



About Immediate Annuities

Single Premium Immediate Annuities (SPIAs) are purchased with a single deposit amount. As the name implies, the annuity usually start making regular monthly payments to you **immediately** after you turn over the funds to the insurance company. Typically this means 30 days from the date of deposit; but within certain limits you can also to defer the date that payments begin.

The first thing you need to understand is what actually happens when you buy an immediate annuity. In return for a sum of money, the insurance company promises to make regular payments to the owner or annuitant (if different) for a specific period, such as the remainder of the annuitant's life. The payments can be set up in any of a variety of different ways ; however, whatever form you do select at the time of purchase cannot be changed at a later date. In accepting this guaranteed schedule of payments you also give up the right to demand the return of your original deposit, for example in the form of a lump sum less any payments that have already been received. In short, once the payments of an immediate annuity have begun, the contract generally cannot be revised or cashed in.

The funds that are used to purchase an immediate annuity can come from a variety of sources, including a maturing Certificate of Deposit (CD); monies accumulated in a Deferred Annuity account (see below); or a lump sum distribution from a tax-qualified defined benefit or profit-sharing plan, or an IRA account.

Why should I consider buying an Immediate Annuity?

There are many advantages that immediate annuities can provide to the buyer. Here is a list of just a few:

1. **Security**- the annuity provides stable lifetime income which can never be outlived or which may be guaranteed for a specified period;
2. **Simplicity**- the annuitant does not have to manage his investments, watch markets, report interest or dividends;
3. **High Returns**- the interest rates used by insurance companies to calculate immediate annuity income are generally higher than CD or Treasury rates, and since part of the principal is returned with each payment, greater amounts are received than would be provided by interest alone;
4. **Preferred Tax Treatment**- it lets you postpone paying taxes on some of the earnings you've accrued in a "tax-deferred" annuity when rolled into an immediate annuity (only the portion attributable to interest is taxable income, the bulk of the payments are nontaxable return of principal);
5. **Safety of Principal**- funds are guaranteed by assets of insurer and not subject to the fluctuations of financial markets; and
6. **No sales or administrative charges**



Single Premium Immediate Annuities (SPIAs) are particularly suitable for the following situations:

1. Retirement from Employment;
2. Terminal Funding or Pension Terminations (including deferred commencements);
3. Retired Life Buyouts;
4. Structured Settlements for Personal Injury, Estate or Divorce cases;
5. Professional Sports Contracts; and
6. Credit Enhancement and Loan Guarantee Transactions.

Forms of Annuity

The most basic life annuity is known by several names, including "Single Life," "Straight Life," "Life Only," or "Non-refund" annuity. In its simplest form, it provides guaranteed payments over the lifetime of one person, with payments ceasing upon the annuitant's death. By offering a way of insuring that you will not outlive your financial resources, a Single Life annuity can be an important tool in planning for retirement. A Single Life annuity also provides the highest payout of any lifetime annuity, because it carries the smallest risk for the insurer.

One of the key factors in pricing a life annuity is the average life expectancy of the person that will be receiving the payments. In a sense, purchasing a life annuity is like making a bet with an insurance company about how long you will live. Since the insurer will stop making payments when you die, it is betting that you won't live beyond your life expectancy. On the other hand, you come out the winner if you do live longer than the average person, because the insurance company will have to continue making payments beyond the period it had assumed.

The coverage of a life annuity can be increased by including a second person ("Joint and Survivor" annuity), by adding a guaranteed period of time ("Period Certain" annuity), or by guaranteeing that payments will continue at least until the original purchase amount has been paid out ("Installment Refund" annuity). The added risk to the insurer is likely to reduce monthly payments by about 5% to 15%, depending on the age of the annuitants and the length of the guarantee period. Annuities with this kind of added coverage are particularly suitable: (1) when there is a need to guarantee income over the lifetimes of a husband and wife ("Joint and Survivor" annuity); (2) when payments must continue for a specified period (e.g. 5 or 10 years or more) to a designated beneficiary ("Certain and Continuous" annuity); or (3) when the annuitant wants to make sure that, if he should die before his initial investment has been fully distributed in monthly payments, an amount equal to the balance of the deposit continues to a named beneficiary ("Installment Refund" annuity).



Funds That Purchase an Immediate Annuity

(Source of Funds - Qualified vs. Non-Qualified)

Qualified Immediate Annuities

The term *Qualified* (when applied to Immediate Annuities) refers to the tax status of the source of funds used for purchasing the annuity. These are premium dollars which until now have "qualified" for IRS exemption from income taxes. *The whole payment received each month from a qualified annuity is taxable as income (since income taxes have not yet been paid on these funds).* Qualified annuities may either come from corporate-sponsored retirement plans (such as Defined Benefit or Defined Contribution Plans), Lump Sum distributions from such retirement plans, or from such individual retirement arrangements as IRAs, SEPs, and Section 403(b) tax-sheltered annuities, or Section 1035 annuity or life insurance exchanges. Generally speaking, insurance companies use male/female (sex-distinct) rates to price qualified annuities in situations where the purchaser and/or owner is a corporation. When the annuity is being purchased by an individual, annuity rates are generally unisex. Some states, however, require that unisex rates be used for all qualified annuities.

Non-qualified Immediate Annuities

Non-qualified immediate annuities are purchased with monies which have not enjoyed any tax-sheltered status and for which taxes have already been paid. *A part of each monthly payment is considered a return of previously taxed principal and therefore excluded from taxation. The amount excluded from taxes is calculated by an Exclusion Ratio, which appears on most annuity quotation sheets.* Non-qualified annuities may be purchased by employers for situations such as deferred compensation or supplemental income programs, or by individuals investing their after-tax savings accounts or money market accounts, CD's, proceeds from the sale of a house, business, mutual funds, other investments, or from an inheritance or proceeds from a life insurance settlement. While most insurance companies apply their male/female (sex-distinct) tables to non-qualified annuities, some states require the use of unisex rates for both males and females.

*Information provided by immediateannuities.com