

IT'S YOUR LIFE

Is an Annuity an Option You Should Consider?

Figuring out the best options for investing for your future can be confusing and time consuming, especially for a business owner with a full schedule. A common goal for many investors is to maximize growth while minimizing risk. When considering investment vehicles for your assets, one option you might want to consider is an annuity.

What is an annuity?

An annuity is a contract between an individual and a life insurance company that can be used to accumulate savings for a long-term goal (like retirement) or provide an immediate income stream guaranteed for a certain number of years or a lifetime. Annuities are designed to provide conservative, yet consistent, returns. An annuity contract typically contains a current interest rate, determined by the issuing company based on current economic conditions and which may vary over time, and a guaranteed interest rate, the minimum rate that will be applied for the life of the contract.

See if you can take advantage of tax-deferred accumulation during your lifetime

A deferred annuity can be qualified or non-qualified. After an initial deposit to open the annuity, the owner has the option to make additional contributions in any amount (within IRS limits). Earnings on the annuity are not taxed until they are withdrawn. Distributions can be taken at any time, less any applicable surrender charges. An IRS early withdrawal penalty of 10 percent may apply to distributions taken before age 59½.

Don't outlive your assets

A single premium immediate annuity (SPIA) provides a way to produce income by converting a single lump sum payment into a guaranteed series of payments over your lifetime and/or a guaranteed period. The lump sum used to set up a SPIA may come from savings and investments, proceeds from the sale of a business, or payouts from a retirement plan.

How can an annuity fit in my situation?

Annuities, either deferred or immediate, can be especially useful in these situations:

- **Fund a retirement savings plan**
A qualified plan (IRA, SEP plan, or SIMPLE IRA) can be funded with a deferred annuity contract during your working years. Contributions are made with pre-tax dollars and earnings are taxed at withdrawal. Distributions are taxed at regular income tax rates when received, and an IRS early withdrawal penalty of 10 percent may apply to distributions taken before age 59½. Alternatively, contributions to a Roth IRA are not deductible when made, but distributions are generally received income tax-free during requirement.
- **Sale of a business or other large sum to invest**
When you sell your business, you may not want to worry about where to invest that money to meet future (retirement) needs. A tax-deferred annuity may provide a vehicle for long-term growth for some of the funds you do not need for other opportunities.
- **Rollover of life insurance policy**
Rather than surrendering a life insurance policy that is no longer needed, the policy owner may want to consider rolling the cash value to an annuity, especially if the policy's cash value exceeds the premiums paid (the policy has a gain). A life insurance policy rolled over to an annuity under a 1035 exchange may defer taxation on any gain until payouts begin and spread the tax due over a number of years.

Ask your Federated marketing representative about Federated's annuity contracts and how they might fit into your overall planning needs.

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