



**Freitas Wealth Management Group**

Robert Freitas  
Partner | Wealth Advisor  
35 Varden Drive  
Suite B  
Aiken, SC 29803  
803-393-2441  
803-393-2436  
rfreitas@freitaswmg.com  
www.FreitasWMG.com



# Annuities: A Valuable Addition to Your Savings Plan

# Annuities: A Valuable Addition to Your Savings Plan?

A growing number of people are relying on annuities to add safety and tax-deferred growth to their personal savings. However, did you know that annuities may be a good fit in many other situations as well? With this in mind, here's a general overview of these intriguing, and often misunderstood, savings options.

## Fixed vs. Variable: The Choice Is Yours

Annuities have long been recognized as a relatively conservative investment. However, today's annuities offer investors much more flexibility, if they choose. For individuals requiring safety of principal and a guaranteed interest rate, the fixed annuity can be a prudent choice. A fixed annuity is fairly straightforward in that it offers a guaranteed fixed interest rate.

For investors seeking potentially higher returns, a variable annuity may be a more suitable addition to their portfolio. A variable annuity differs from its fixed sibling because it allows you, the investor, to determine how your premium payments will be invested. Typically, you are given a choice of several funding options, allowing you to custom-tailor your variable annuity to meet your own investment goals and objectives.

## Deferred Annuity or Immediate Annuity?

Annuities, both fixed and variable, are primarily structured in two forms—which adds to their flexibility. A deferred annuity accumulates tax-deferred earnings until a future time when it will be paid out. In theory, a deferred annuity is similar to a bank certificate of deposit (CD), with your money generally being returned with interest after a specified period of time.

An immediate annuity begins paying you (the annuitant) within the first year of purchase (usually in monthly installments). There are a wide array of income payout options, that may make immediate annuities particularly attractive to you if you are retiring and wish to convert your assets into a lifetime income. Generally, all annuities can be purchased using flexible payments or in a single lump sum.

## An IRA Alternative

If you have become accustomed to the benefits of an Individual Retirement Account (IRA) you may also look favorably upon annuities. Although you cannot take a tax deduction for the money put into an annuity, your money does accumulate tax free until it is withdrawn. Unlike an IRA, there is no annual limit on the money that can be deposited.

Once you decide to take income from your annuity, there are many basic choices available, starting with: 1) receiving payments for the life of you (the annuitant) only; 2) providing payments to a survivor in the event of the death of the annuitant; or 3) receiving payments for a specified period of time.

The amount payable varies with the age and gender of the annuitant and the option selected. Although you may withdraw all or part of your annuity balance at any time, there may be a 10% federal income tax penalty incurred (as with IRAs) on interest withdrawn before age 59½, as well as other internal charges for early withdrawals (this can vary significantly from contract to contract).

## The Exclusion Ratio

Annuity payments consist partly of a return of principal and partly of interest—the latter portion is taxable, the former is not. To determine the amount that is not taxable, an exclusion ratio must be established. The total amount you may exclude from income is limited to the total amount of your premium in the annuity contract.

When you reach the point where you have fully recovered your initial premium, the remaining payments are fully taxable. If payments cease prior to the date the premium has been recovered, the amount not recovered is allowed as a deduction to you for your last taxable year. It is worthwhile to consult with your tax professional so the exclusion ratio formula is properly determined.

Annuities can be an important part of your overall savings and income plan. Tax-deferred growth, along with the choice of either fixed or variable rates, makes annuities an investment worth considering. Whether you need to supplement your retirement savings, or have the need for guaranteed monthly income, an annuity contract can be a valuable addition to your overall savings plan.



## IMPORTANT DISCLOSURES

Investment advice offered through [Stratos Wealth Advisors, Ltd.](#), a registered investment advisor.

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, legal, or retirement advice or recommendations. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.



Freitas Wealth Management Group  
Robert Freitas  
Partner | Wealth Advisor  
35 Varden Drive  
Suite B  
Aiken, SC 29803  
803-393-2441  
803-393-2436  
[rfreitas@freitaswmg.com](mailto:rfreitas@freitaswmg.com)  
[www.FreitasWMG.com](http://www.FreitasWMG.com)

