



SECURITY BENEFIT

AN INTRODUCTION TO ANNUITIES

FUNDING YOUR FUTURE

What is an annuity and how does it work?

An annuity is an insurance contract between you, the owner, and a life insurance company.

You pay pre-tax or after-tax dollars to the life insurance company that issues the annuity contract, the issuer invests the money for you, and any interest credited accumulates tax deferred. At some point, the issuer pays out the principal and interest to you or to your beneficiaries. Interest is taxed as ordinary income when it's distributed. Withdrawals are subject to ordinary income tax and, if made before age 59½, may be subject to a 10% penalty tax.

The primary features of annuities are tax-deferred accumulation, usually for retirement savings, and distribution options that can provide a steady stream of income that can last a certain time period or for the rest of your life. It can be used to supplement retirement income sources such as Social Security, pension plans, or 401(k)s. It can also help you achieve long-term goals such as providing a legacy for your heirs or making a charitable gift.

Why consider buying an annuity?

- ✓ To benefit from tax-deferred accumulation and a dependable stream of income for life
- ✓ To save for a specific purpose
- ✓ To supplement other sources of retirement income
- ✓ To maintain financial independence

Parties to an Annuity

There are generally four parties to any annuity contract.

1 Owner

The owner usually purchases the annuity, pays the premiums, and names the beneficiary to receive a death benefit (if applicable) 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.

2 Issuer/Insurer

The issuer/insurer of the annuity contract is a life insurance company. The issuer/insurer accepts the premium payments, invests them in accordance with the annuity contract, and promises to pay whatever benefits the annuity contract stipulates.

3 Annuitant

The annuitant provides the “measuring life” used to determine the amount of annuity payments if they’re made, called annuitization. Typically, the annuitant is also the owner of the annuity.

4 Beneficiary

The beneficiary, named by the owner of the annuity, receives the death benefit provided by the annuity contract.



Three Main Types of Annuities

There are three main types of annuities — fixed, fixed index, and variable.

| | Fixed Annuity ¹ | Fixed Index Annuity ¹ | Variable Annuity ¹ |
|---------------|---|--|---|
| Interest Rate | Fixed interest rate known in advance | Often provide more accumulation potential than fixed annuities; interest rate not known in advance | Interest is based on the performance of variable subaccounts (some also provide a fixed account option) and potential for loss of purchase amount |
| Risk Factors | No risk of loss of purchase amount due to financial market declines | No risk of loss of purchase amount due to financial market declines | Risk of loss associated with each subaccount |
| Tax Deferral | Yes | Yes | Yes |

The accumulation of interest helps differentiate between the three. There are many similarities in how all three annuities work: all involve the same four parties, all offer tax-deferred interest potential and often allow for multiple purchases, all offer the freedom of discretionary withdrawals subject to surrender charges for a period of years after the annuity is issued if over a certain amount, all may be annuitized in the distribution phase, and all are taxed in essentially the same fashion — as they are distributed from the annuity.

There are also some significant differences between the three.

Fixed annuities guarantee that the principal you pay in cannot be lost due to financial market declines; what's more, the issuer/insurer provides a Guaranteed Minimum Interest Rate on your annuity.¹ The issuer/insurer invests your premiums in its general account, where the funds are managed by the issuer's/insurer's own money managers. Because these funds are part of the issuer's/insurer's general assets, they are subject to the claims of its creditors. You should be aware that you're assuming this risk when buying fixed annuities.

A **fixed index annuity (FIA)** provides principal protection in a down market and opportunity for interest based on part of the positive change in or more financial indexes. Depending on its terms, the annuity may be purchased in a single payment or in a series of premium payments, depending on the product. Some FIAs only accept a single premium. Interest credited to your contract cannot be lost, which allows for compounding of interest. Your interest credits are typically based on part of the performance of an external underlying index, for example the S&P 500® Index. The insurance company uses a formula to determine interest based on the performance of the index crediting options.

Generally, the issuer/insurer of a **variable annuity** offers you no guarantees unless the annuity also provides a fixed account option. You typically assume all the risk relating to the performance of the underlying investments you choose, and any interest is solely dependent on the performance of those investments. In fact, if the investments perform poorly, you could actually lose principal.

¹ Guarantees provided by annuities are subject to the financial strength of the issuing insurance company. Annuities are not FDIC or NCUA/NCUSIF insured; are not obligations or deposits of and are not guaranteed or underwritten by any bank, savings and loan, or credit union or its affiliates; and are unrelated to and not a condition of the provision or term of any banking service or activity.

Fees and Expenses

Some fixed annuities and FIAs may charge an annual contract fee and a charge for certain additional benefits. In addition to an annual contract fee, variable annuities may:

- Assess a mortality and expense risk charge.
- Include investment fees and operational costs for subaccounts.

Both fixed/FIA and variable annuities may charge surrender charges if you withdraw some or all of your investment in the early years of the contract, usually in the first five to 10 years. In addition, a market value adjustment may apply (which may be positive or negative), and bonus recapture may apply if your contract was credited with a bonus.



Taking Money Out of an Annuity

Generally, you can take disbursements from an annuity in one of two ways:

1. Withdraw money at your own discretion (withdrawals are taxed as ordinary income and if made before age 59½ may be subject to a 10% additional tax).
2. Select a guaranteed income option of a fixed or variable amount — depending on the type of contract — over a specific period of time or for life (annuitization).¹ (Once annuitized, you usually can't make additional purchases or take other withdrawals.)

Factors Affecting Annuitization Payments

The Value of Your Contract

If you own a fixed/FIA annuity or if you choose to convert a variable annuity to a stream of guaranteed fixed payments, the value of your contract at the time you annuitize will affect the amount of your payments. The larger the value of your annuity, the larger your payments will be, all other factors being equal.

Performance of Underlying Investments (Variable Annuities)

If you own a variable annuity and choose any payout option other than a stream of guaranteed fixed payments, the amount of your payments will be determined by the performance of the subaccounts into which you have allocated your annuity's value.

The Age and Sex of the Annuitant

You may remember that the annuitant provides the “measuring life” used to determine your payment amounts. Among other things, sex differences (women generally live longer than men) and individual life expectancies are taken into account to arrive at a payment amount.



Annuity Payout Options and Death Benefits

You may be offered a variety of payout options¹ if you annuitize, including:

- **Payments for life:** Payments end at death with nothing paid to your beneficiary.
- **Payments for a specified period:** If you die before the specified period, your beneficiary receives the remaining payments.
- **Payments for life with period certain:** Have payments made for the rest of your life or a guaranteed period of time, whichever is longer. If you die before the period elapses, your beneficiary receives the remaining payments.
- **Refund life:** If you die before receiving the total balance, the remaining balance is paid to your beneficiary in a lump sum or installments.
- **Joint and survivor life:** 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.

It's important to note that all of these options may not be available in a particular annuity.

Common Annuity Riders

With many annuities, you can purchase additional riders that relate to your health, employment conditions, and guaranteed income distribution.¹ Riders and their availability differ from one issuer to the next and depend on the type of annuity purchased.

Fixed/FIA Annuities

- Living benefit riders
- Disability/unemployment
- Terminal illness
- Long-term care

Variable Annuities

- Guaranteed withdrawal benefit
- Guaranteed accumulation benefit
- Guaranteed minimum income benefit
- Guaranteed minimum death benefit

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KEY TAKEAWAYS

- ✓ An annuity is an insurance contract that provides tax-deferral benefits. However, an annuity does not provide any additional tax advantages to those already available from a tax-deferred retirement account or plan.
- ✓ Some annuities can provide a guaranteed death benefit when you die.
- ✓ Annuitizing converts your annuity into a stream of payments.
- ✓ Be cautious of fees and expenses that annuities can incur.

Your path *To and Through Retirement*[®] begins here.

Talk to your financial professional to learn more
or contact us at 800.888.2461.

Variable annuities are long-term investments suitable for retirement planning.

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One Security Benefit Place | Topeka, KS 66636 | [SecurityBenefit.com](https://www.SecurityBenefit.com)

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