

COMMON
MYTHS
DEBUNKED

SHATTERING ANNUITY MYTHS

SEVEN
MYTHS
SHATTERED



THE AFFINITY ADVISORY NETWORK



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Mastering Retirement Income:
Shattering Annuity Myths
Is there one that is right for you?



AFFINITY ADVISORY NETWORK, LLC
FINANCIAL FREEDOM SERIES

As you approach retirement, securing a reliable income stream becomes paramount. Annuities offer a powerful solution by helping to provide guaranteed income in exchange for one-time or periodic payments. In this comprehensive booklet, we will explore the various types of annuities, their potential benefits, and how they can be leveraged to help maximize retirement income. Additionally, we will address potential limitations to consider when incorporating annuities into your retirement plan.



Types of Annuities

Fixed Annuities: A deferred annuity that allows retirees to accumulate funds over time before receiving income payments. Fixed annuities can earn interest in a number of ways depending on the annuity chosen. During the accumulation phase, the annuity grows tax-deferred, providing retirees with the opportunity for long-term growth and flexibility in timing their income payments.

Variable Annuities: Variable annuities are deferred annuities that allow retirees to invest in a selection of subaccounts, similar to mutual funds, offering the potential for higher returns but with greater investment risk. Variable annuities provide flexibility and the opportunity for growth, making them more suitable for individuals comfortable with market fluctuations and potential loss of principal.

Immediate Annuities: Allow retirees to purchase the annuity with a single premium and begin taking income payments right away, generally within the first year.



Myth #1: Annuities are only for the wealthy

While historically associated with high-net-worth individuals, annuities are now accessible to a broader range of people, with various options catering to different budgets and risk tolerances. Don't let this myth prevent you from exploring how the right professionally recommended annuity could benefit you and your family.

Myth #2: Annuities trap your money

Many annuities offer flexibility, such as penalty-free withdrawals under certain conditions or liquidity features that allow access to funds without hefty surrender charges. This myth has prevented many people from looking closely at various annuities and how they can help grow their nest egg because they often don't know that access to your money is possible.

Myth #3: Annuities offer poor returns

This depends on the type of annuity. Fixed annuities prioritize income control, while variable and fixed indexed annuities can offer growth potential linked to the markets, along with downside protection. This means returns can cover a wide range. Some are conservative and some are aggressive, but all have protections so you cannot lose your principal. Variable annuities protect the principal when optional rider are in place.

Myth #4: Annuities are too complex

While they can seem daunting, there are plenty of resources and financial advisors available to help simplify the process and explain the features and benefits. This myth is stubborn. Because of this lingering stigma, many people bypass even looking at what these financial products can do in retirement and beyond. The right professional can explain the options clearly and simply. The right annuity can make a real difference in retirement.

Myth #5: Annuities don't pay benefits after death

Many annuities include legacy planning options, allowing them to be part of estate planning and providing benefits to heirs without going through probate. Various riders, including a death benefit rider, can provide immediate payouts to heirs at your passing. Some annuities may offer enhanced death benefit riders that can be purchased to provide greater financial comfort for loved ones.

Myth #6: Annuities have high fees and are expensive

Like any financial product, fees vary based on the type and features. It's important to understand these costs and compare them with the benefits provided. This is where an experienced, retirement and estate planning professional can be relied upon to clearly explain all fees and costs.

Myth #7: There's no tax benefit to purchasing an annuity

Annuities funded with after-tax dollars have no IRS contribution limits, and their growth is tax-deferred until withdrawals are made. Annuities funded with pre-tax dollars allow for tax deferral, which can help your funds grow more quickly. All annuity withdrawals are subject to ordinary income taxes, including a 10% IRS penalty if taken before age 59 1/2.

Benefits of Annuities

Guaranteed Income Streams: Annuities offer guaranteed income streams, providing retirees with a level of financial certainty throughout retirement.

Tax Deferral: Annuities allow funds to grow tax-deferred, helping retirees to maximize the growth potential of their funds and defer taxes until withdrawals are made. Annuity distributions are subject to ordinary income taxes and an additional 10% IRS penalty if taken before age 59-1/2.

Estate Planning Benefits: Annuities offer benefits for estate planning, allowing retirees to designate beneficiaries who will receive the remaining account value upon their passing, providing greater financial assurance for loved ones.

Protection Against Market Volatility: Fixed and immediate annuities protect retirees against market volatility, ensuring that income payments remain stable regardless of economic conditions. All annuity guarantees are backed by the financial strength and claims-paying ability of the issuing company.





Maximizing Retirement Income with Annuities

To help maximize retirement income with annuities, some retirees may want to consider a combination of immediate and deferred annuities. Designed to be long-term retirement income vehicles, they're not perfect for everyone. After consultation with a professional, you may determine they're right for your situation. Immediate annuities can provide immediate income to cover essential expenses, while deferred annuities can supplement income in later years and provide flexibility for long-term financial growth.



Key Information about Annuities

Cost: Like all financial vehicles, annuities come with fees and expenses, including sales charges, administrative fees, mortality and expense charges, and surrender penalties, which can erode your growth over time.

Complexity: Annuities can be complex financial products with intricate features and provisions, requiring careful consideration and understanding before purchase.

Lack of Liquidity: Annuities typically have limited liquidity, with restrictions on withdrawals during the accumulation phase and potential surrender charges for early withdrawals. In addition, withdrawals are subject to ordinary income taxes, and if taken before age 59-1/2, may involve an additional 10% IRS penalty.

Inflation Risk: Fixed annuities may not provide inflation protection, potentially eroding the purchasing power of income payments over time. Some annuities offer inflation riders that you can purchase to offer a hedge against inflation.

Solvency Risk: Annuities are subject to solvency risk, meaning that the insurer may default on its obligations, leading to loss of income or principal.

Lack of Flexibility: Once purchased, annuities may lack flexibility, with limited options for changes or adjustments to the contract terms.



The Story of Marge and Frank

Once upon a time, Marge and Frank, a hypothetical retired couple in their early 70s, found themselves at a crossroads in their financial journey. They had diligently saved for retirement over the years, but as they approached their golden years, they were apprehensive about how to convert their savings into a reliable income stream. After much deliberation, and initial reservations they decided to explore the option of annuities.

Years ago, when they first considered annuities, Marge and Frank were hesitant about tying up their funds in a financial product with which they were unfamiliar. They were concerned about potential fees, restrictions, and whether annuities would truly provide the financial assurance they desired in retirement. However, after consulting with a licensed insurance professional and carefully weighing their options, they decided to move forward with the purchase of a fixed annuity.

Fast forward to the present day, and Marge and Frank couldn't be happier with their decision. Their annuities have become one of the cornerstones of their retirement income strategy, in addition to Social Security, providing them with a steady stream of cash to cover their living expenses month after month. With the worry of market fluctuations and economic uncertainty reduced on these funds, they can focus on enjoying their retirement years to the fullest, traveling, spending time with family, and pursuing their passions with less financial stress.

In conclusion, whether you're apprehensive about annuities or have reservations about tying up your funds, it's essential to consider the long-term benefits they may offer as part of your total retirement plan. Annuities offer you a range of benefits, including guaranteed income streams, tax-deferred growth, and estate planning advantages. By including an annuity in your financial strategy, you may be able to better position your financial future for a more confident retirement, and live the life you've always dreamed of in your golden years.



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