subaccount, variable annuities don't offer any guarantees on the performance of their subaccounts. You assume all the risk related to those investments. In return for assuming a greater amount of risk, you may experience a greater potential for growth in your earnings. However, it's also possible that the

subaccounts will perform poorly, and you may lose money, including principal. You should consider purchasing a variable annuity only if you're willing to assume the risk inherent in investing.

Guaranteed Death Benefit

Annuities can provide guaranteed* death benefits to your named beneficiary.

If you die before the annuity is annuitized:

- Your named beneficiary will generally receive at least 100 percent of the premiums you've paid, less any withdrawals you may have taken.
- You can structure the contract to pay your beneficiary the cash value (if it's greater than the total premiums paid) at the time of your death.

If you die after annuitization has started, several annuitization options provide benefits to your named beneficiary after your death.

**Guarantees are subject to the claims-paying ability of the issuer.*



Death benefit proceeds are not subject to probate, and may be paid directly to your beneficiaries from the issuer.

How much death benefit do you need?

Annual income needed.	\$ _____	
Number of years income needed. X _____		
Total income needed.		\$ _____
Other needs:		
Education fund for children.	\$ _____	
Cash reserve account.	\$ _____	
Outstanding mortgage balance.	\$ _____	
Other debts.	\$ _____	
Final illness/funeral.	\$ _____	
Estate settlement costs.	\$ _____	
Total.		+ \$ _____
	Total need.	= \$ _____
Less:		
Cash and other liquid savings.	\$ _____	
Other assets available to repay debt.	\$ _____	
Annual replacement income	\$ _____	
Number of years income available X _____		
Total replacement income.	\$ _____	
Current life insurance.	\$ _____	
Total		- \$ _____
Additional death benefit needed.		= \$ _____

Taking Money out of a Variable Annuity

Withdrawals

You may withdraw money from a variable annuity at your own discretion, although withdrawals made prior to age 59½ may be subject to an additional 10 percent penalty tax as well as applicable surrender charges.

Withdrawals can be taken in fixed or varying amounts, and you may choose the variable annuity subaccounts from which the withdrawals are to be taken.

Annuitization

You can also elect at some point to annuitize the annuity, which means to convert the annuity to periodic income payments. You can elect to receive payments monthly, quarterly, semiannually, or annually.

Variable annuities may be converted to guaranteed* fixed payments, or you may choose to receive variable payments where the amount you receive will depend solely on the performance of the annuity's subaccounts, or you may choose a combination payment consisting of a fixed portion and a variable portion.

Factors affecting annuitization payments

- The cash value of your account
- The performance of your underlying investments
- The age and gender of the annuitant
- The payout option you choose



Variable annuity riders

Some variable annuity riders offer *guarantees not otherwise provided by the basic policy. These guarantees generally provide for a minimum account value or a minimum income available and include:

- Guaranteed withdrawal benefit rider
- Guaranteed accumulation benefit rider
- Guaranteed lifetime withdrawal benefit rider

**Guarantees are subject to the claims-paying ability of the issuer.*

Once you annuitize, you usually can't change your mind--you're no longer allowed to invest further in the annuity, make other withdrawals, or select a different payment option.

Variable Annuity Payout Options

Payments for life--You can elect to receive payments for your lifetime. With this option, payments cease at your death. Unless an exception applies, there is no death benefit available, even if you die prior to receiving the return of your annuity investment.

Payments for a specified period--You choose to receive payments for a specified period. If you die before the end of the period, your named beneficiary will receive the payments for the remainder of the period. If you outlive the specified period, however, neither you nor your beneficiary will receive any payments once the period has ended.

Payments for life with term certain--You will receive payments for life or for a guaranteed time period, whichever is longer. With this option, if you die before the time period has elapsed, your beneficiary will receive the remaining payments.

Refund life--This option provides you with payments for life. If you die before you've received the total balance of the annuity, the remaining balance will be paid to your named beneficiary, either in a lump sum or in installments.

Joint and survivor life--This option provides two persons--first one and then the second--with income. When the first person dies, the second person continues to receive the payments (or some portion of them) for life, or for a specified time period, or a combination of life with a term certain. Because this



option makes payments over two lifetimes, it generally provides payments for a longer period of time than the other options do. For that reason, the periodic payments might be lower than those under other options.

**Guarantees are subject to the claims-paying ability of the issuer.*

It's important to remember that variable annuity payout amounts (with the exception of the fixed payment for life option) will fluctuate with the performance of your underlying investments. Should your selections perform well, you may enjoy larger payments. However, if your investments perform poorly, this may be reflected in smaller payments, and you could lose money.

Tax Consequences of Annuity Withdrawals



For federal income tax purposes, the portion of any withdrawal or payout that's considered earnings will be taxed as ordinary income. Your state may also impose taxes on annuities.

Generally, withdrawals are considered to be coming from the earnings portion of the annuity first, then from the principal. If you annuitize, however, each payment is apportioned between a nontaxable return of your principal and a taxable distribution of earnings.

With a few exceptions, in addition to the ordinary income tax on the withdrawal, a 10 percent premature distribution tax will be imposed on distributions you take from your annuity prior to the date you reach 59½ years of age.

Generally speaking, the value of the death benefit of an annuity contract may be subject to federal estate taxes on behalf of the deceased owner's estate. Because taxation of annuities can be complicated, you should consult your tax advisor with any tax questions you may have.

Before you buy: A checklist

Caution: Compare similar contracts. Do not compare fixed annuities to variable annuities.

- Have you received and read the annuity contract/prospectus?
- What is the issuer's rating?
- What are the fees and expenses?
 - Sales commission
 - Surrender fees
 - Mortality and expense risk charge
 - Annual maintenance fee
 - Investment advisory fee
 - Other expenses
- What types of subaccounts are available? What is the most recent 12-month rate of return? What has been the rate of return for the past 3 to 5 years?



Duane E. Lee, II
Cannon Financial Institute,
CFP®, AIFA CWS®, CTFA®,
CRSP®,
Executive Vice President
649-4 South Milledge Ave.
Athens, GA 30604
706-353-3346
dlee@cannonfinancial.com
www.cannonfinancial.com

At Cannon Financial Institute, Inc., the program materials and instructor presentations are intended to provide program participants with ideas and guidance in the areas of planning, administration, and management. They are intended to stimulate thought and discussion. The materials and the instructor comments do not constitute, and should not be treated as, legal or other professional advice regarding the use of any particular planning technique, audit or compliance measure, policy, procedure or other such application of the information provided, or the tax consequences associated with it. Although every effort has been made to ensure the accuracy of the materials and the comments at the program, Cannon Financial Institute, Inc., and each instructor, individually, do not assume responsibility for any participant's reliance on the written or oral information disseminated during the program. Each program participant should independently verify all statements made in the materials and comments made at the program before applying them to a particular fact situation. Each participant should independently determine the tax, nontax, legal and fiduciary liability consequences of using any particular information before recommending that technique to their institution, its management, its board of directors, a client or implementing it on a client's behalf. The materials and the instructor comments should not be utilized as a substitute for professional service in specific situations. If legal, accounting or other expert assistance is required, the services of such a professional should be sought.

Prepared by Broadridge ICS, Inc.
Copyright 2012