DEBUNKING THE TOP SIX MYTHS ABOUT ANNUITIES

SEPARATING FACT FROM FICTION

CUNA MUTUAL GROUP

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Memories still linger of the financial collapse a little more than a decade ago, and recent market volatility has put some investors on edge. The prospect of a guaranteed income stream is highly appealing to those who want to protect against market loss and outliving their money. If that sounds like you, annuities may provide the peace of mind you're looking for.

There's a lot of conflicting information out there about annuities, however, and some have gotten a bad rap as being expensive and difficult to decipher. But annuity products have evolved over the years, and no matter where you are in life, a new generation of annuities may have a lot to offer.

Still, some misperceptions persist. Here we'll debunk several myths and share the facts to help you make more-informed decisions.

WHAT IS AN ANNUITY?

An annuity is a contract between an individual and an insurance company designed to provide guaranteed income for as long as a person lives. Annuities may allow investors to minimize downside risk while still participating in up markets. The goal of an annuity is to provide a steady stream of income in retirement, and like all investments, they may carry some risk.

MYTH 1

ANNUITIES HAVE A LOW RATE OF RETURN.

FACT ANNUITY PRODUCTS (AND RETURNS) VARY WIDELY.

There is a wide range of options available for annuities, much like there is for traditional investment accounts. As with money invested in traditional market funds, the annuity you invest in will have its own unique performance profile, and your returns may vary based on how much risk you're willing to take on.

In general, there are two annuity categories:

DEFERRED ANNUITY

As its name implies, a deferred annuity "defers" paying you until sometime in the future. When you initially make your deposit or payments to the insurance company, there will be an agreed-upon interest rate that will be used to calculate the income payments that you'll begin receiving down the road, sometimes 10 to 15 years later.

IMMEDIATE ANNUITY

If you want to immediately begin drawing income from your annuity, you may want to consider an immediate annuity. With this option, you make a lump-sum deposit and can begin receiving income immediately.

VARIABLE VS. FIXED VS. INDEXED?

Deferred and immediate annuities can be further categorized as variable, fixed, or indexed annuities.

- **A variable annuity typically ties its performance to overall market performance that may fluctuate, but you may benefit from higher returns in the end.**
- **A fixed annuity may provide more security and predictable growth for those with low risk tolerance, but it typically has limited upside potential.**
- **An index-linked annuity — sometimes called an "equity-indexed annuity" or "fixed-indexed annuity"—may have more risk (and potentially more return) than a fixed annuity but less risk (and potentially lower returns) than a variable annuity.**

MYTH 2

ANNUITIES ARE EXPENSIVE.

FACT

MANY ANNUITIES ARE LOW COST.

As with nearly all investment options, there will most likely be some costs involved, no matter which type of annuity you choose. Historically, annuities were linked to high annual fees and ongoing expenses. However, many newer, innovative annuity products have come on the market that provide more options and flexibility.

Fees may vary based on the features and benefits you'd like to receive. Once you identify which goals best align with your investment strategy, you can determine which type of annuity is right for you and understand any associated costs.

VARIABLE ANNUITY FEES

In general, you can expect variable annuities to include fees that cover administrative expenses and expenses for the risk the company issuing the annuity is taking. Such risks include expense risk—the risk that expenses are higher than the company assumed—and mortality risk—the risk that life expectancy is different from what the company assumed.

FIXED ANNUITY FEES

Typically, fixed annuities cost less than variable annuities because they are less complicated. Some fixed annuities offer additional features to address specific risks that can also come at a cost, such as provisions to customize the annuity. Some examples may include adding long-term care insurance or added death benefits. You'll also want to fully understand any potential surrender fees that may apply for early withdrawal of funds or cancellation of the contract.

INDEX-LINKED ANNUITY FEES

Because of how they're structured, indexed annuities are generally considered more complex than a fixed annuity, but they offer unique benefits. Typically, there is no annual fee. Before investing, however, understand that they may carry substantial early surrender charges, tax penalties, and/or market value adjustments for early withdrawals beyond your annual allowable limit.

For most annuities, certain life circumstances may result in surrender fees being waived, such as if you qualify for the nursing home, hospital, or terminal illness waiver.

While it's true that some annuities may cost more than other investment options, many also provide guaranteed benefits that other types of investments can't offer. For some, the value of knowing they won't run out of money as they age is worth the additional expense. The key is working with a reputable company that offers competitive rates based on apple-to-apple comparisons. Ask questions, insist on transparency, and only pay for what you really need.

One of the **greatest fears for about 1/3 of retirees is outliving their savings and investments.**[1]

32%

MYTH 3

ANNUITIES BENEFIT THE INSURANCE COMPANY, NOT THE INVESTOR.

FACT

ANNUITIES MAY BENEFIT BOTH.

It should come as no surprise that insurance companies that sell annuity products want to be profitable. That should, in fact, put your mind at ease. After all, when the company does well, chances are you'll come out ahead, too.

Like other insurance policies, annuities are structured to help mitigate risks. Many consider auto insurance beneficial, for example, because it can help protect against the risks of driving. Likewise, an annuity protects against the risks of investing and helps ensure you won't run out of money before you die. For many, the peace of mind offered brings assurance in knowing that no matter what the market does or how long they live, they can still receive a reliable income stream.

To reap the most benefit from an annuity, it's important to identify your investment needs: **accumulation, income, or legacy**. To make that determination, it may help to answer a simple question:

Do you want to build your retirement savings over time, or do you need to draw income right away?

Generally speaking, deferred annuities are associated with accumulation and legacy needs, whereas immediate annuities are associated with the need for income. There are exceptions, however, and some types of annuities can provide benefits no matter what your investment needs are.

As with any insurance product, there are no one-size-fits-all policies. Some offer features that may not be a fit for you based on many factors, including the value of other investments in your portfolio, your risk tolerance, desired standard of living, and much more. That's why it's important to work with a financial advisor who will take time to help you understand your options and how each may help you reach your retirement goals.

CUSTOMIZABLE

Do Annuities Offer Flexibility?

Some annuities are customizable and empower you to invest at a comfort level that's right for you by letting you decide exactly how much you're willing to lose in exchange for how much you hope to gain. You can set your downside limit—called a floor—and be guaranteed never to lose more than that. In return, there will be a corresponding cap, or maximum gain, on the upside.

MYTH 4

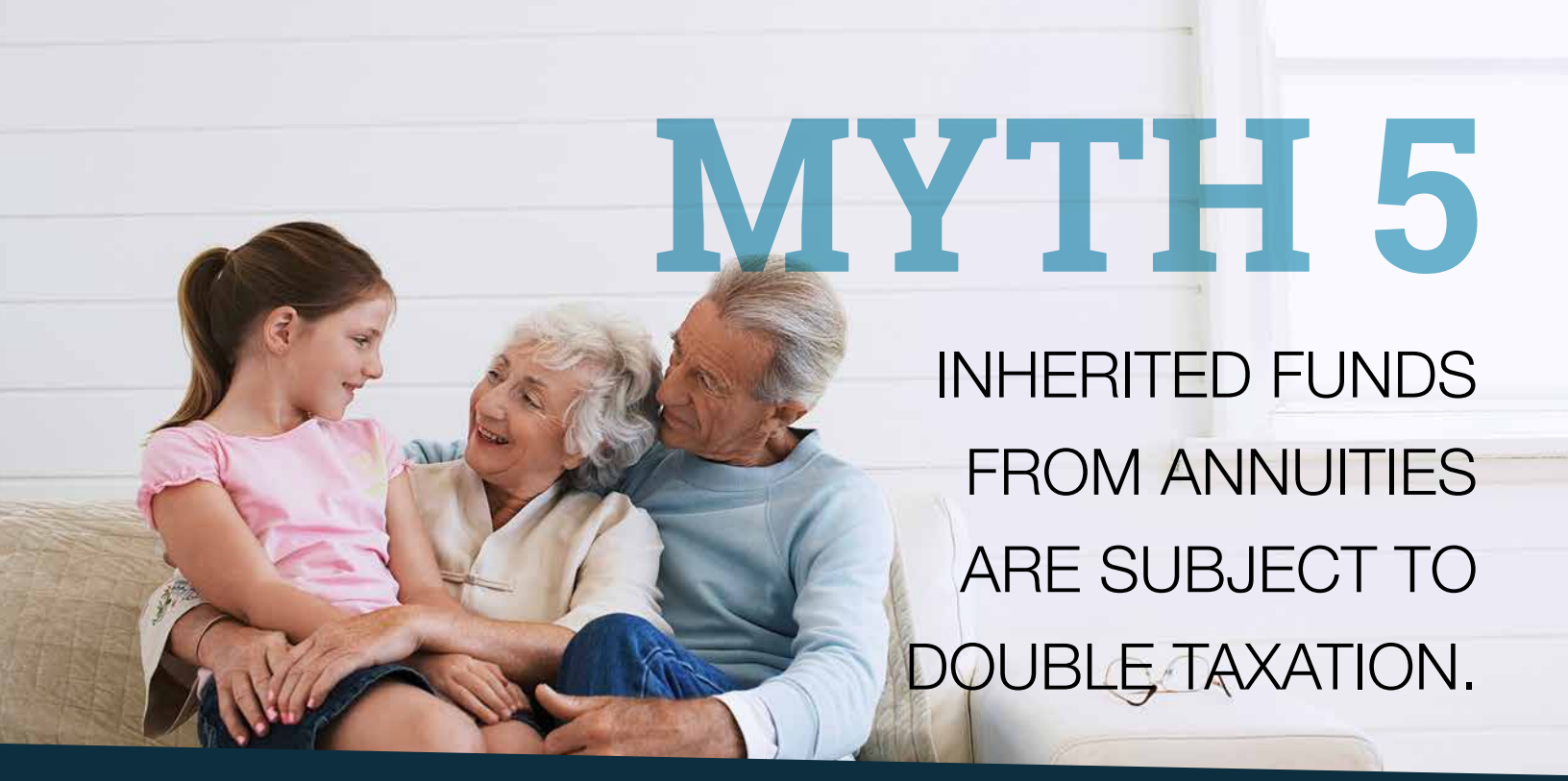
THE INSURANCE COMPANY KEEPS MY MONEY AFTER I DIE.

FACT

BENEFICIARIES MAY RECEIVE PAYMENTS AFTER YOU'RE GONE.

A limited number of income annuities—sometimes called "life only" immediate annuities—may not offer a benefit to beneficiaries because of the way they're structured. Some, however, may provide benefits to your heirs if you pass away prematurely. Such options come at a premium but may be worth it depending on your life circumstances.

Knowing how the different types of annuities function is the key to understanding how your beneficiaries may or may not benefit, so discuss various options with your financial planner.



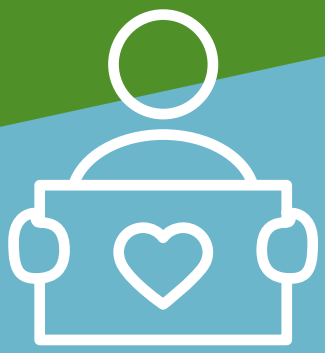
MYTH 5

INHERITED FUNDS FROM ANNUITIES ARE SUBJECT TO DOUBLE TAXATION.

FACT

ESTATE TAXES DON'T APPLY TO MOST AMERICANS.

Estate taxes, sometimes referred to as inheritance or death taxes, are often hotly debated among politicians. The reality, however, is that estate taxes typically apply only to those with extreme wealth.



AS OF 2021,

the estate and gift tax exemption, according to the Internal Revenue Service, is $11.7 million per individual and $23.4 million for married couples. The annual gift exclusion amount remains at $15,000. Some states have levied separate estate or inheritance tax rules, so check with your financial advisor to understand your specific threshold.[2]

MYTH 6

I CAN RELY ON OTHER INVESTMENT WITHDRAWALS AND DON'T NEED AN ANNUITY.

FACT

AN ANNUITY MAY PROTECT YOU WHEN OTHER INVESTMENTS FAIL TO PERFORM.

Annuities are typically purchased to supplement or "round out" an overall investment portfolio. As mentioned, there are annuity products that are appropriate for each investment need. That's good news because in the event your other investments perform poorly or the market experiences a downturn, your annuity may still provide a steady, predictable stream of income.

The prospect of market volatility leaves many investors with uncertainty over where and how much to invest, leading to fears of not having enough income in their retirement years:

- Only **43%** of private industry and state and local government employees participate in an employer sponsored defined contribution retirement plan.[3]
- Social Security payments currently **replace only about 42%** of a medium earner's income for someone who retires at full retirement age.[4]
- **One in 5 adults expect to work past age 65,** with nearly **half** doing so out of necessity. Reasons include not having saved enough, rising healthcare costs, unexpected situations, and not receiving enough Social Security income to cover their needs.[5]

While you could choose to rely solely on traditional market investments, an annuity can help protect against another market downturn and economic collapse. For many, it's a wise investment decision that may help put their minds at ease.

THE LONGEVITY RISK IS REAL

The number of people **85 years and older is expected to nearly double** by 2035 (from 6.5 million to 11.8 million) and **nearly triple by 2060** (to 19 million people).[6] Will you outlive your money?

There are many types of annuities, and the best way to discover which annuity might make the most sense as part of your overall retirement strategy is to work with a trusted financial advisor. **Contact your advisor to explore how annuities may align with your investment goals.**

SOURCES

[1]Nonprofit Transamerica Center for Retirement Studies, Retirees and Retirement Amid COVID-19 —20th Annual Transamerica Retirement Survey of Retirees, September 2020.

[2]Internal Revenue Service, What's New – Estate and Gift Tax, April 12, 2021.

[3]Bureau of Labor Statistics, Employee Benefits in the United States, March 2020, September 2020.

[4]Social Security Administration, Understanding the Benefits, January 2021.

[5]Northwestern Mutual, Planning & Progress Study 2020: Work + Retirement, 2020.

[6]U.S. Census Bureau, Demographic Turning Points for the United States: Population Projections for 2020–2060, Revised February 2020.

IMPORTANT DISCLOSURES

Annuities are long-term insurance products designed for retirement purposes. Clients should consider a variable annuity's investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information. Encourage clients to read it carefully.

All guarantees are backed by the claims-paying ability of the issuer and do not extend to the performance of the underlying accounts which can fluctuate with changes in market conditions.

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