

Fixed Tax Deferred Annuities

What is a Fixed Tax-Deferred Annuity?

A Fixed Tax-deferred annuity, also referred to as a tax-deferred annuity, is a contract between you and an insurance company for a guaranteed interest bearing policy with guaranteed income options. The insurance company credits interest, and you don't pay taxes on the earnings until you make a withdrawal or begin receiving an annuity income. Your annuity contract earns a competitive return that is very safe.

Tax-Deferred?

Tax-deferred means postponing your taxes on interest earnings until a future point in time. In the meantime you earn interest on the money you're not paying in taxes. You can accumulate more money over a shorter period of time, which ultimately will provide you with a greater income.

Savings Advantages

Many people today are using tax-deferred annuities as the foundation of their overall financial plan instead of certificates of deposit or savings accounts. Although CD's and Annuities are very similar there are significant differences between the two. The most important difference is that annuities allow for the deferral of the taxes due on the interest earned until the interest is withdrawal! By postponing the that tax with a tax-deferred annuity, your money compounds faster because you can earn interest on dollars that would have otherwise been paid to the IRS. Later, if you decide to take a monthly income, your taxes can be less because they will be spread out over a period of years. Like Certificates of Deposits, annuities have a penalty for early surrender, however most annuity contracts have a liberal "free withdrawal" provision.

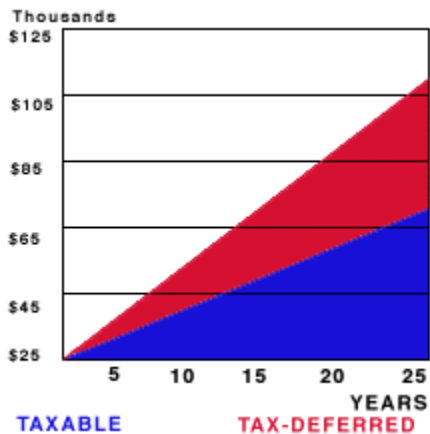
Tax Advantages

You pay NO taxes while your money is compounding. You can also pay a lower tax on random withdrawals because you control the tax year in which the withdrawals are made, and only pay taxes on the interest withdrawn, Tax deferral gives you control over an important expense - your taxes. Any time you control an expense, you can minimize it. The longer you can postpone this particular expense, the greater your gain when compared to the gain you would make with a fully taxable account.

The Tax-Deferred Advantage

To illustrate the increased earnings capacity of tax-deferred interest, compare it to a fully-taxable earnings. \$25,000 at 6.0% will earn \$1,500 of interest in a year. A 28% tax bracket means that approximately \$420 of those earnings will be lost in taxes, leaving only \$1,080 to compound the next year. If these same earnings were tax-deferred, the full \$1,500 would be available to earn even more interest. The longer you can postpone taxes, the greater the gain.

Tax-Deferred vs. Fully Taxable



Compare the Return

\$107,297 Accumulated in a Tax-Deferred Annuity

\$71,966 Accumulated in a Taxable Account

The Difference: \$35,331

Note: That at an annuities guaranteed rate of 4%, the return after 25 years would be \$66,646.

Safety

Your tax-deferred annuity is safe. A qualified legal reserve life insurance company is required to meet its contractual obligations to you. These reserves must, at all times, be equal to the withdrawal value of your annuity policy. In addition to reserves, state law also requires certain levels of capital and surplus to further increase policyholder protection. Legal reserve refers to the strict financial requirements that must be met by an insurance company to protect the money paid in by all policyholders. These reserves must be at all times, equal to the withdrawal value (principal plus interest less early withdrawal fees, if any) of every annuity policy. State insurance laws also require that a life insurance company must maintain certain minimum levels of capital and surplus, which provide additional policyholder protection.

No More 1099's

There is no withholding tax while your annuity is compounding; it is completely tax-deferred. If you request a distribution (random withdrawals or annuity income), taxes will be withheld - unless you elect differently. Your election not to withdraw can be made at the time you make your request. Because the interest is tax-deferred, it is not necessary to issue a Form 1099 while your money is compounding. Only when your interest is distributed (withdrawal or annuity income) will a Form 1099 be sent, reflecting the amount of interest actually received.

When Does My Money Mature

An annuity policy does not "mature" like a bond or certificate of deposit. Both your principal and interest will automatically continue to earn interest until withdrawn or you reach age 100. You can let your money continue to grow, make withdrawals, or begin receiving an annuity income at any time.

What is the Penalty Tax and When Does it Apply?

An IRS penalty tax, currently 10%, may be payable on any withdrawal of interest or qualified premium made prior to age 59 1/2.

Avoid Probate

If a premature death should occur, the accumulating funds within your annuity may be transferred to your named beneficiaries, avoiding the expense, delay, frustration and publicity of the probate process. Like most assets, the annuity is part of your taxable estate. Your heirs can choose to receive a lump sum payment, or a guaranteed monthly income.