

# Understanding Annuities:

## A guide for clients

Annuities are a common topic in financial planning, often discussed for their potential benefits and drawbacks. This whitepaper aims to provide a comprehensive understanding of annuities, helping you determine if they fit into your financial plan.



### WHAT IS AN ANNUITY?

An annuity is a contract between you and an insurance company. In exchange for your premium payments, the insurance company agrees to provide you with a series of payments over time. These payments can be structured in various ways - monthly, quarterly, or annually - and can last for a specific period or even for the rest of your life.



### BENEFITS

One of the primary benefits of annuities is the guarantee of a steady income stream, which can be particularly appealing for retirees. This guaranteed income can supplement other retirement income sources like Social Security or pensions, providing a sense of financial security. Additionally, annuities can help manage longevity risk, which is the risk of outliving your savings.



### WHEN DO ANNUITIES MAKE SENSE?

Annuities can be a good fit if you are looking for a guaranteed income stream in retirement and are concerned about outliving your savings. They can also be beneficial if you want to transfer some of your investment risk to an insurance company. However, if you have a higher risk tolerance and have a reliable financial planner managing your investments, other options like stocks, bonds, or mutual funds might be more suitable.



### TYPES

There are different types of annuities to consider, each with its own set of features:

- **Fixed Annuities:** Offer a guaranteed interest rate, providing predictable income.
- **Variable Annuities:** Allow you to invest in a range of securities, meaning your payments can fluctuate based on the performance of your investments.
- **Indexed Annuities:** Tied to a market index, offering the potential for higher returns while still providing some level of protection against market downturns.



### DRAWBACKS

However, annuities also come with some drawbacks. They can be complex and often come with high fees and surrender charges if you need to access your money early. Additionally, the returns on annuities may not be as high as other investment options, especially when considering the fees involved.

## SUMMARY

Weighing the pros and cons of annuities based on your individual financial situation and goals is essential. If you're unsure whether an annuity is right for you, consult with your financial advisor to help make the best decision for your unique circumstances. If you have any questions about annuities or suggestions for future topics, please reach out to us at [dtroyer@monetagroup.com](mailto:dtroyer@monetagroup.com).