



**WHAT ARE  
FIXED  
ANNUITIES?**

**HOW DO I  
KNOW IF THEY  
ARE RIGHT  
FOR ME?**



**TRINITY  
LIFE  
INSURANCE  
COMPANY**

## CHOOSING THE RIGHT RETIREMENT INSTRUMENT



## **FIXED ANNUITIES**

Choosing from today's overwhelming assortment of investments, retirement savings, and life insurance options can be a dizzying experience. Which option will work best for you and your needs? How will you know if the option you choose is a suitable means for meeting your objectives?

This brochure provides you with an overview of fixed annuity products. It is designed to help you determine whether these tax-deferred instruments are right for you, by explaining common policy features and offering discussion-points you may want to cover with your investment advisor.

So, read this brochure and talk it over with your agent, asking questions and exploring your options. There is no such thing as a silly question when it comes to finding the right retirement planning tool for you and your loved ones.

## WHAT IS A FIXED ANNUITY?



Fixed Annuities are Tax-Deferred Policies intended for Retirement Planning. Depending on your needs, you can either buy a **Single Premium** annuity, which enables you to purchase the policy with a single lump sum, or a **Flexible Premium** policy, which enables you to add to your annuity as often as you'd like.

With a Fixed Annuity, your money goes to work for you immediately, earning tax-deferred interest on the premium payments you make. Fixed Annuities offer guaranteed interest rates that are fixed by the insurance company for a set period of time (one, three, five-even ten years), depending on which annuity contract you select. After the initial **Interest Guarantee Period** ends, you will earn a **Renewal Interest Rate**, typically set annually by the insurance company. This rate is influenced by market trends and is generally guaranteed to remain at or above 3%.

Fixed Annuities have two phases. After an **Accumulation Period** (when you put the money into your annuity), you begin the **Payout Phase**. One advantage of Fixed Annuities is that you determine how long these two phases last. The accumulation phase can range from months to years, and the payout phase allows you to structure your payments either as a lump sum, or as a series of payments over a period of years-depending on your needs.

The majority of Fixed Annuities have **No Front-End Loads or Charges**, but most carry some kind of penalty for early withdrawals or surrenders. These **Surrender Penalties** vary from policy to policy, so consider how much liquidity you might need before choosing an annuity. Generally speaking, the longer the surrender fee period you select, the higher your interest rate.

## WHAT IS A FIXED ANNUITY AND ARE THEY RIGHT FOR ME?



**PENALTY-FREE WITHDRAWALS** are an important feature of the fixed annuity. Most annuity companies allow you a certain amount of penalty-free withdrawals each year. Interest only and 10% are common, but some companies offer free withdrawals as high as 15% of your principal and interest. This may be an important consideration if liquidity is a concern. Because taxes may be due on withdrawals from your annuity, you may want to discuss withdrawals with your tax advisor.

**GUARANTEED PRINCIPAL** is another important fixed annuity feature for many people. Fixed annuity policies that offer this feature promise the company will return 100% of your original premium payment (principal), even if you elect to terminate your annuity policy early. If this feature is important to you, ask your advisor to show you policies with a guaranteed principal feature.

### **HOW DO I KNOW IF FIXED ANNUITIES ARE RIGHT FOR ME?**

Fixed annuities meet a wide range of needs, but they aren't for everyone. If you are looking for immediate, unfettered access to your funds, a bank account may be a better choice. If you want to participate in the equity market and are willing to assume greater risk, fixed interest rate annuities may not be for you.

However, if you are looking for an excellent retirement planning tool that affords you tax benefits, flexibility, and safety, a fixed annuity is likely to suit your needs and objectives. Fixed annuities can play an important role in just about anyone's retirement planning. How large a role fixed annuities will play depends on many factors, including your age, the amount of time you have to accumulate assets, and other factors your advisor can review with you.



## WHAT ARE THE BENEFITS OF OWNING A FIXED ANNUITY?



**TAX-DEFERRAL** is one of the great advantages fixed annuity products have over most bonds, bank certificates of deposit, and mutual funds. The interest earned on your annuity is tax-deferred, therefore your money grows faster than it would in a taxable fund. As long as you keep your funds in the annuity, taxes are deferred. When you begin withdrawing funds, the interest portion becomes taxable.

The IRS considers your first withdrawals interest, but your principal generally is not taxable in a non-qualified plan (different rules apply to annuities in a qualified plan like an IRA). Withdrawals of interest income before age 50 <sup>1</sup>/<sub>2</sub> may be subject to a 10% federal income tax penalty. For more details, you should go over the tax situation with your tax advisor.

**SAFETY** is another important feature of the fixed annuity. Most life insurance companies, known for their conservative business practices, will guarantee your principal and a minimum interest rate. Ask your agent about working with life insurers and the protections afforded you.

**FLEXIBILITY** attracts many individuals to fixed annuities. You decide how you want to pay (in a lump sum or in a number of smaller deposits that fit your schedule); you decide how you want to be paid (in a lump sum disbursement on a fixed date or in a series of payments); and you decide how the annuity will be handled after your death. Unlike other financial instruments, a fixed annuity is able to provide you with a guaranteed income for the rest of your life—an income you cannot outlive.

**AVOIDING PROBATE** is another advantage many fixed annuities offer. Typically, when annuity death benefits are paid to a beneficiary, other than an annuitant's estate, the family can avoid the emotional and financial drain caused by probate.

# WHY PEOPLE CHOOSE FIXED ANNUITIES



- If you are looking to provide yourself with a **reliable source of monthly income**, you can **structure your payments to last anywhere from three years to life** (unless you elect to receive your annuity in a single, lump-sum payment);
- If you want the benefits of **tax-deferred interest**;
- If you prefer a retirement savings instrument with **no sales charges, monthly service fees, or the risk of losing principal**; or
- If you value **flexibility**. Fixed Annuities offer a wide variety of premium options, payment options, liquidity features, surrender penalty schedules, and interest rates.

## THE FACTS

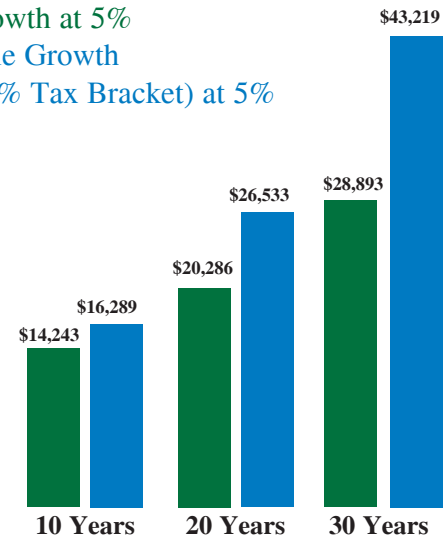
\$10,000 Premium

### ◆ Annuity Tax Deferred

Growth at 5%

### ◆ Taxable Growth

(28% Tax Bracket) at 5%



NOTE: If the entire balance was withdrawn from the annuity at the end of the 30 years (assuming 5% interest), \$43,219 would provide \$33,918 after taxes (assuming a 28% tax bracket), an **advantage** of \$5,025 over the taxable fund.

USE THIS HANDY WORKSHEET TO MAKE NOTES OF FEATURES THAT YOU WANT TO COMPARE AND CONSIDER:



FEATURE	DESIRED QUALITY		LEVEL OF IMPORTANCE
Single or Flexible Premiums	<input type="checkbox"/> Single	<input type="checkbox"/> Flexible	
Minimum Deposit	\$		
Interest Rate Guarantee How long?	<input type="checkbox"/> 1 Yr	<input type="checkbox"/> 10 Yrs.	
	<input type="checkbox"/> 5 Yrs	<input type="checkbox"/> Other	
Surrender Fee Period	<input type="checkbox"/> 1-3 Yrs	<input type="checkbox"/> Other	
	<input type="checkbox"/> 4-6 Yrs		
	<input type="checkbox"/> 7-12 Yrs		
Free Annual Withdrawals Available in First Year?	<input type="checkbox"/> 10%	<input type="checkbox"/> 15%	
	<input type="checkbox"/> Interest Only	<input type="checkbox"/> Other	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Surrender Fee Waived at Death of annuitant?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Guarantee of Principal Upon Early Surrender?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Surrender Fees Re-Start with Each Premium Payment (on Flexible Annuities)?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Extended Care Benefit?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Variety of Payout Options Available During the Life of the Contract?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Company Charges Up-Front Fees (Loads)?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Statement of Account Values Received	<input type="checkbox"/> Annually	<input type="checkbox"/> Other	
	<input type="checkbox"/> Quarterly		
Other			
Other			
Other			
Other			

OKAY, I HAVE  
DECIDED TO  
PURCHASE A  
FIXED ANNUITY.  
WHAT NOW?



Once you and your advisor have determined that fixed annuities are a good fit, you can then explore your options. It helps to discuss when and for how long you will receive income payments. This decision can be affected by whether you are married, what kind of payment schedule suits your needs, and whether you want payments to continue after your death.

## OTHER QUESTIONS YOU MIGHT WANT TO EXPLORE ARE:

How much liquidity do you need?

What is the surrender fee schedule?

How important are free withdrawal features to you?

What kind of interest rate schedule do you want: one that offers a guaranteed rate for **one year**, or for **many years**?

Fixed annuities offer you a range of choices. So, it helps to thoroughly review your needs and objectives with your advisor before selecting a fixed annuity product. We hope this booklet has answered some of the questions you may have had, and that you will find just the right fixed annuity for your needs and goals.

Please contact us if you have questions:



**Trinity Life** Insurance Company

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