BLUEPRINT
INCOME

Annuity Decision Guide

Everything you need to know about fixed and income annuities

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Introduction

If you're thinking about retirement and feeling insecure about the permanence of your finances, we wrote this guide for you. In the post-pension era, creating a secure retirement is certainly more complicated. Instead of retiring with a continuation of your salary, you're forced to figure out how to invest, manage, and withdraw from your savings to meet your spending needs. It's a challenge, but you have options.

One of those options is to buy an annuity. At Blueprint Income, we only provide the simplest annuities out there. There are fixed annuities to provide guaranteed returns that are not affected by market movements. And there are income annuities to provide guaranteed income that continues as long as we live.

The purpose of this guide is to introduce you to annuities, the good and the bad, and provide you with the education you need so that you can decide what makes the most sense for your retirement. Even if you don't read it cover-to-cover, we hope you heed our advice in three important areas:

1. **Buy an annuity for its guarantee.** If you can't figure exactly how much an annuity will pay you in the future, you shouldn't buy it. Period.

2. **If you have multiple goals for retirement, segment your portfolio and address each need separately.** Products that promise to do everything do nothing well.

3. **Be diligent about seeing the whole market and getting the best price at the credit rating you prefer.** Since you're buying an annuity for its guarantee, the rating matters.

We hope you find this guide helpful. Please feel free to call or email us with any feedback or questions.

To your longevity,

The Blueprint Income Team

Types of Annuities

An annuity is a contract between an individual and an insurance company. Fundamentally, an annuity can provide steady, guaranteed lifetime income to the individual. In entering into an annuity contract, an individual is able to offload unwanted risks, namely market and longevity risks, to the insurer. Originally annuities did only that, but over time new versions have been created with other value propositions, demoting guaranteed income via annuitization to just an option available. The following are the types of annuities out there:

	Fully guaranteed income or return. Available at blueprintincome.com.		Insurance/investment hybrid. Not available at blueprintincome.com.	
TYPE	INCOME ANNUITIES	FIXED ANNUITIES	INDEXED ANNUITIES	VARIABLE ANNUITIES
PURPOSE	Income	Accumulation	Accumulation	Accumulation
METHOD	Annuitization	Interest credited	Track indices	Invested in funds
GUARANTEE	Lifetime monthly income	Fixed growth rate	Preserving principle	Varies by product
MARKET PARTICIPATION	No	No	Yes	Yes
FEES	Lower one-time commissions	Lower one-time commissions	Higher commissions/fees	Higher commissions/fees
A.K.A. & PRODUCT VERSIONS	Single premium immediate annuities (SPIAs) Deferred income annuities (DIAs) Longevity annuities Qualified Longevity Annuity Contracts (QLACs)	Multi-year guaranteed annuities (MYGAs) Fixed rate annuities Fixed deferred annuities	Fixed indexed annuities	

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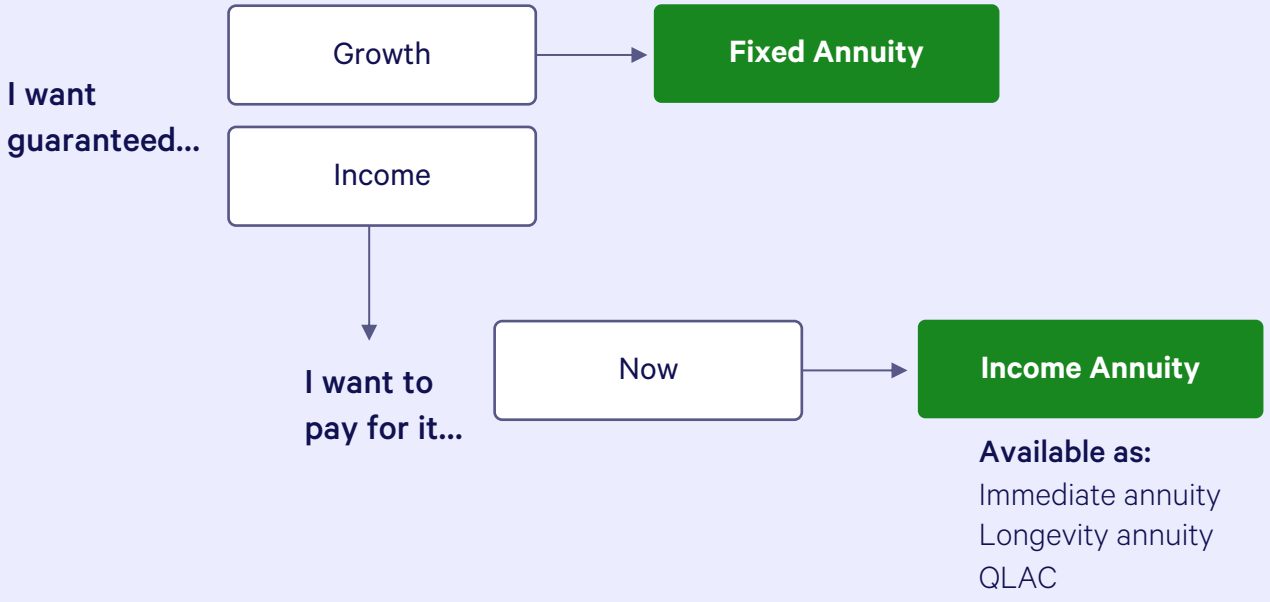
Deciding Which Annuity Is Right for You

A fixed annuity provides a guaranteed return for a set number of years. An income annuity takes a portion of your retirement savings and converts it into guaranteed lifetime income.

Use the following decision tree to figure out which type of annuity is right for you:



Continue reading to learn more about the type of annuity that best meets your needs.

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Table of Contents

Fixed Annuities

A safe, guaranteed and tax-deferred way to grow your retirement savings

Introduction

Like many Americans, you've taken your retirement seriously and have been contributing to your 401(k) and IRA. As qualified retirement savings vehicles, they allow you to save pre-tax money and let it accumulate on a tax-deferred basis until retirement. But, there are limits to how much can be contributed annually, and they often don't offer guaranteed investment options.

Let's say you are getting closer to your retirement age goal, you've either maxed out your 401(k) and IRA contributions and/or are looking for a decent return with a minimal amount of risk. You like the security of a CD but wish you could get a better return. The good news is there is another option.

A fixed annuity is essentially a certificate of deposit (CD) sold by an insurance company and without the backing of the FDIC deposit insurance program. While CDs are great for low-risk short-term savings, fixed annuities are more suited to retirement savings, offering:

- Typically higher crediting rates over longer time horizons,
- tax-deferred growth,
- the ability to annuitize at the end of the investment term, and
- liquidity via penalty-free partial withdrawals.

Fixed annuities are also known as multi-year guaranteed annuities (MYGAs), fixed rate annuities, fixed deferred annuities, and single premium deferred annuities.

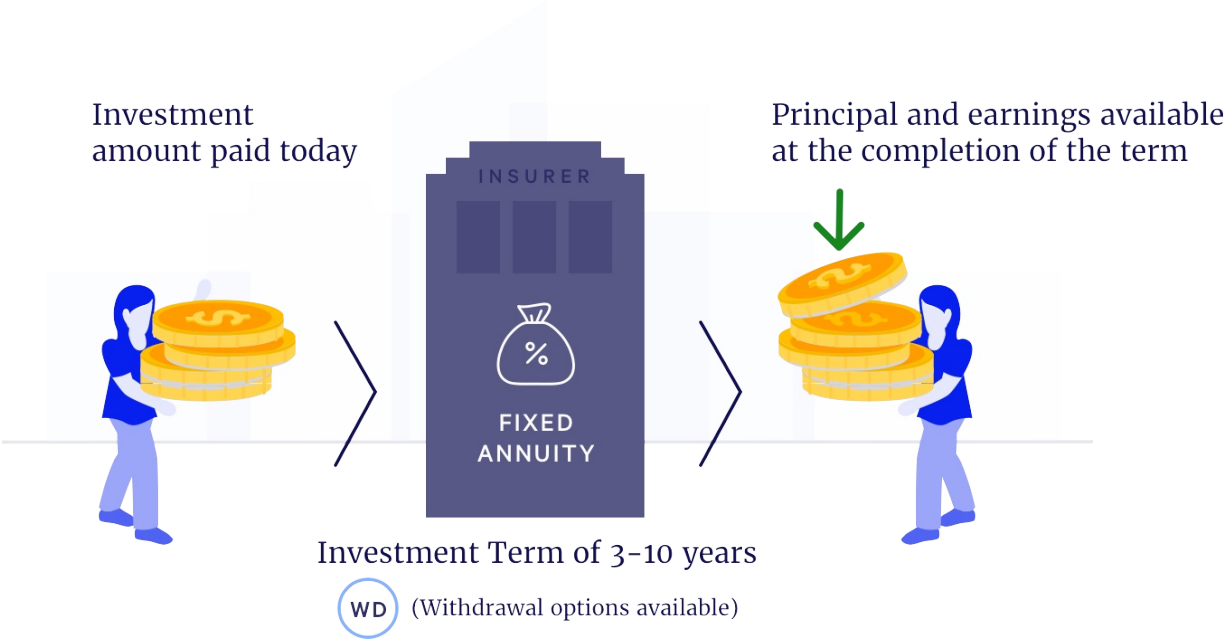
In this guide, we'll provide an overview of fixed annuities, covering how they work, what makes them an appropriate (or inappropriate) investment for you, and how to approach the buying process.

CONTENTS

What Is a Fixed Annuity?

A fixed annuity is a tax-deferred retirement savings vehicle that provides fixed asset accumulation, much like a CD. With a fixed annuity, you can invest your savings over a specified time horizon (typically 3 to 10 years), earning a fixed return. The interest earned in your fixed annuity is not taxed until withdrawn, and your principal is guaranteed.

Because annuity terminology – and the fact that a fixed annuity is an annuity in the first place – is confusing, let's break it down:



A fixed annuity is an **annuity**

An annuity is an insurance vehicle where a lump-sum amount is exchanged for a stream of payments going forward. What makes a fixed annuity an annuity is that it has the option to annuitize, or get the stream of payments, at the end of the investment term. You can also choose to leave your money invested at a renewable rate, withdraw all or a portion, or roll it over into a new fixed annuity. The distinction of being an annuity gives it its tax-deferred status.

More specifically, a fixed annuity is an **accumulation annuity**

An accumulation annuity is bought for the growth potential of the money invested, and not as much for the ability to turn that money into income (as is the case with an income annuity). During the accumulation, or deferral, period your money will be invested with an insurance company and grow on a tax-deferred basis. You will often have some access to your money – typically the interest accrued or 10% of your balance – while it's invested. Accumulation annuities grow either at a fixed rate (like fixed annuities) or grow based on market performance (as with variable and indexed annuities).

And finally, a fixed annuity is a **multi-year guaranteed** accumulation annuity

Fixed annuities earn a fixed rate over a multi-year time horizon. The interest rate will be specified upfront and will vary based on the amount you're investing, your investment term, the credit rating of the insurer, and market conditions at the time of purchase. At the end of the guarantee period, the rate may change.

In summary, a fixed annuity is an annuity that operates much like a CD, offering low-risk tax-deferred accumulation at a fixed rate.

Fixed Annuities vs. CDs

Fixed annuities operate very similarly to CDs. Both vehicles offer a safe way to save money, crediting interest rates typically higher than what's available through savings accounts by requiring you to lock your money away for a period of time. However, fixed annuities have longer investment terms and tax-preferential treatment, making them a better choice for retirement savings. As CDs are the more well known of the two products, it can be easier to understand fixed annuities using a side-by-side comparison:

	FIXED ANNUITY	CD
Sold By	Insurance companies	Banks
Size	$2,500 – $1,000,000	Virtually any denomination
Term	2 – 10 years	3 months – 5 years
Interest Rates	Vary by term and size but typically higher than CD rates	Vary by term and size but typically lower than fixed annuity rates
Taxes	Taxes on interest gains deferred until money is withdrawn	Interest taxable annually as earned
Liquidity	Typically a portion of the account balance is available for withdrawal annually	Generally no (free) access to account balance is available
Withdrawal Provisions	Can generally withdraw accumulated interest or 10-15% of account balance for free if age 59½ or older	All withdrawals are charged, typically equal to a portion of the interest you've earned
Financial Protection	Backed primarily by the issuing insurance company, and additionally by State Guaranty Funds	Insured by the FDIC (up to $250,000 total per bank)
Legacy	Asset passed directly to beneficiary without going through probate process	Probate process required to pass asset to heirs

Does not cover all products or all companies. Specific information available by product upon request. Updated as of June 2020.
* Fixed annuity premiums of more than $1,000,000 may be possible with insurer's approval.

Another key difference is that fixed annuities can be annuitized at the end of the investment term. Annuitization is the process of turning savings into a stream of steady income, guaranteed to last a number of years or for life. This feature is what makes annuities good for retirement income and qualifies them for tax-preferential treatment.

Benefits

Fixed annuities are a useful tool for retirement savings. They provide a safe, tax-advantaged way to earn a good return on savings needed in the near future. They are very similar to CDs, with added benefits:

✓ Guaranteed, Strong Return

The money you invest in a fixed annuity will accumulate at a fixed rate, which is specified upfront and guaranteed for the entire investment term. Fixed annuities generally offer higher rates than CDs with the same investment term length.

✓ Tax-Deferred Growth

From the government's perspective, an annuity is a retirement savings vehicle. As such, no taxes are paid until distributions are made. For a fixed annuity, this means that interest will accumulate and compound without incurring annual taxes, as is the case for a CD.

✓ Principal Protection

Unlike with most other investments, there is no market risk associated with a fixed annuity. Your principal is protected and guaranteed to accumulate at a fixed rate, making fixed annuities a good place to park retirement money you don't want to risk losing.

✓ Some Liquidity

Fixed annuities provide some liquidity, typically making interest earned or 10-15% of the contract's account balance available penalty-free annually if you're over 59½.

✓ Simple & Easy to Understand

There are a lot of complex products, but a fixed annuity is one of the simple ones. Assuming you leave your money in the fixed annuity until the end of the term, all you need to know is (1) how long until your money is available and (2) what your return will be over that period of time. There are no hidden fees that you need to worry about.

Drawbacks

Despite these benefits, fixed annuities are not good for everyone or for all situations. Here are some of the drawbacks:

✗ Penalties for Withdrawals under Age 59½

Fixed annuities are really meant to be used for retirement savings. The IRS issues a 10% penalty on gains withdrawn from a fixed annuity for account holders under the age of 59½.

✗ Not for Generating Income

While the fixed annuity has a lot of great benefits, it's not the most effective way to generate income in retirement. Instead, fixed annuities are typically used for accumulating wealth. There are other products that are better for converting assets into income, like income annuities.

Typical Buyers

Just like with any product, fixed annuities might make sense for you, or they might not. We've compiled a checklist to help you figure out whether a fixed annuity fits your investment needs.

Consider buying a fixed annuity if...

✓ You have money to invest for at least 3 years but want access to it within 10 years

✓ The money you're investing is earmarked for retirement or to be passed on to heirs

✓ You're already taking advantage of your employer's 401(k) match

✓ You want greater certainty and principal protection

✓ You want to preserve some liquidity

A fixed annuity is probably not the right product for you if...

✗ You need to access your money within 3 years or before age 59½

✗ You aren't taking advantage of your employer's 401(k) match

✗ You're interested in high risk investments and willing to risk principal to achieve it

✗ You're interested in generating income in retirement

Fixed Annuity Rates

Fixed annuity interest rates will vary over time as market conditions change, being driven most notably by longer-term Treasury and investment grade corporate bond yields. In addition, the size of your investment, length of time you're willing to lock away your money, and the credit rating of the carrier will impact the rate.

Understanding how the premium, investment term, and carrier's credit rating drive interest rates will help you to select the fixed annuity that best suits your needs. Expect to have to think about the following:

Premium: The higher the premium, the higher the rate. Larger fixed annuity premiums will have access to higher interest rates. A portion of the insurance company's expenses are fixed per contract such that incremental premium can essentially be invested without costing more. Said another way, there is a bonus for larger premium deposits.

Investment Term: Typically, longer investment terms will offer higher rates. A longer time horizon gives insurers more flexibility for investing your money and weathering any market fluctuations. As is the case for bonds and other fixed income instruments, investors have the right to demand higher returns the longer their money is locked away. Occasionally, there will be pricing anomalies, such as a yield curve inversion or an insurer offering a very competitive rate but only at a specific term, that cause this general rule to not hold true.

Insurer's Credit Rating: The higher the insurer's credit rating, the lower the rate, but the safer the investment. Given that fixed annuities are not backed by the FDIC and instead by guaranty funds which vary by state, it's an important factor to consider.

Financial Value

A fixed annuity credits a fixed interest rate over a specified period of time, much like a CD. On a pre-tax basis, the value of the fixed annuity is understood simply by its interest rate, or the rate at which you'll earn a return. But fixed annuities are even more valuable on an after-tax basis. Unlike CDs, interest earned on a fixed annuity is not taxed until money is withdrawn from the contract. This not only means lower taxable income for you during the accumulation period, but also additional compounded interest.

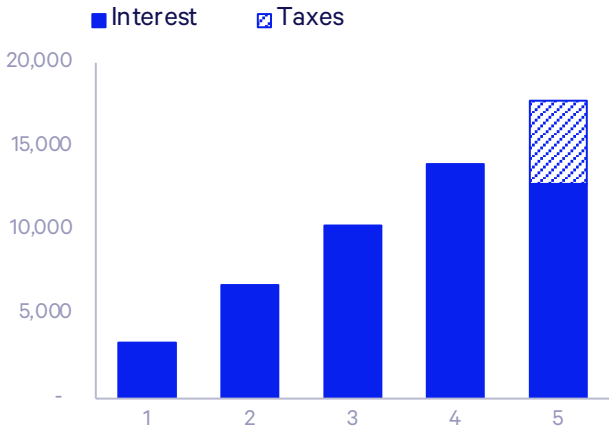
CASE STUDY

To illustrate the value of a fixed annuity, let's take Kelli, a 55-year-old starting to prepare for retirement, as an example. Kelli has $800,000 of post-tax savings that she's set aside for retirement. It's currently invested in the stock market, but she'd like to move $100,000 to something safer. She's considering a 5-year CD or fixed annuity.

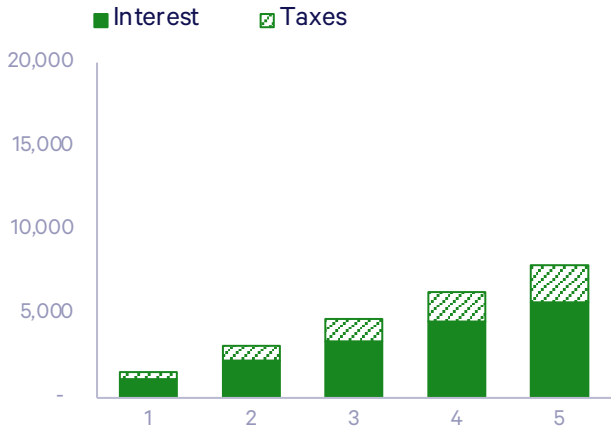
During her search, Kelli finds a 5-year fixed annuity returning 3.32%, significantly more than the 1.55% her bank is offering for a 5-year CD. This chart compares the growth of the two products and illustrates the power of the fixed annuity's tax-deferred growth.

The fixed annuity will produce an extra $9,800 pre-tax ($7,100 post-tax) over the 5-year period. Considering Kelli's age, timeline, and her plans to use the money for retirement, the fixed annuity is the more sensible investment for her. Plus, if she decides to roll the money over into another annuity in 5 years, she'll be able to extend the tax deferral.

Fixed annuity crediting 3.32%



CD crediting 1.55%



Charts show cumulative interest and taxes. Fixed Annuity rates are for example purposes only and do not represent current rates. CD rates rates are for example purposes only and do not represent current rates.

Taxation

In our discussion of fixed annuities thus far, we've assumed that the purchase was made with after-tax personal savings. However, it's also possible to buy a fixed annuity with qualified funds, such as within an IRA. In this case, the fixed annuity doesn't provide any additional tax benefits beyond what the IRA offers, which is tax-deferral of gains until money is withdrawn.

Continuing with the original assumption that the fixed annuity is being purchased with non-qualified funds, let's dig deeper into the tax treatment at each phase of the contract:

- **There are no taxes due during the investment term.** Your money isn't subject to taxation while it's growing. Not paying taxes means that you're able to keep more money invested and earning interest. And, this benefit continues as long as you keep your money in the contract, which can be beyond the investment term.

- **Instead, you pay taxes once money is withdrawn** whether during, at the end of, or after the investment term of the contract. Assuming the fixed annuity was purchased with after-tax savings, only the interest gain portion of your withdrawal will be taxable at ordinary income rates. (If your fixed annuity is held in a Traditional IRA, all withdrawals will be taxable.) Waiting until you're in retirement or in a lower tax bracket to withdraw can reduce the taxes you owe. Note that you will incur penalties if you withdraw money before age 59½ or more than what's allowed in your contract.

- **You can continue your tax-deferral by rolling over your fixed annuity into a new annuity.** When your fixed annuity investment term ends, you're not obligated to withdraw your funds. You can choose to roll it over into another fixed annuity or a different type of annuity through a tax-free 1035 exchange.

Tax treatment of these payments can be tricky, so be sure to reach out to a tax advisor for a complete explanation.

Portfolio Strategies

Investment decisions should not be made individually or in isolation. Instead, consider your entire financial portfolio and situation when investing. Here are some ways to think about a fixed annuity fitting into your portfolio strategy.

Diversification

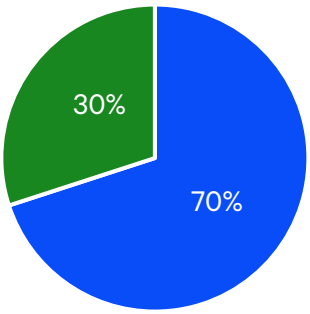
When diversifying your retirement portfolio, you will likely select a combination of equities and bonds that's appropriate for both your risk appetite and your age/investment horizon. As a fixed income investment, fixed annuities have a place in any well-diversified portfolio. Consider your fixed annuity purchase as portion of your assets you'd otherwise have allocated to bonds.

CASE STUDY

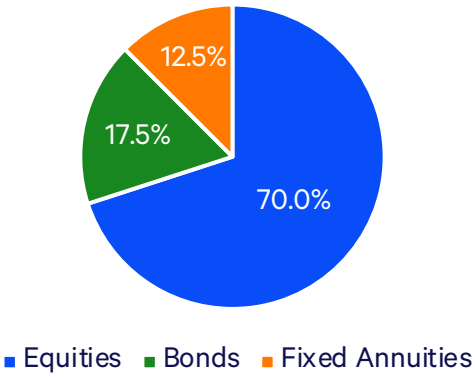
55-year-old Kelli's $800,000 in savings are currently invested at a 70/30 mix of stocks and bonds. She wants to maintain her equity exposure and overall investment mix when she purchases a $100,000 5-year fixed annuity.

How does she do it? At a 70/30 mix, Kelli had $560,000 (70%) invested in equities and $240,000 (30%) invested in bonds. After transferring $100,000 to a fixed annuity, Kelli will have to rebalance the remaining $700,000 to an 80/20 mix. Doing so maintains her $560,000 exposure to equities and decreases her investment in bonds to $140,000. Once adding back in the $100,000 fixed annuity, which acts as a fixed income investment, Kelli has maintained her desired 70/30 portfolio diversification.

Before Fixed Annuity Purchase



After Fixed Annuity Purchase



Laddering

Breaking up your purchase into multiple fixed annuities with different investment terms is a useful strategy in a low interest rate environment. You're able to secure a higher interest rate today that's only available for longer time commitments while also creating multiple opportunities to reinvest at potentially higher future rates. For example, instead of buying one 5-year fixed annuity, you could buy three fixed annuities with maturities of 3 years, 5 years, and 7 years. The money locked in for longer will be eligible for higher rates today. And, you'll have liquidity available at multiple dates in the future, which makes it more likely that you'll catch rising rates.

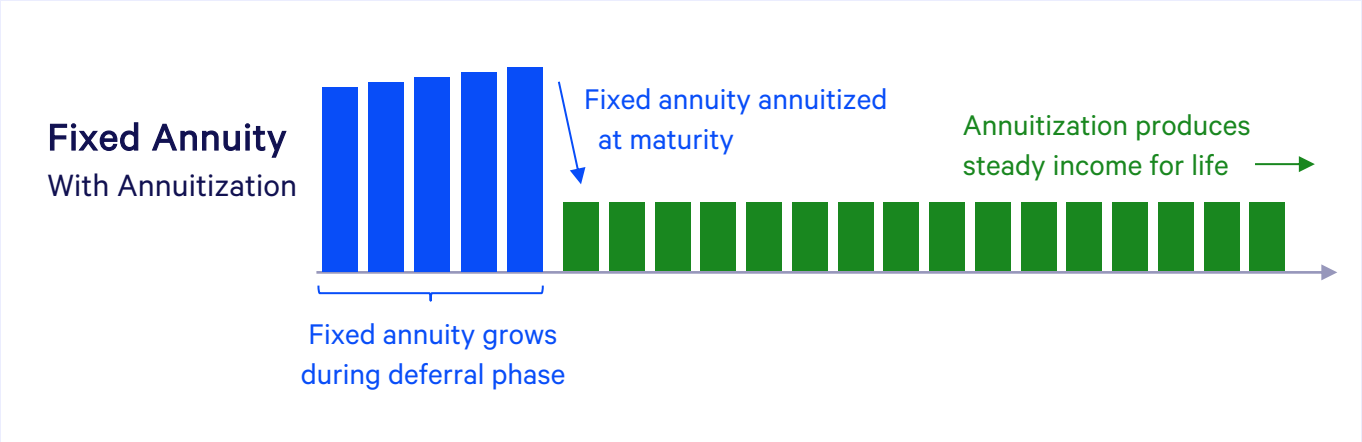
CASE STUDY

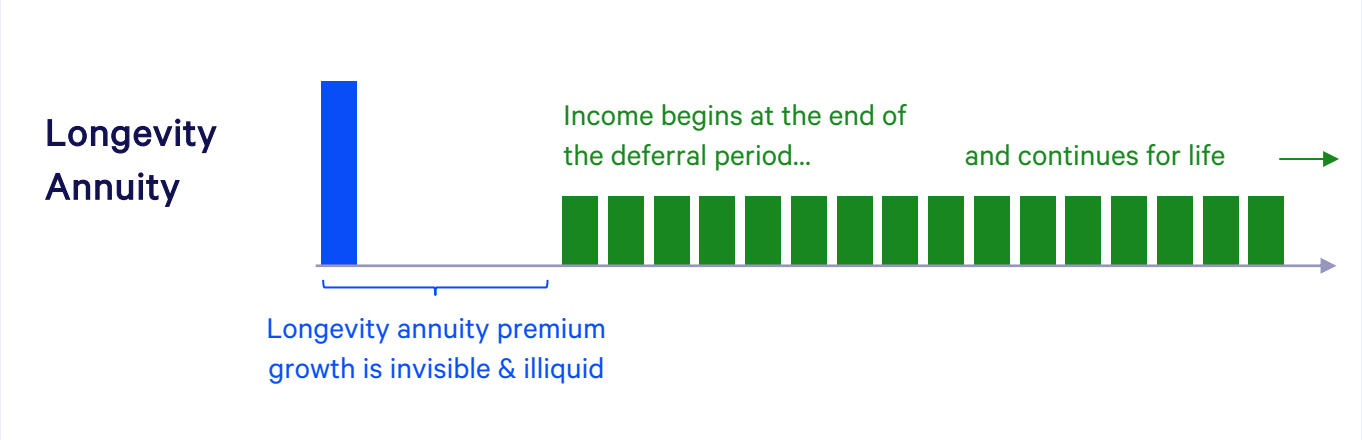
If Kelli employs this strategy, she'll split her $100,000 purchase into multiple smaller purchases, keeping the average investment term close to 5 years. Based on current rates and her personal circumstances, Kelli decides to split her investment evenly between 3-year, 5-year, and 7-year fixed annuities, crediting 3.00%, 3.32%, and 3.25% respectively. This way, she'll have funds available in 3 different years, giving her more reinvestment opportunities.

Chart shows investment and cumulative pre-tax interest. Fixed Annuity rates are for example purposes only and do not represent current rates.

Fixed Annuity + Annuitization vs. Longevity Annuity

With your fixed annuity, you have several choices at the end of the investment term. If you are planning to annuitize your fixed annuity, you can also consider purchasing a longevity annuity today. The money you invest in a longevity annuity will produce a guaranteed lifetime income stream starting at some point in the future, resembling what your annuitized fixed annuity will look like.





Whereas the fixed annuity will become liquid at the end of the investment term, the longevity annuity is locked-in, and its value can only be accessed through income payments. A fixed annuity plus annuitization strategy has more liquidity and optionality, but a longevity annuity will offer income payments that are locked in regardless of the future changes in rates.

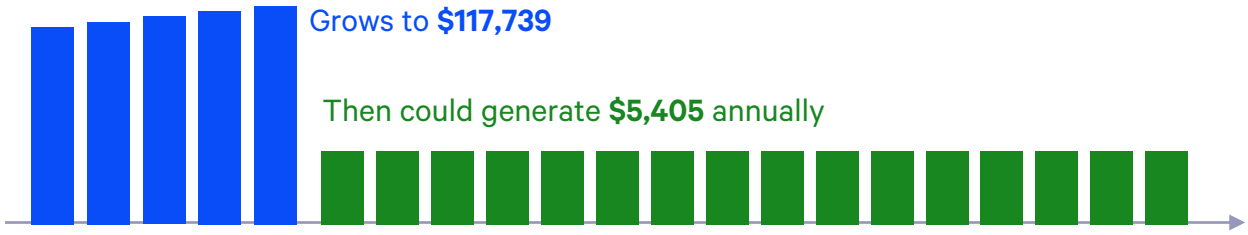
CASE STUDY

Let's revisit Kelli's decision to buy a $100,000 5-year fixed annuity at age 55, ending at age 60. Kelli is aware of the fixed annuity's annuitization option and thinks it might be a good way to convert a portion of her retirement savings into lifetime income. Knowing that generating income is important to her, Kelli is advised to consider purchasing a longevity annuity instead today, which will allow her to lock in her future income regardless of future rates.

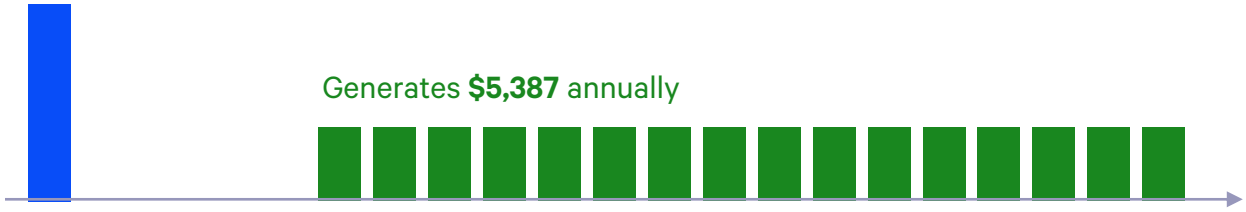
To compare the two strategies, let's assume that income annuity rates remain constant over the next 5 years. Kelli's first option is to purchase a $100,000 5-year fixed annuity today and in 5 years convert the proceeds into an immediate annuity. Kelli's second option is to use the $100,000 to purchase a longevity annuity with income payments starting in 5 years.

If she goes with the first option, her $100,000 will accumulate in a fixed annuity at 3.32% to $117,739 in 5 years. Then, she will annuitize by converting the $117,739 to an immediate annuity, which pays $5,405 annually for life. In the second option, Kelli buys a $100,000 longevity annuity today, gives up her liquidity, but locks in annual income for life of $5,387. Because of today's interest rate environment, the longevity annuity actually pays 0.3% less than the immediate annuity. But the immediate annuity's rates cannot be locked in ahead of time.

$100,000 Fixed Annuity



$100,000 Longevity Annuity



(1) 5-year fixed annuity from American Life offering 3.32% then buys a Guardian immediate annuity life with cash refund policy for a 60-year-old female. (2) New York Life longevity annuity life with cash refund policy for a 55-year-old female with income starting at age 60. Rates are for example purposes only and do not represent current rates.

The two strategies are summarized in the table below.

	FIXED ANNUITY	LONGEVITY ANNUITY
Purchase	Money is invested in a fixed annuity.	Money is invested in a longevity annuity.
Deferral Phase	Account accumulates with interest. Some liquidity is available.	Insurance company invests your money, but its growth is invisible and illiquid.
End of Investment Term	Account becomes fully liquid. Annuitization elected, effectively purchasing an immediate annuity.	N/A
Payout Phase	Income payments begin immediately and continue for life.	Income payments begin at the end of the deferral period and continue for life.

Features & Riders

Fixed annuities are relatively simple investments, but there's still some terminology, features, and riders that you'll need to understand. We've outlined some key concepts for you here.

Interest Rates

When you buy a fixed annuity, you are locking in a return that's guaranteed for the investment term. The fixed annuity could be structured to offer the same crediting rate every year or a different rate in the first year, which is higher than in subsequent years. Ultimately, and assuming you won't be cashing out early, what matters is the yield to maturity, or the annual effective return you're earning over the investment term. Finally, at the end of the term, you'll have the option to continue the fixed annuity with an annually renewable rate. Here's how the rates will be identified:

- **Base Rate:** annual interest rate credited to your account during the investment term
- **Additional First Year Interest Rate Bonus:** additional interest rate that might be added to the base rate in the first year
- **Yield To Maturity:** the effective annual interest rate when spreading the bonus rate evenly over every year

- **Renewal Rate:** after the investment term ends, your money will continue to earn interest at the prevailing renewal rate, which moves according to market conditions
- **Guaranteed Minimum Renewal Rate:** the lowest renewal rate possible (floor)

Surrender/Contract/Guarantee Period & Rates

Surrender charges will apply during the investment term. During these years, if you withdraw more than what's allowed – typically 10% of your account value or cumulative interest, if anything – fees will be assessed. Most fixed annuities have a pre-set declining surrender charge schedule which can start as high as 10% in the first year and will then decline by typically 1% per year. Here's how the surrender charge period will be identified:

- **Surrender Charge Period:** years during which you'll be charged to access anything greater than the free withdrawal
- **Surrender Charges:** Rates applied to amount surrendered above free allowance for each year of the surrender charge period

Note that typically the surrender charge period will be the same as the rate guarantee period (investment term), with a 30-day window at the end to take your money out for free. Some products are occasionally structured to have a surrender charge period longer than the guaranteed rate period, with no window to take your money out for free. This option could make sense if you expect interest rates to increase, but it's generally not something we'd recommend. In these cases, the product is not considered a multi-year guaranteed annuity.

Free Withdrawals

Fixed annuities typically allow you to access a portion of your money penalty-free. The allowance differs by insurer, but it's often cumulative interest or 10% of the account balance. You should only plan to take advantage of these withdrawals if you're at least 59½, as the IRS imposes a 10% penalty on the earnings portion of all withdrawals made before you reach that age.

Note that if your fixed annuity is qualified and was purchased within a 401(k) or IRA, any applicable required minimum distributions will be withdrawable penalty-free with most insurers. With some cases, you will need to purchase an “RMD rider” for a 0.10%-0.20% reduction in the crediting rate.

Market Value Adjustment vs. Book Value

There are two types of fixed annuities: those with a market value adjustment (MVA) and those without, known as book value (BV). The MVA or BV classifications only impact you if you decide to withdraw funds early. In the case of a book value fixed annuity, the amount you’re able to withdraw will simply be the account value less surrender charges described above. However, a fixed annuity with a market value adjustment could reduce the amount you’re able to access upon surrender.

The market value adjustment will, as the name suggests, adjust the amount you’re able to surrender based on market conditions at that time. If interest rates have gone up since purchase, an additional fee will be assessed that lowers the withdrawal value. The reverse is also true. If interest rates have gone down since purchase, the charge upon withdrawal will actually decrease.

Fixed annuities with MVAs are actually very common and well-liked, offering higher interest rates than their BV counterparts. The market value adjustment protects the insurance company from adverse behavior by charging you for surrendering in a rising rate environment. That’s because the insurance company would otherwise lose money liquidating assets to fund your surrender (bond prices go down when interest rates go up). Having this downside protection means they can offer you a higher rate.

Finally, some fixed annuities offer a return of premium (ROP), which guarantees that you’ll always be able to get at least your original premium out of the contract at any time. In other words, surrender charges and market value adjustments will be capped at the interest you’ve accumulated.

CASE STUDY

For example, let's say that interest rates have risen, and Kelli decides to surrender her 5-year fixed annuity with MVA at the end of year 4 to take advantage of the increasing interest rate environment. To measure the change in interest rates over those 4 years, the insurance company uses a corporate bond index. At purchase, that index showed a rate of 3%, which 4 years later has increased to 5%. For simplicity, we'll assume that the insurance company calculates the MVA adjustment as {(1 + purchase index)/(1+ today's index) – 1}, which in this case produces {1.03/1.05 – 1}, or -0.019.

At the end of year 4, Kelli's fixed annuity is worth $113,956, of which she's allowed to take 10%, or $11,396 for free. The rest, $102,560, will be subject to a surrender charge and the MVA adjustment calculated above. If the applicable surrender charge rate is 2%, then Kelli's charges would be:

*Surrender: -0.02 * $102,560 = -$2,051 and*
*MVA: -0.019 * $102,560 = -$1,954,*
giving her a net surrender of $113,956 - $2,051 - $1,954 = $109,951.

Fixed annuity balance	$113,396	
– Free withdrawal	(11,396)	← 10% x fixed annuity balance
Chargeable balance	102,560	
– Surrender charge	(2,051)	← 2% x chargeable balance
– Market value adjustment	(1,954)	← -0.019 x chargeable balance
Surrender value	**$109,951**	

$$= \frac{1.03}{1.05} - 1$$

purchase index: 3%
today's index: 5%

MVA calculation for illustration purposes only and not representative of any particular insurance company's process. Assumes $100,000 5-year MVA accumulates at 3.32% per year, 10% free withdrawal provision, and year 4 surrender charge of 2%. Makes use of simplified MVA of (1 + purchase index)/(1 + today's index) - 1, with assumed index of 3% at purchase and 5% today.

Note that this is a basic, simplified illustration of the MVA functionality. Each insurance company will have its own formula and underlying index. Also not illustrated here but potentially applicable is a floor for the surrender value of the premium accumulated at the guaranteed minimum interest rate in the contract.

Payout Options

When you reach the end of your investment term, you have several options:

- **Lump-Sum Withdrawal:** You can take entire balance of your fixed annuity in a one-time payment.
- **Periodic or Scheduled Withdrawals:** You can leave your money in the fixed annuity earning the renewal rate and withdraw as needed or following a pre-determined schedule.
- **Annuitization:** You can convert your account balance into an immediate annuity that offers a guaranteed lifetime paycheck you can't outlive.
- **Rollover:** Through a 1035 exchange, you can rollover your fixed annuity into another annuity, fixed annuity or otherwise, penalty-free and tax-free.

Riders

Fixed annuities can offer riders that are either included or added to the contract at an additional cost. Here are some of the options you might see, noting that options vary from insurer to insurer:

- **Death Benefit Rider:** Should you pass away before the end of the investment term, your beneficiaries can receive the annuity's full accumulated account value immediately rather than waiting until the end of the investment term.
- **Living Needs Benefit/Unemployment Rider:** Should you start living at a health care facility, become terminally ill, become disabled, or lose your job, additional or full liquidity of your contract will be available.
- **Home Health Care Rider:** If you begin to receive home health care recommended by your doctor, you may be able to access your account balance without penalty.
- **Interest Opportunity Rider:** For a fee or a lower guaranteed rate, you may be able to benefit from a rising rate environment.
- **Enhanced Beneficiary Benefit Rider:** Your beneficiaries may receive additional funds to help offset death expenses, such as tax obligations.
- **Enhanced Spousal Continuation Rider:** If your spouse is your sole primary beneficiary, he or she can continue your policy upon your death as the new owner.

Buying Tips

Buying a fixed annuity is easier when you're equipped with the right information. In addition to being available to help walk you through the process, Blueprint Income has compiled a list of things to keep in mind:

Where to Buy a Fixed Annuity

Fixed annuities are sold via insurance agents, brokers, and financial advisors. Blueprint Income is licensed to sell fixed annuities in all 50 states and The District of Columbia. Find the fixed annuities that meet your needs and compare them side-by-side on our website at https://www.blueprintincome.com/fixed-annuities.

Focus on Interest Rate & Credit Rating

Fixed annuities are largely uniform from insurer to insurer, meaning you can make your decision based on just two things: the interest rate being offered and the insurer's credit rating. An insurer's credit rating, similar to a bond's rating, measures their financial strength and ability to meet future obligations. Like bonds, the higher the credit rating, the lower the rate. Buy the product that offers the best rate at the rating that's right for you.

Consider Your Agent/Broker's Incentives

The Department of Labor worked for nearly a decade to reform the requirements for giving financial retirement advice. The goal was to ensure that advisors, agents, and brokers put their clients' best interests before their own. The reforms were not implemented, so you should be extra cognizant when considering an annuity purchase to understand your agent or broker's incentives. How are they compensated on the sale? How do they select the products they're showing you? Do they work with only one or a handful of insurance companies?

Laddering Strategy

Just like with CDs, you can use a laddering strategy by buying multiple fixed annuities with staggered terms, i.e. 3-, 4-, 5- and 6-year terms. Because they come due at different dates, the hope is that you'll be able to take advantage of an upswing in interest rates.

Don't Be Scared of Market Value Adjustments

If you know you'll be able to keep your money invested for the full investment term, go with a market value adjusted (MVA) fixed annuity. You'll get a better rate and will only be penalized if you surrender early (which we just decided you're not going to do!).

Your Plans at the End of the Investment Term Might Change What You Buy Today

What are you going to do with your money when you reach the end of the investment term? You could roll it over into a new annuity, annuitize it, or withdraw it. Plan ahead so that you can anticipate the taxes you'll owe under each scenario. And, if annuitization is a possibility, it might be better to buy a longevity annuity today instead.

Income Annuities

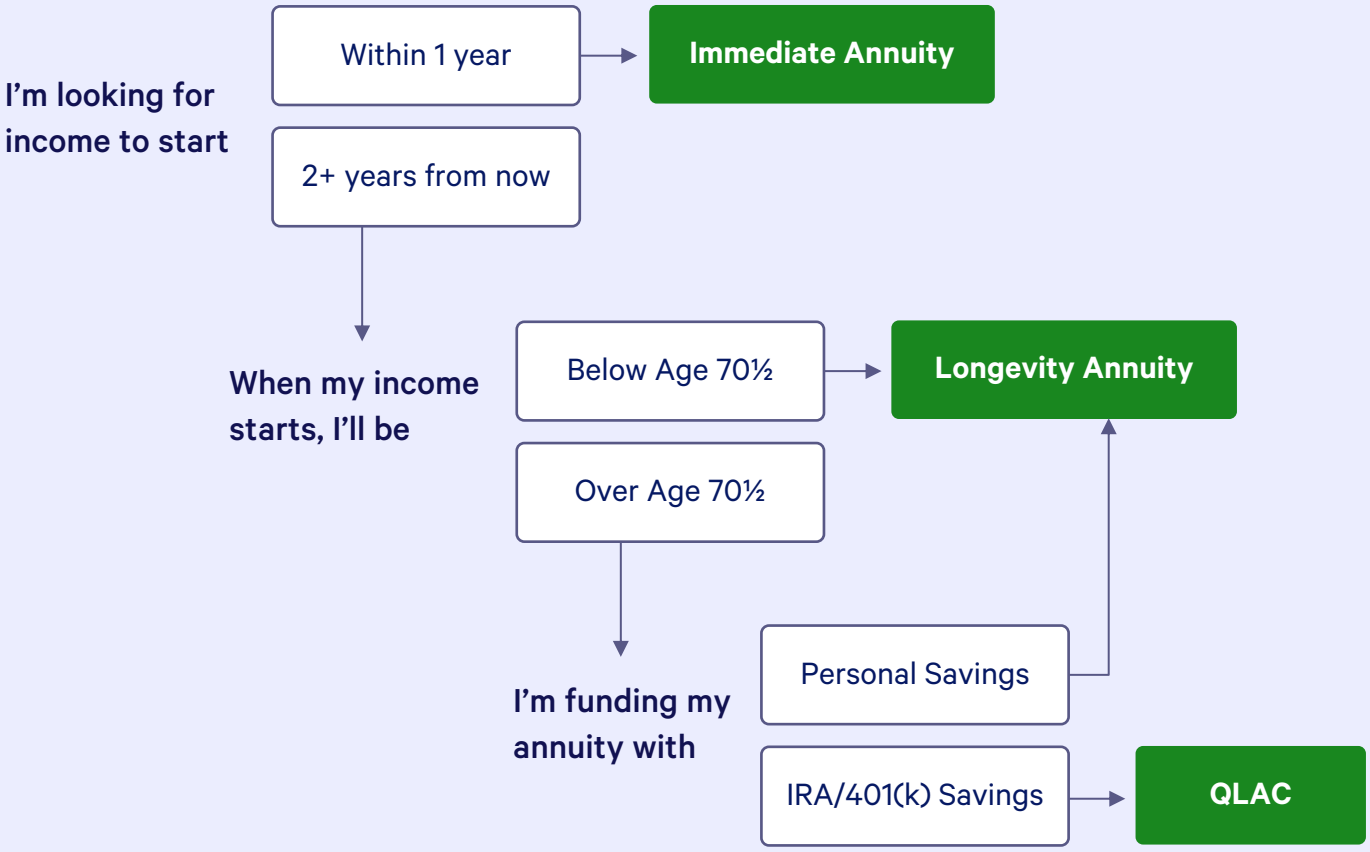
Monthly income for as long as you live (available as immediate annuities, longevity annuities, and QLACs)

BLUEPRINT INCOME

Types of Income Annuities

An income annuity takes a portion of your retirement savings and converts it into guaranteed lifetime income. That income can start immediately if you're already retired, as with an immediate annuity, or in the future, as is the case for a longevity annuity or QLAC.

Use the following decision tree to figure out which type of income annuity is right for you:



Continue reading to learn more about the type of income annuity that best meets your needs.

Immediate Annuities

Convert your retirement savings into a guaranteed lifetime income stream

Introduction

You've been saving for years, and years, and years, and are finally ready to retire! It's exciting, and overwhelming. On the one hand, you're proud of how much you've saved and feel pretty sure it's sufficient for a comfortable retirement. But, you're definitely going to miss the guarantee of a steady paycheck.

The situation you're finding yourself in is an unfortunate reality for today's retiree as pensions have been replaced by IRAs and 401(k)s. These defined contribution retirement plans are great for accumulation but don't offer a clear path for turning those assets into income. Without a pension, you're forced to manage the "decumulation" or spend down of your 401(k) or IRA alone, which is particularly challenging when you don't know how long you'll live.

There is good news, though, and it's called a single premium immediate annuity (SPIA) or just immediate annuity for short. An immediate annuity is essentially a pension that you can buy for yourself once you're ready to retire. The wealth you've accumulated — whether in your IRA, 401(k), or personal savings accounts — can be converted into a guaranteed lifetime check you can't outlive. This means more certainty and comfort for you during the golden years that lie ahead.

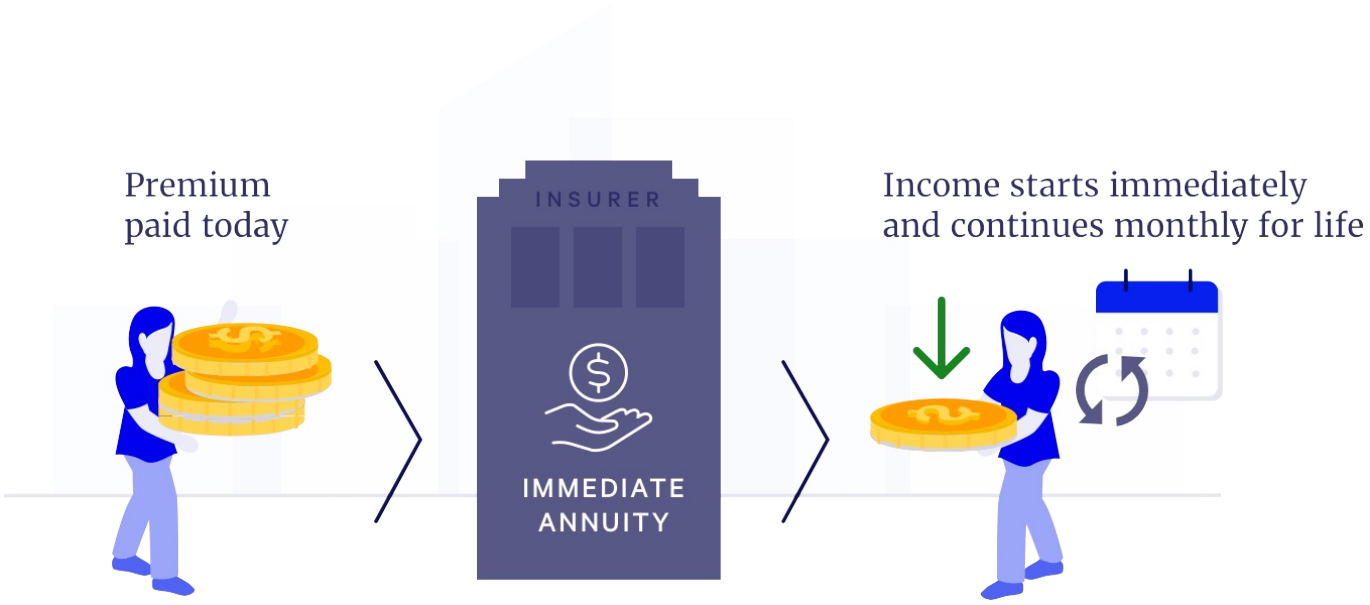
Whether it's called an immediate annuity, single premium immediate annuity, SPIA, or immediate income annuity, it all means the same thing.

In this guide, we'll tell you everything you need to know about immediate annuities — how they work, how they're customized, and how to evaluate whether converting a portion of your assets into income makes sense for you.

CONTENTS

What Is an Immediate Annuity?

An immediate annuity is guaranteed retirement income you can purchase to protect your longevity and minimize the risk of outliving your savings. When you buy an immediate annuity, you convert a portion of your savings into a monthly check that starts within one year and continues for as long as you're alive. Whether purchased with your retirement or personal savings, an immediate annuity turns your assets into guaranteed income for life. You can think of it like a pension you buy for yourself.



An immediate annuity is an **income annuity**

An income annuity is a contractual agreement between you and an insurance company. In exchange for a lump-sum premium, the insurance company promises to give you a steady, guaranteed check for life (or a certain period of time, a less-common version of the product). The size of the check is specified upfront and depends on factors such as your premium, age, and gender.

More specifically, an immediate annuity is an **immediate income annuity**

An immediate income annuity begins annuity payments within one year of the premium payment. (In contrast, deferred income annuities, a.k.a. longevity annuities, don't begin payments right away, deferring their start to as late as 40 years from now.) As a result, immediate annuities can only be funded with a single premium, leaving no room for future contributions.

And finally, an immediate annuity can be **qualified** or **non-qualified**

Qualified immediate annuities are purchased with pre-tax money from your 401(k), Traditional IRA, or other qualified plan. The money is transferred penalty and tax-free, but all income payments will be fully taxable at ordinary income tax rates.

Non-qualified immediate annuities differ in that they are purchased with post-tax savings. In this case, only a portion of the income payments will be taxable to avoid taxing the money used to purchase the immediate annuity twice.

In summary, an immediate annuity is like a pension you can buy for yourself using your pre- or post-tax retirement savings. Your hard-earned savings will be converted into a retirement check which will keep you financially secure no matter how long you live.

Benefits

Figuring out how long your retirement savings need to last is difficult. Guaranteed lifetime income can provide you with peace of mind through a source of income that you won't outlive. Buying an immediate annuity with your retirement savings offers a number of benefits:

✓ Longevity Protection

If you take a finite amount of money and spend a certain amount each month, there is a date where you'll expect to run out of money. Longevity risk is the risk that you live beyond that date. By pooling assets, immediate annuities are able to provide extra income to those that outlive their life expectancy and would have otherwise run out of money.

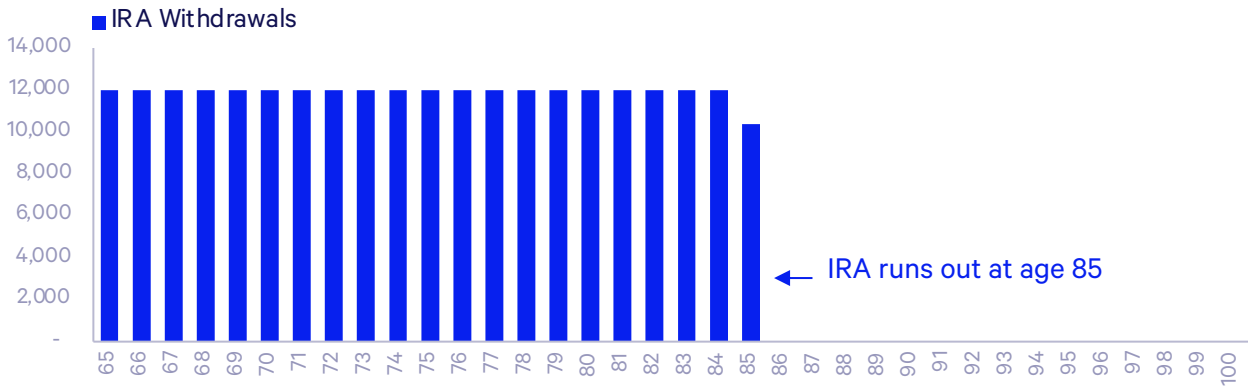
✓ Alternative Fixed Income Investment

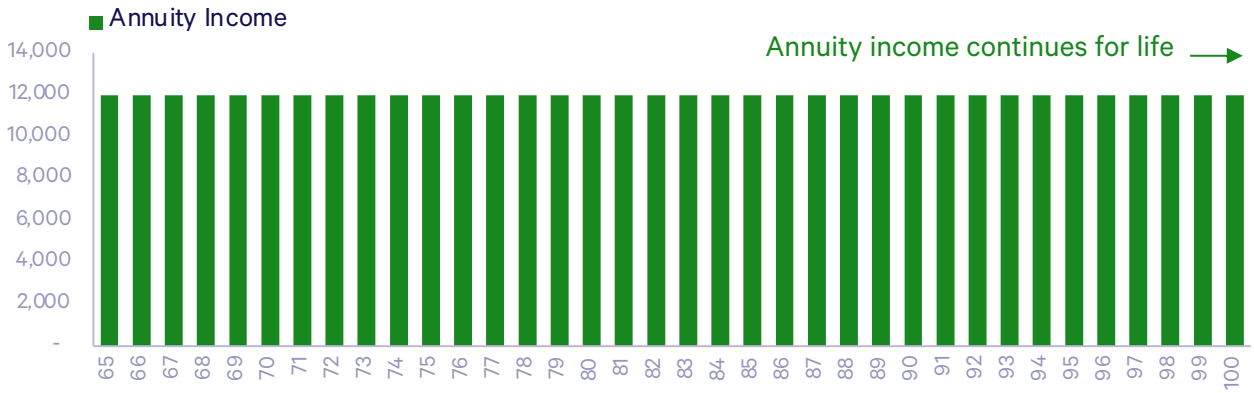
While immediate annuities are primarily insurance products, the value they offer can be compared to low-risk fixed income investments, such as an investment grade bond fund. As you approach retirement and no longer want to take equity market sized risks, you'll likely move your assets into safe but low returning bond funds. Moving some of those assets instead into a high-rated immediate annuity will make your money last longer.

CASE STUDY

Let's take a look at an example. Matthew is 65-years-old and about to retire. A big portion of his IRA is invested in an investment grade bond fund which is only earning 2%. Taking a look at his sources of retirement income (such as Social Security and a rental income property), Matthew has a spending gap of $1,000 per month, i.e. his projected monthly expenses are $1,000 higher than his income. Matthew decides to fill that spending gap with an immediate annuity.

Matthew will take $203,000 of his IRA that's currently invested in investment grade bonds earning 2% and use it to purchase an immediate annuity. Starting in one month, the annuity will provide him with a $1,000 monthly check that will continue for as long as he's alive. In comparison, simply leaving the money invested in his IRA investment grade bond fund and withdrawing $1,000 per month would deplete his IRA by age 85.





Immediate annuity rates based on a $203,058 New York Life life-only policy for a male aged-65 with income starting immediately. Rates are for example purposes only and do not represent current rates.

✓ Simplified Asset Management

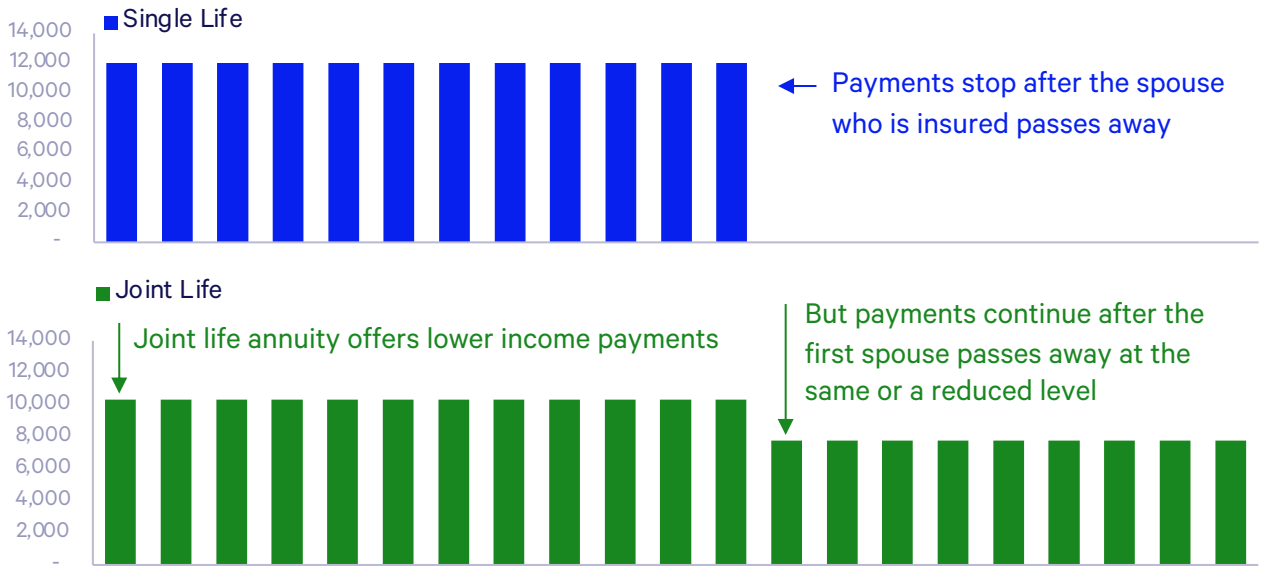
Adding an immediate annuity to your portfolio can dramatically simplify your retirement planning. Knowing that you'll be receiving a steady check, which could cover all or a portion of your expenses, makes it easier to manage your remaining assets. Guaranteed income means that you can take more risk investing your remaining assets and be more comfortable deciding whether to take that extra vacation.

✓ Spousal Benefits

Immediate annuities can be set up as joint annuities, which means that payments continue as long as either you or your spouse are alive. Structuring the contract like this is a great way to preserve financial stability and quality of life for the surviving spouse.

CASE STUDY

Let's continue to use Matthew as our example. Matthew expects that he will pass away before his 62-year-old wife, Lindsay. He wants to know that that she'll be okay (at least financially) once he's gone, so he's considering adding her to his immediate annuity. Matthew can purchase a joint life policy that's contingent on her life as well, such that income payments continue until both have passed away. The income payments will be lower, but they're expected to be paid over a longer period of time. Since their expenses will decrease when it's just Lindsay, they've opted for a 25% income reduction, which increases their income while they're both alive.



Immediate annuity rates based on $203,058 New York Life single and joint life-only policies for a male aged-65 and a female aged-62 with income starting immediately. Rates are for example purposes only and do not represent current rates.

✓ Principal Protection

The savings that you allocate to an immediate annuity are protected from swings in the stock and bond markets. And, by selecting the refund at death option (more on this later), you can guarantee that your savings will be passed onto your beneficiaries if you pass away prematurely.

✓ Some Liquidity

While immediate annuities are generally illiquid products functioning like a pension check and not a savings account, many carriers offer some level of liquidity. Most commonly, this is in the form of commutation, or withdrawal benefit, which permits accelerating upcoming monthly benefits. A limited number of monthly payments can be accelerated, and guidelines exist around when and how often the policyholder can take advantage of this liquidity.

✓ Clear Product Structure

The immediate annuity has a simple structure. For any amount of premium you would like to put into the contract, the insurance company will tell you how much monthly income they can offer. There are some decisions you'll have to make (more on this later) that affect the level of income, but that's it. The income is net of the insurance company's expenses and the commission collected by the distributor.

Drawbacks

Despite these benefits, immediate annuities are not good for everyone or for all situations. Here are some of the drawbacks:

✗ Limited Liquidity & No Cash Value

Immediate annuities don't offer much liquidity or have a cash value that can be withdrawn or borrowed from. Immediate annuities should be thought of as a check, like a pension.

✗ No Market Exposure

The income you'll receive is determined upfront, fixed, and isolated from any market volatility. While this is a positive attribute for those focused on insurance coverage, it isn't right for those seeking an investment-style product.

Typical Buyers

An immediate annuity is a powerful way to ensure you have a guaranteed source of income in retirement. That doesn't mean it's right for everyone, and it never makes sense to use all of your savings to purchase an annuity. Here's the methodology we've developed at Blueprint Income to help you think about whether an immediate annuity may (or may not) be a fit for you:

Consider buying an immediate annuity if...

- ✓ Social Security and/or pension benefits won't cover your regular expenses
- ✓ You're about to retire or are already in retirement
- ✓ You've accumulated between $250,000 and $5 million in retirement savings
- ✓ You're in average or above-average health
- ✓ You're seeking greater certainty in retirement and more of an insurance product

An immediate annuity is probably not the right product for you if...

- ✗ Social Security and/or pension benefits fully cover your regular expenses
- ✗ You're years away from retirement
- ✗ You've accumulated less than $250,000 or more than $5 million in retirement savings
- ✗ You're in below-average health
- ✗ You're seeking higher risk and more of an investment product

A common objection to immediate annuities is that they don't build or provide access to cash value unlike other insurance products used for retirement planning. This is often true, but the trade off is access to higher guaranteed income than these more liquid products will offer. Using only a portion of your retirements savings to purchase an immediate annuity leaves the rest of your assets to provide liquidity and market upside.

Understanding how your personal attributes and the options you select drive quotes enables you to structure the policy to best suit your needs. Expect to have to think about the following when evaluating an immediate annuity:

Age: Income will increase as you age. The older you are when you buy, the fewer remaining years you're expected to live. Holding all else equal, spending the same amount when you're older will generate more income.

Gender: Income will be higher for males than females. Because women have longer life expectancies than men, the income women receive each year will be smaller.

Premium: Income will sometimes increase with higher premiums. A portion of the insurance company's expenses incurred are fixed per contract such that incremental premium can go entirely towards buying income. Said another way, there is often a discount for larger premium deposits.

Single vs. Joint Life: Income will be higher for single life than joint life policies. A joint life policy will provide income as long as either person is alive, which is at least as long and almost certainly longer than if contingent on one person.

Payout Option: Income will be lower for richer guarantees. Guaranteeing at least your money back at death (refund at death, a.k.a. cash refund or death benefit) or a minimum number of payments (period certain) increases the amount the insurer expects to pay you. To compensate for the extra guarantee, they will need to lower the recurring payments.

Riders: Income will be lower for each rider added. In general, any extra options or riders added to a policy will require compensating the insurer for additional risk they've assumed. Typically these options increase your guarantee or provide you with extra protection, both of which will result in lower base income amounts. Some examples of the riders available for immediate annuities are:

> **Inflation Protection:** Your income benefit can be increased annually by a certain percentage (typically 1-5%) to try and keep up with inflation.
>
> **Changing Needs / Future Adjustment:** Allows for a one-time future adjustment (increase or decrease) to your income benefit but must be decided at issue.
>
> **Income Enhancement:** Your income benefit is tied to a benchmark interest rate index that can potentially increase your benefits on a specific future date.

On our website you can compare quotes across top-rated insurance providers.

Finally, you'll usually notice an inverse relationship between the creditworthiness of an insurer and the income they offer. Insurers with higher credit ratings have earned them by maintaining higher capital reserves and more conservative investment portfolios, both of which limit their profitability and thus the income they can offer you. Only immediate annuities from highly-rated insurers (A.M. Best rating of at least A) make the cut for inclusion on the platform. And, even among the insurers we've decided to work with, it's worth distinguishing among the levels of financial strength. The guaranteed income you're promised is only as good as the financial strength and longevity of the insurer backing it.

On our website you can compare quotes across top-rated insurance providers.

Financial Value

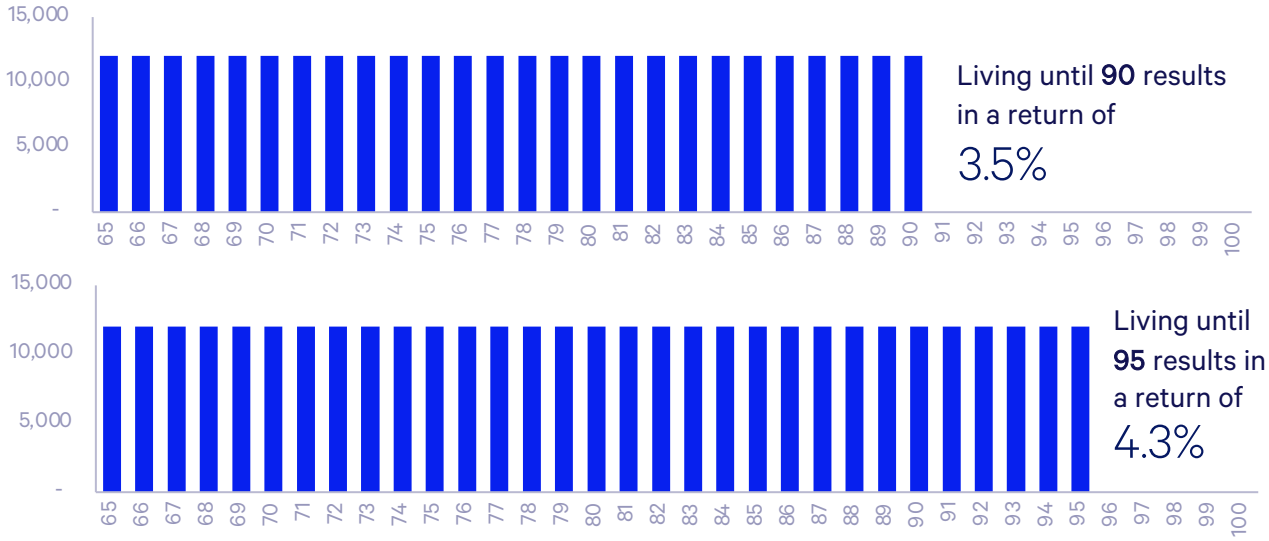
A common question asked when considering moving some of your retirement assets into an immediate annuity is: what value will I get from this purchase? Typically, people look for a quantitative answer, such as an internal rate of return (IRR) or return on investment (ROI), that they can compare to returns generated in their fixed income portfolio.

Unfortunately, the value of an immediate annuity cannot be understood quite so simply or compared to the return of a traditional financial product on an apples-to-apples basis. That's because calculating an IRR or ROI requires knowing the upfront investment and all future income amounts and dates. As a longevity insurance product, the immediate annuity will provide you with income for as long as you're alive, i.e. end date to be determined.

Instead, we can calculate a range of IRRs based on your potential lifespan. The longer you live, the higher the IRR over the life of the product will be. While thinking about your quantitative return should be a part of your analysis, don't forget about the more qualitative risk reduction and peace of mind the product is providing as well.

CASE STUDY

Continuing with 65-year-old Matthew, his immediate annuity could wind up generating a 3.5% return if he lives until 90, which increases to 4.3% at age 95 and 4.8% at age 100.



Immediate annuity rates based on a $203,058 New York Life life-only policy for a male aged-65 with income starting immediately. Rates as of 6/4/2020.

Taxation

The taxation of annuities depends first and foremost on whether the annuity was purchased with pre-tax or post-tax money. If the premium was paid with post-tax money, as with a non-qualified annuity, the portion of any income payments that constitutes a return of that premium will not be taxable. On the other hand, qualified annuities are purchased with pre-tax retirement savings. Because the money used to fund the annuity has never been taxed, all distributions from the annuity will be fully taxable. In either case, ordinary income tax rates will apply.

For immediate annuities including a refund at death option, a death benefit will be paid to a beneficiary if the premiums paid are greater than the cumulative income payments. Death benefits will be paid directly to the beneficiary and avoid the probate process. However, annuity assets will always be included in the deceased's estate. Beneficiaries will be taxed on any proceeds received at ordinary income tax rates. Non-spousal beneficiaries can receive the death benefit as a lump sum, over five years or in some instances in equal distributions over their lifetime.

Taxation of Non-Qualified Immediate Annuities

Because a non-qualified immediate annuity is purchased with after-tax money, your income payments will not be 100% taxable. Each income payment can be split into two pieces: a part that's returning your initial investment, and a part that's your gain or interest earned. Taxes will only be owed on the gain, as the premium you invested in the contract has already been taxed. This non-taxable portion of the income payment is determined using an exclusion ratio, which mandated and determined by the IRS, and is provided by the insurance company at purchase.

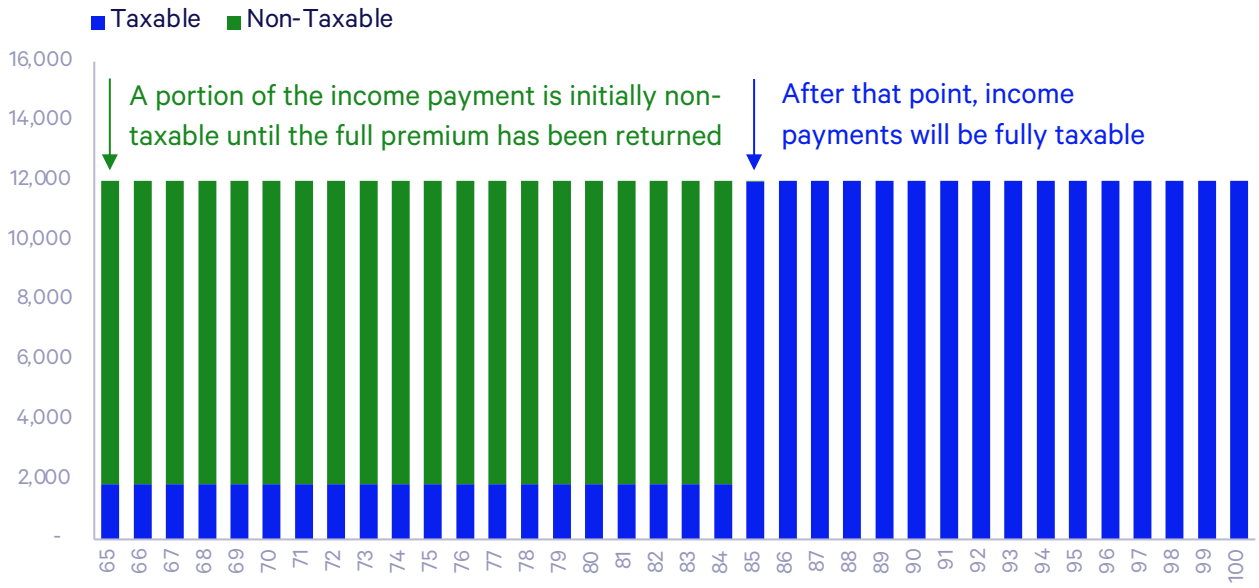
Exclusion Ratio = Investment in the Contract ÷ Total Income Expected

The exclusion ratio will be applied to each income payment, indicating how much is not taxable, until the full investment in the contract has paid out. Once the investment has been fully returned, subsequent income payments will be fully taxable.

CASE STUDY

To see how this works, let's continue analyzing Matthew's immediate annuity. If Matthew does not wind up using pre-tax retirement savings to buy it, it'll be classified as non-qualified.

The exclusion ratio for Matthew's policy is 85%. The insurance company calculated this as the ratio between his investment in the contract ($203,000) and the total amount of income they expect to pay him ($240,000 in this case). Thus 80% of his income payments will be excluded from his taxable income until a total of $203,000 has been excluded. For Matthew, this will be the case once he's received 21 years worth of payments, after which the immediate annuity income will be fully taxable at ordinary income rates.



Immediate annuity rates based on a $203,058 New York Life life-only policy for a male aged-65 with income starting immediately. Rates are for example purposes only and do not represent current rates.

Finally, if a death benefit is due to your beneficiaries, taxes owed will be calculated in a similar manner. Any portion of the death benefit that constitutes a return of premium will be received tax-free, whereas benefits in excess of the initial investment will be taxed at ordinary income levels. Either way, the benefit will be passed directly to beneficiaries, thus avoiding the probate process. And, unless your spouse is designated as your beneficiary, the annuity will typically be included in your estate.

Tax treatment of these payments can be tricky, so be sure to reach out to a tax advisor for a complete explanation.

Diversification

A diversified retirement portfolio will provide superior risk-adjusted return to a portfolio with a singular or uniform market exposure. That is, for nearly every target rate of return, a diversified portfolio of minimally-correlated investments can be constructed that will be lower risk than one investment with equal expected return. When diversifying your retirement portfolio, you will likely select a combination of equity and bond market investments that are appropriate for both your risk appetite and your investment horizon. In general, your portfolio should tend towards equity investments in the early years and then gravitate towards fixed income investments as you near retirement.

The fixed income assets in your portfolio serve to provide steady, reliable income that is minimally correlated with the equity markets. This is exactly the purpose that an immediate annuity or any income annuity serves, with one major added benefit: the annuity will continue to make payments until you die. Allocating a portion of your fixed income portfolio to an immediate annuity can generate comparable returns (see the Financial Value section) and reduce your longevity risk.

In fact, adding the security of an immediate annuity to your portfolio can enable you to earn a higher rate of return with the rest of your portfolio. If your immediate annuity or other annuities generate enough income to cover your retirement expenses, you have even more flexibility to invest the equity portion of your portfolio without putting your livelihood at risk.

Features & Riders

It's best to think of the base immediate annuity product as that which provides the most income based on your premium, age, and gender. But there's room to customize the product or add additional guarantees to meet your needs. In some cases, the insurance company will refer to these options as product features. Other times they'll be listed as riders.

Below are the various ways you can customize your policy, noting that these options can vary from insurer to insurer:

Single vs. Joint Life

Immediate annuity income can be tied to a single or joint life:

- **Single:** income paid over the lifetime of the one person insured
- **Joint:** income paid over the 'joint life' of two insureds, i.e. as long as one or both are alive

The income level following the loss of the first life can be designed to remain level or decrease. Opting to reduce the income upon the passing of the first spouse (typically to 40-99% of the starting income level) allows for a greater income level while both are alive.

An alternative to buying a joint life annuity is to purchase a single life annuity with a refund at death (a.k.a. death benefit or cash refund) and designate your spouse as the beneficiary. Upon your passing, he/she will have the option to continue the contract in his/her name until the full value of the death benefit has been paid out.

Payout Options

Income can be based purely on lifespan or can have a guaranteed component:

- **Life Only:** payments stop at death (or later of two deaths for joint)
- **Life with Refund at Death:** additional guarantee over life only that pays beneficiaries the difference between the premium and sum of all payments already received upon insured's death
- **Life with Period Certain:** additional guarantee over life only that guarantees payments for at least a certain number of years, with payments going to beneficiaries if insured passes away during this period of time
- **Period Certain Only:** a less common version of the product where payments are paid for a certain number of years regardless of whether the insured is alive

Payout Frequency

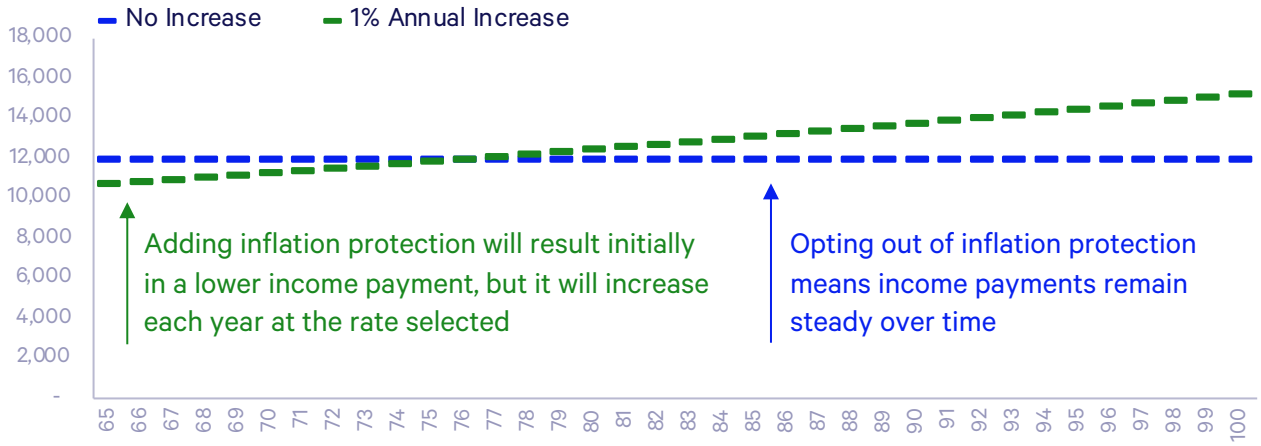
Income payments can be made monthly, quarterly, semi-annually, or annually.

Inflation Protection

Most insurance carriers offer an inflation adjustment or annual increase rider that will increase the immediate annuity income payments annually. The adjustment made is typically a predetermined increase between 1-5%. Providing these increases will require a lower starting income.

CASE STUDY

To illustrate, let's continue with Matthew, our 65-year-old who is purchasing a $203,000 immediate annuity. His initial quote excluded inflation protection and got him $1,000 per month ($12,000 per year). If he'd like his income payments to keep pace with inflation, estimating it to be 1% per year, he'll have to accept a lower initial income of $900 per month ($10,800 per year) which will increase over time.



Immediate annuity rates based on $203,058 New York Life life-only policies with and without a 1% increase rider for a male aged-65 with income starting immediately. Rates are for example purposes only and do not represent current rates.

Because inflation affects the purchasing power of money, it presents a challenge for retirement, which could last 40 years. While we're currently experiencing a period of low inflation, it's averaged 3.2% over the past century, meaning that prices have almost doubled every 20 years.

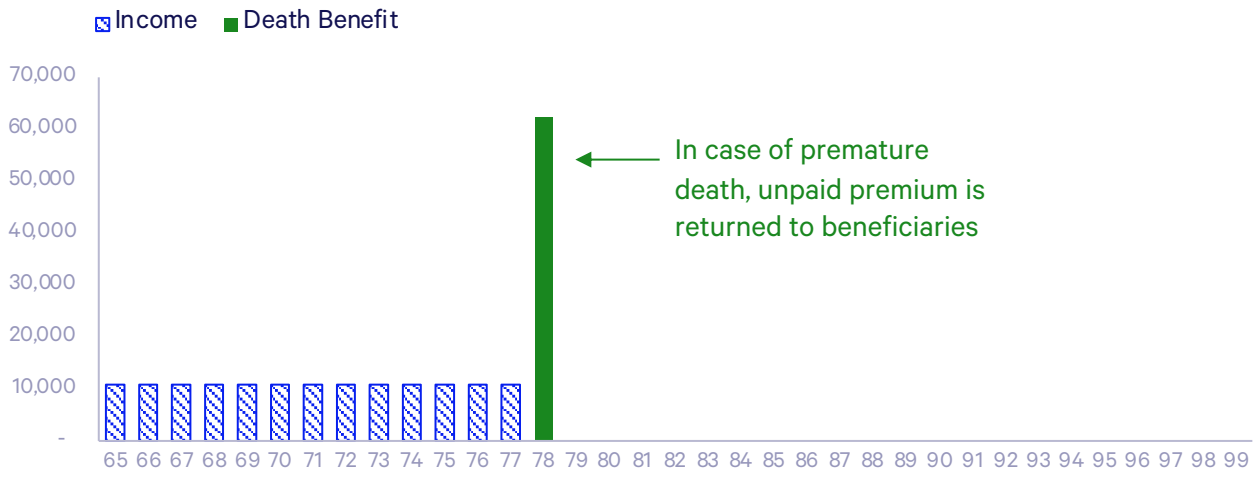
Adding inflation protection to your immediate annuity is one way to mitigate the risk of declining purchasing power, but it's probably not the most efficient way as the extra protection will come at a cost. Consider instead more direct ways to earn inflation-adjusted dollars. Your Social Security benefit, for one, will be indexed for inflation through a Cost of Living Adjustment. And, for the rest of your assets, maintaining exposure to equity markets and investing in inflation-linked bonds, such as TIPS or I-Bonds, can provide an effective hedge.

Principal Protection

With the refund at death (return of premium and death benefit riders), you are guaranteed that any principal (premium paid into the contract) not yet returned through income payments will be returned to your beneficiary upon your passing.

CASE STUDY

For example, if our 65-year-old Matthew is worried about losing money in the event of prematurely passing away, he can add the refund at death to his immediate annuity. His immediate annuity policy will offer a lower monthly income to cover the cost of the richer guarantee, but any unrecognized value in the contract will be passed onto his heirs. Should Matthew pass away before he's received $203,000 in cumulative income payments, his beneficiaries will receive $203,000 less the total income payments made.



Immediate annuity rates based on $203,058 New York Life life-only policy with the refund at death for a male aged-65 with income starting immediately. Rates are for example purposes only and do not represent current rates.

Payment Acceleration

While immediate annuities are generally illiquid products, functioning like a pension check and not a savings account, many carriers offer some level of liquidity. Most commonly, this is in the form of commutation, or withdrawal benefit which permits accelerating upcoming monthly benefits. A limited number of monthly payments can be accelerated at once, and guidelines exist around when and how often the policyholder can take advantage of this liquidity.

Buying Tips

Buying an immediate annuity is a long-term commitment, so dedicate enough time and attention to doing it right! In addition to being available to help walk you through the process, Blueprint Income has compiled a list of things to keep in mind:

Available Carriers

Immediate annuities are offered by leading insurers including New York Life (rated A++ by A.M. Best), Guardian (A++), Pacific Life (A+), Lincoln Financial (A+), Mutual of Omaha (A+), Principal (A+), and Integrity Life (A+). Before you buy, you'll want to compare quotes and product features — and remember, not all companies sell all products in all states.

Where to Buy an Immediate Annuity

Immediate annuities are sold via insurance agents, brokers, and financial advisors who are licensed to sell annuities. Blueprint Income is licensed to sell immediate annuities in all 50 states and The District of Columbia. We limit our immediate annuity offerings to only those sold by top-rated insurers (A.M. Best rating of at least A). Compare quotes side-by-side on our website at https://www.blueprintincome.com/income-annuity-quotes/immediate.

Consider Your Agent/Broker's Incentives

The Department of Labor worked for nearly a decade to reform the requirements for giving financial retirement advice. The goal was to ensure that advisors, agents, and brokers put their clients' best interests before their own. The reforms were not implemented, so you should be extra cognizant when considering an annuity purchase to understand your agent or broker's incentives. How are they compensated on the sale? How do they select the products they're showing you? How many insurance companies do they work with?

Compare Quotes Apples-to-Apples

Some financial products are too unique to be compared to one another, but this isn't the case with immediate annuities. You should be able to see quotes from different insurers that are exactly the same in all major respects except two: price and credit rating.

Credit Ratings Matter

It can be enticing to just go with the company that offers the highest payout, but be careful. The value of an immediate annuity is undeniably linked to the claims-paying ability of the insurance company. The insurer needs to be around at least as long as you are. Buying from only highly-rated insurers is the way to go.

Longevity Annuities

Convert your retirement savings into a future guaranteed lifetime income stream

Introduction

The decline of pension plans is an unfortunate reality for today's American worker. More than just an effective way to pool money for retirement, the pension enabled the "golden years" of financial security, world travels, and new hobbies. This ideal is harder to achieve with Traditional IRAs and 401(k)s which help you save but don't provide a good way to automatically turn those savings into dependable income, especially when you don't know how long you'll live.

There is a solution: a longevity annuity, known also as a deferred income annuity, or DIA. A longevity annuity is essentially a pension that you can buy for yourself. With a longevity annuity, the wealth you've been accumulating — whether in your IRA, 401(k), or after-tax savings accounts — can be converted into a guaranteed lifetime paycheck starting at some point in the future.

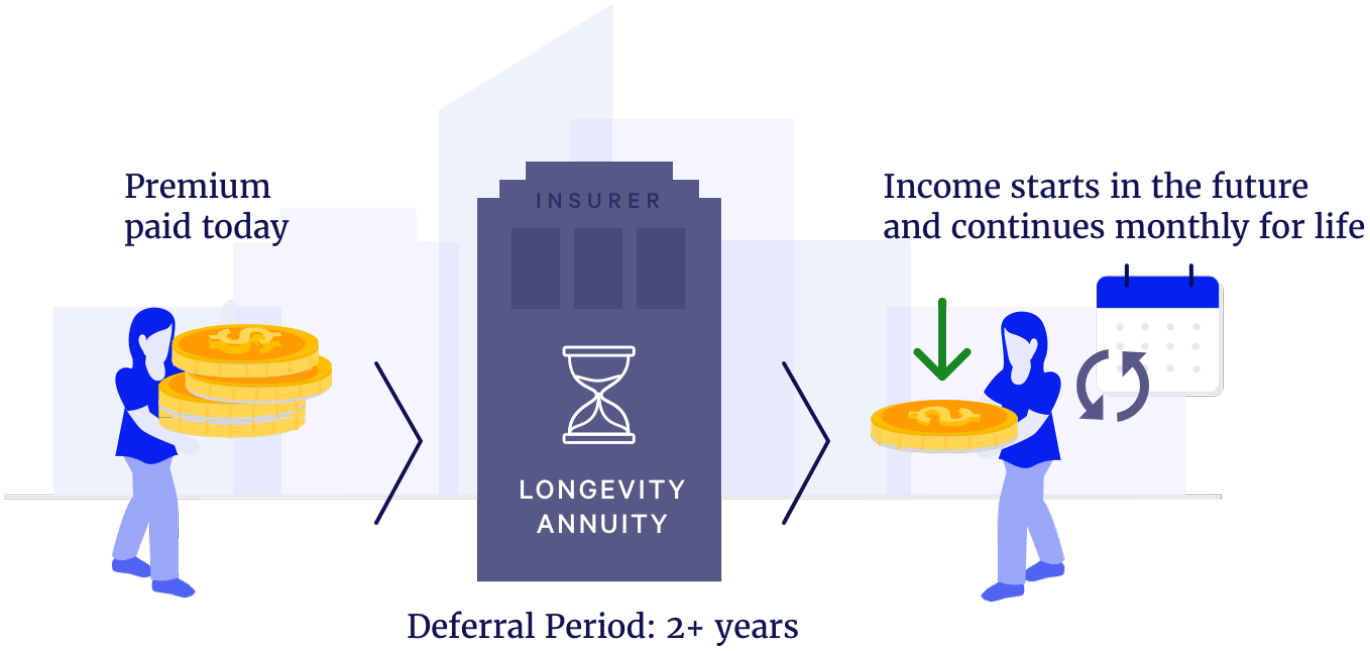
Longevity annuities are also known as deferred income annuities (DIAs) or longevity insurance.

In this guide, we'll tell you everything you need to know about longevity annuities — how they work, how they're customized, and how to evaluate whether converting a portion of your assets into income makes sense for you.

CONTENTS

What Is a Longevity Annuity?

A longevity annuity is guaranteed retirement income you can purchase to insure your longevity, or the risk of outliving your savings. When you buy a longevity annuity, you commit money now in exchange for a future monthly check that continues for as long as you're alive. Whether purchased with your retirement or personal savings, a longevity annuity turns your assets into guaranteed income for life. You can think of it like a pension you buy for yourself.



A longevity annuity is an **income annuity**

An income annuity is a contractual agreement between you and an insurance company. In exchange for a lump-sum premium, the insurance company promises to give you a steady, guaranteed check for life (or a certain period of time, a less-common version of the product). The size of the check is specified upfront and depends on factors such as your premium, age, and gender.

More specifically, a longevity annuity is a **deferred income annuity**

A longevity income annuity (a.k.a. deferred income annuity) begins annuity payments at a future date, typically 2-40 years after the premium is paid. (In contrast, immediate income annuities begin payments within 1 year.) During the deferral period, the insurance company invests your money on your behalf. The longer you delay starting to receive payments, the greater the size of the payments they'll be able to offer you.

And finally, a longevity annuity can be **qualified**, **non-qualified** or a **QLAC**

Qualified longevity annuities are purchased with pre-tax money from your 401(k), Traditional IRA, or other qualified plan. The money is transferred penalty-free and will not incur any taxes during the deferral period. Longevity annuities are subject to required minimum distributions (RMDs), meaning that income must begin by age 72.

Non-qualified longevity annuities differ in that they are purchased with post-tax savings, are not subject to RMDs, and thus can be annuitized after age 72. In addition, only a portion of the income payments will be taxable to avoid taxing the money used to purchase the longevity annuity twice.

Qualified Longevity Annuity Contracts, or QLACs, fill the void left by qualified and non-qualified longevity annuities: the ability to use pre-tax qualified savings but begin distributions after age 72. This type of longevity annuity has the added benefit of deferring a portion of your RMDs until as late as age 85.

History & Importance

The concept behind a longevity annuity, an exchange of a premium today for a stream of payments in the future, is not new. This is exactly the model upon which Social Security was built and exists today: the taxes you pay while working fund the Social Security income you'll collect in retirement. Pensions are another example of longevity annuities where the employer pays the premiums on your behalf.

A longevity annuity is the only way for an individual to purchase a future stream of guaranteed income – like that offered by pensions and Social Security — by him or herself. The product was introduced more recently in response to employers' shift from defined benefit pension to defined contribution 401(k) plans. This shift has meant that individuals are forced to do more retirement planning on their own. A 401(k) does a great job of helping you accumulate assets, but then what happens when you need to turn that pool of money you've accumulated into a steady stream of income you won't outlive?

That's where longevity annuities come in. In exchange for a premium paid today, an insurance company will provide a guaranteed lifetime check that continues for as long as you're alive. Like the other types of insurance they offer, a longevity annuity is a transfer of risk and a form of protection. Just like you insure your home, you can insure your longevity by passing on the risk that you outlive your savings to an insurance company.

It's important to note that employers didn't stop offering pensions because they're not useful or financially viable. It was simply too large of a liability for a company not specializing in insurance to manage. But today numerous insurance companies — and typically those with the highest credit ratings — offer longevity annuities.

DEFINED CONTRIBUTION PLANS

✓ Tax-deferred savings growth

✓ Ability to diversify investments through mutual funds and ETFs

✓ Matched 401(k) contributions

✗ No easy way to turn your savings into income that won't run out

Benefits

Figuring out how long your retirement savings need to last is difficult. Guaranteed lifetime income can provide you with peace of mind through a source of income that you won't outlive. Buying a longevity annuity with your retirement savings offers a number of benefits:

✓ Longevity Protection

If you take a finite amount of money and spend a certain amount each month, there is a date where you'll expect to run out of money. Longevity risk is the risk that you live beyond that date. By pooling assets, longevity annuities are able to provide extra income to those that outlive their life expectancy and would have otherwise run out of money.

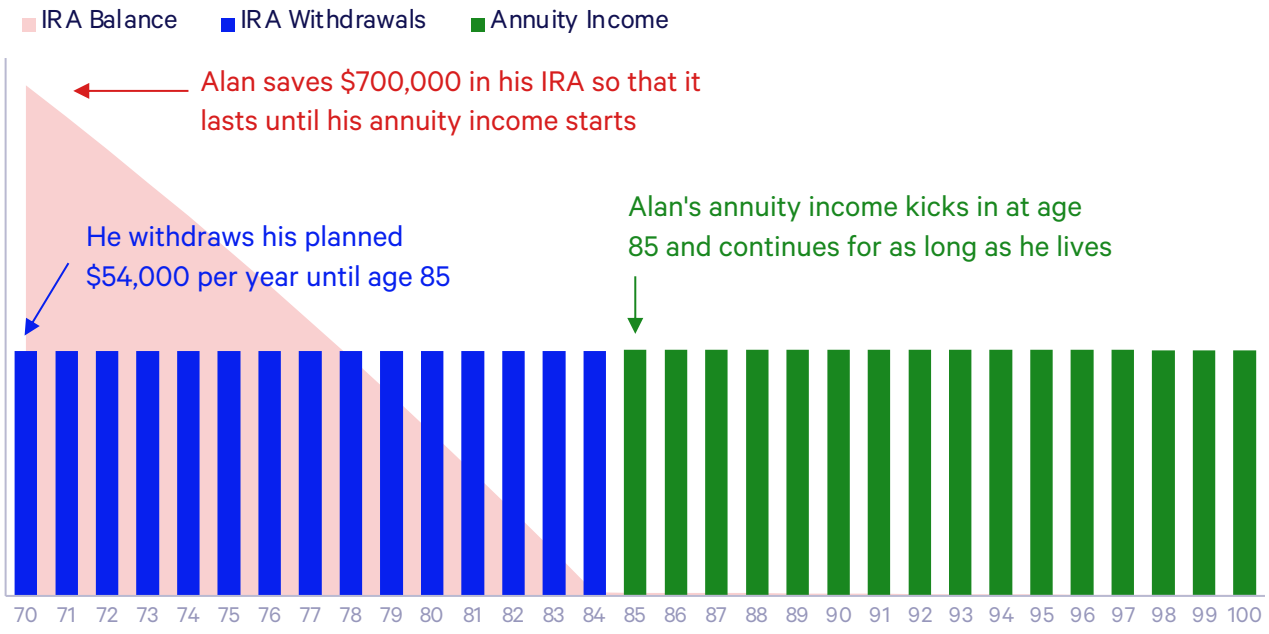
✓ Finite Planning Horizon

Adding a longevity annuity to your portfolio can dramatically simplify your retirement planning. Knowing that at a future date you'll have income that sustains your lifestyle allows you to manage your remaining assets to a fixed instead of unknown investment horizon. The certainty of guaranteed future income can completely change your approach to investing, withdrawing, and spending.

CASE STUDY

To illustrate how a longevity annuity offers longevity protection and fixes your investment horizon, let's use Alan as an example. Alan is 50 years old and plans to retire at 70, at which point he'd like to have $54,000 to spend each year. But, without knowing how long he'll live, Alan doesn't know how much more he needs to save. He's considering buying a longevity annuity to simplify his retirement planning and to ensure his financial stability for as long as he's alive.

With $100,000 of his savings, Alan can buy a longevity annuity that will cover his annual expenses starting at age 85 and continuing for the rest of his life. Knowing that he'll be set at age 85 regardless of his lifespan, Alan can more confidently save for retirement. Assuming his IRA will earn a 2.0% return and ignoring inflation for simplicity, Alan needs to accumulate $700,000 by age 70. At that point, he'll be able to retire and withdraw $54,000 from his IRA every year until age 85 when his longevity annuity income will kick in. His retirement portfolio is much more predictable and secure with the longevity insurance offered by a longevity annuity. Note that for ease of explanation, this example is on a pre-tax basis and ignores inflation.



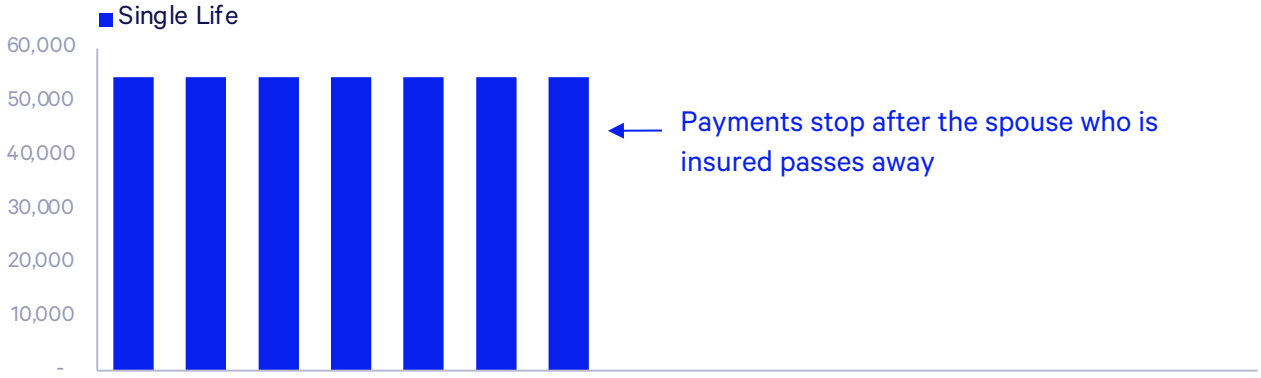
Longevity annuity rates based on a $100,000 Integrity Life life-only policy for a male aged-50 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

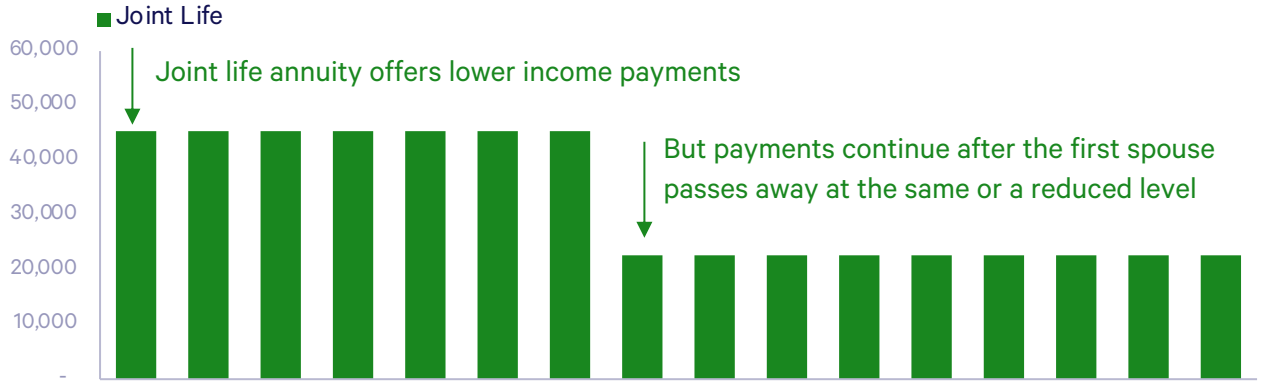
✓ Spousal Benefits

Longevity annuities can be set up as joint annuities, which means that payments continue as long as either you or your spouse are alive. Structuring the contract like this is a great way to preserve financial stability and quality of life for the surviving spouse.

CASE STUDY

Let's continue to use Alan as our example. Alan expects that he will pass away before his 48-year-old wife, Claire. He wants to know that that she'll be okay (at least financially) once he's gone, so he's considering adding her to his longevity annuity. Alan can purchase a joint life policy that's contingent on her life as well, such that income payments continue until both of them have passed away. The income payments will be lower, but they're expected to be paid over a longer period of time. Since their expenses will decrease when it's just Claire, they've opted for a 50% income reduction, which increases their income while they're both alive.





Longevity annuity rates based on $100,000 Integrity Life single and joint life-only policies for a male aged-50 and a female aged-48 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

✓ Tax Preferential Treatment

From the government's perspective, an annuity is a retirement savings vehicle. As such, it receives the same tax treatment as IRAs: no taxes are paid until distributions are made. For a longevity annuity, this means that all the money you hand over to the insurance company can grow, albeit invisible to you, on a tax-deferred basis. The benefits are slightly different depending on whether the longevity annuity is qualified or non-qualified:

- Qualified longevity annuities are purchased with pre-tax funds from your 401(k) or Traditional IRA, which are already accumulating on a tax-deferred basis. Retirement savings can be transferred to a longevity annuity penalty-free, maintain their tax preferential treatment, and count towards your IRS-mandated required minimum distributions.
- Non-qualified longevity annuities are purchased with post-tax funds that otherwise, depending on how they're invested, might incur taxes annually. For your savings that are already earmarked for retirement but not sitting in a tax-deferred account, buying an annuity is a great way to postpone your taxes and allow your interest to compound.

✓ Principal Protection

The savings that you allocate to a longevity annuity are protected from swings in the stock or bond markets. And, by selecting the refund at death option (more on this later), you can guarantee that all of your savings will be passed onto your beneficiaries if you pass away prematurely.

✓ Some Liquidity

While longevity annuities are generally illiquid products functioning like a pension check and not a savings account, many carriers offer some level of liquidity. Most commonly, this is in the form of commutation, or withdrawal benefit which permits accelerating upcoming monthly benefits. A limited number of monthly payments can be accelerated at once, and guidelines exist around when and how often the policyholder can take advantage of this liquidity.

✓ Clear Product Structure

The longevity annuity has a simple structure. For any amount of premium you would like to put into the contract, the insurance company will tell you how much monthly income they can offer. There are some decisions you'll have to make (more on this later) that affect the level of income, but that's it. The income is net of the insurance company's expenses and the commission collected by the distributor.

Drawbacks

Despite these benefits, longevity annuities are not good for everyone or for all situations. Here are some of the drawbacks:

✗ Limited Liquidity & No Cash Value

Longevity annuities don't offer much liquidity and don't have a cash value that can be withdrawn or borrowed from. Longevity annuities should be thought of as a future check, like a pension. While the value of your money will be growing during the deferral period, its growth will only be reflected in the income amount and will be otherwise invisible to you.

✗ No Market Exposure

The income you'll receive is determined upfront, fixed, and isolated from any market volatility. While this is a positive attribute for those focused on insurance coverage, it isn't the solution for those seeking a more investment-style product.

Typical Buyers

A longevity annuity is a powerful way to ensure you have a guaranteed source of income in retirement. That doesn't mean it's right for everyone, and it never makes sense to use all of your savings to purchase an annuity. Here's the methodology we've developed at Blueprint Income to help you think about whether a longevity annuity may (or may not) be a fit for you:

Consider buying a longevity annuity if...

- ✓ Social Security and/or pension benefits won't cover your regular expenses
- ✓ You're a pre-retiree or early in retirement
- ✓ You've accumulated between $250,000 and $5 million in retirement savings
- ✓ You're in average or above-average health
- ✓ You're seeking greater certainty in retirement and more of an insurance product
- ✓ You don't need access to the money immediately

A longevity annuity is probably not the right product for you if...

- ✗ Social Security and/or pension benefits fully cover your regular expenses
- ✗ You're younger than 45 or over 80 years old
- ✗ You've accumulated less than $250,000 or more than $5 million in retirement savings
- ✗ You're in below-average health
- ✗ You're seeking higher risk and more of an investment product
- ✗ You need access to the money immediately

A common objection to longevity annuities is that they don't build or provide access to cash value unlike other insurance products used for retirement planning. This is often true, but the trade off is access to higher guaranteed income than these more liquid products will offer. Using only a portion of your retirement savings to purchase a longevity annuity leaves the rest of your assets to provide liquidity and market upside.

Understanding how your personal attributes and the options you select drive quotes enables you to structure the policy to best suit your needs. Expect to have to think about the following when evaluating a longevity annuity:

Age: Income will decline as the age when you buy increases. The longer you wait to buy, the less time the insurance company will have to invest your money before beginning income payments. Holding all else equal, buying future income today will be cheaper than waiting until later to buy.

Gender: Income will be higher for males than females. Because women have longer life expectancies than men, the income women receive each year will be smaller.

Premium: Income will sometimes increase with higher premiums. A portion of the insurance company's expenses incurred are fixed per contract such that incremental premium can go entirely towards buying income. Said another way, there is often a discount for larger premium deposits.

Income Start Date: Income will increase the longer you delay its start. Longer deferral periods mean (1) more time for the insurance company to invest your money before starting payments and (2) fewer years of expected income payments.

Single vs. Joint Life: Income will be higher for single life than joint life policies. A joint life policy will provide income as long as either person is alive, which is at least as long and almost certainly longer than if contingent on one person.

Payout Option: Income will be lower for richer guarantees. Guaranteeing at least your money back at death (refund at death, a.k.a. cash refund or death benefit) or a minimum number of payments (period certain) increases the amount the insurer expects to pay you. To compensate for the extra guarantee, they will need to lower the recurring payments.

Riders: Income will be lower for each rider added. In general, any extra options or riders added to a policy will require compensating the insurer for additional risk they've assumed. Typically these options increase your guarantee or provide you with extra protection, both of which will result in lower base income amounts.

Finally, you'll usually notice an inverse relationship between the creditworthiness of an insurer and the income they offer. Insurers with higher credit ratings have earned them by maintaining higher capital reserves and more conservative investment portfolios, both of which limit their profitability and thus the income they can offer you. Only longevity annuities from highly-rated insurers (A.M. Best rating of at least A) make the cut for inclusion on the platform. And, even among the insurers we've decided to work with, it's worth distinguishing among the levels of financial strength. The guaranteed income you're promised is only as good as the financial strength and longevity of the insurer backing it.

On our website you can compare quotes across top-rated insurance providers.

Financial Value

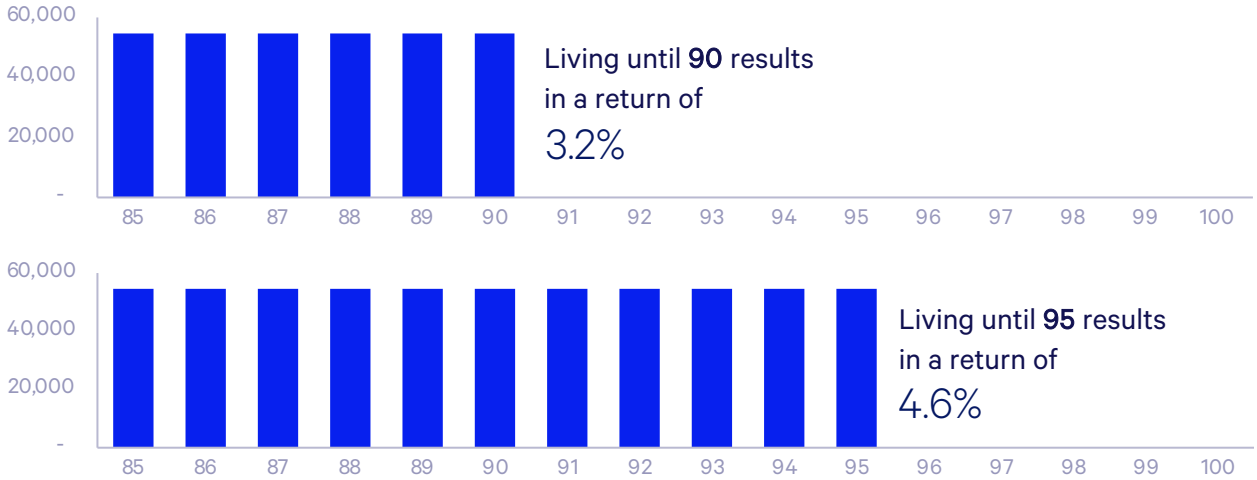
A common question asked when considering moving some of your retirement assets into a longevity annuity is: what value will I get from this purchase? Typically, people look for a quantitative answer, such as an internal rate of return (IRR) or return on investment (ROI), that they can compare to returns generated in their fixed income portfolio.

Unfortunately, the value of a longevity annuity cannot be understood quite so simply or compared to the return of a traditional financial product on an apples-to-apples basis. That's because calculating an IRR or ROI requires knowing the upfront investment and all future income amounts and dates. As a longevity insurance product, the longevity annuity will provide you with income for as long as you're alive, i.e. end date to be determined.

Instead, we can calculate a range of IRRs based on your potential lifespan. The longer you live, the higher the IRR over the life of the product will be. While thinking about your quantitative return should be a part of your analysis, don't forget about the more qualitative risk reduction and peace of mind the product is providing as well.

CASE STUDY

In one of our earlier examples, 50-year-old Alan bought a $100,000 longevity annuity with income starting at age 85. The policy could wind up generating a 3.2% return if he lives until 90, which increases to 4.6% at age 95 and 5.3% at age 100.



Longevity annuity rates based on a $100,000 Integrity Life life-only policy for a male aged-50 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

Taxation

The taxation of annuities depends first and foremost on whether the annuity was purchased with pre-tax or post-tax money. If the premium was paid with post-tax money, as with a non-qualified annuity, the portion of any income payments that constitutes a return of that premium will not be taxable. On the other hand, qualified annuities are purchased with pre-tax retirement savings. Because the money used to fund the annuity has never been taxed, all distributions from the annuity will be fully taxable. In either case, ordinary income tax rates will apply.

Taxation of Qualified Longevity Annuities

At purchase, pre-tax funds will be moved from one type of qualified retirement account to another. Traditional IRAs, 401(k)s, and qualified longevity annuities all have the same tax status, so moving money among them will not incur any taxes or penalties.

No taxes will be owed during the deferral period. Longevity annuities do not have an account value that accumulates, so there isn't actually anything to tax. In fact, even if it had an account value that accrued interest (as with a fixed annuity) or earned capital gains (as with a variable annuity), no taxes would be due. As retirement savings vehicles, annuities can grow on a tax-deferred basis.

Once the longevity annuity is annuitized, i.e. income payments begin, taxes will be owed. Because the money used to purchase a qualified longevity annuity has never been taxed, all distributions will be 100% taxed as ordinary income. These taxable distributions will be reported to you and the IRS by your insurance company using tax form 1099-R.

For longevity annuities including a refund at death option, a death benefit will be paid to a beneficiary if the premiums paid are greater than the cumulative income payments. Death benefits will be paid directly to the beneficiary and avoid the probate process. However, annuity assets will always be included in the deceased's estate. Beneficiaries will be taxed on any proceeds received at ordinary income tax rates. Non-spousal beneficiaries can receive the death benefit as a lump sum, over five years or in some instances in equal distributions over their lifetime.

Taxation of Non-Qualified Longevity Annuities

Non-qualified longevity annuities are purchased with savings that have already been taxed. If those savings are currently earning interest that is taxable annually, as with a certificate of deposit for example, moving that money into a retirement savings vehicle can reduce your income taxes during the deferral period. Technically, even though annuities provide for tax-deferred accumulation, longevity annuities are not accumulation annuities, so there isn't actually anything to tax during the deferral period.

Once the longevity annuity is annuitized, i.e. income payments begin, taxes will be owed. Each income payment can be split into two pieces: a part that's returning your initial investment, and a part that's your gain or interest earned. Taxes will only be owed on the gain, as the premium you invested in the contract has already been taxed. This non-taxable portion of the income payment is determined using an exclusion ratio, which mandated and determined by the IRS, and is provided by the insurance company at purchase.

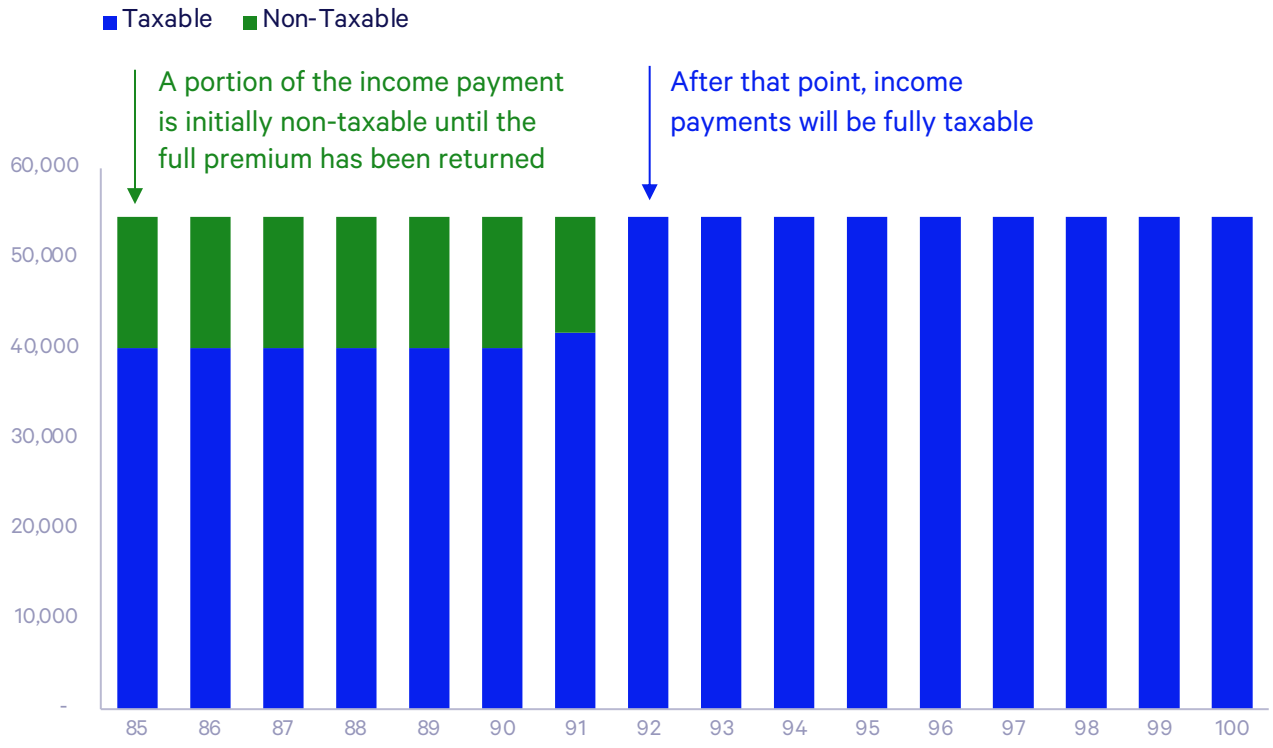
Exclusion Ratio = Investment in the Contract ÷ Total Income Expected

The exclusion ratio will be applied to each income payment, indicating how much is not taxable, until the full investment in the contract has paid out. Once the investment has been fully returned subsequent income payments will be fully taxable.

CASE STUDY

To see how this works, let's continue analyzing Alan's $100,000 longevity annuity that he's buying at age 50 with income starting at age 85. Alan will not be using pre-tax retirement savings to buy the longevity annuity, so it'll be classified as non-qualified. Once Alan starts receiving income at age 85, he'll have to pay taxes on a portion of the payments.

The exclusion ratio for Alan's policy is 27%. The insurance company calculated this as the ratio between his investment in the contract ($100,000) and the total amount of income they expect to pay him ($376,000 in this case). Thus 27% of his income payments will be excluded from his taxable income until a total of $100,000 has been excluded. For Alan, this will be the case once he's received 7 years worth of payments, after which the longevity annuity income will be fully taxable at ordinary income rates.



Longevity annuity rates based on a $100,000 Integrity Life life-only policy for a male aged-50 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

Finally, if a death benefit is due to your beneficiaries, taxes owed will be calculated in a similar manner. Any portion of the death benefit that constitutes a return of premium will be received tax-free, whereas benefits in excess of the initial investment will be taxed at ordinary income levels. Either way, the benefit will be passed directly to beneficiaries, thus avoiding the probate process. And, unless your spouse is designated as your beneficiary, the annuity will typically be included in your estate. Please consult a tax professional for complete information regarding annuity taxation as it applies to your personal situation.

ANNUITY PHASE	QUALIFIED	NON-QUALIFIED
Purchase	No taxes or penalties incurred when moving pre-tax retirement savings to a qualified longevity annuity.	No taxes or penalties incurred when moving post-tax savings to a non-qualified longevity annuity.
Deferral	No taxes will be owed during deferral.	No taxes will be owed during deferral.
Annuitization	Income payments will be fully taxable at ordinary income tax rates.	The portion of income payments that are a return of premium, as determined by the exclusion ratio, are not taxable.
Death Benefit (if applicable)	The beneficiary will be taxed on any proceeds they receive at ordinary income tax rates.	The beneficiary will be taxed only on the portion of proceeds that exceeds a return of premium at ordinary income tax rates.

Diversification

A diversified retirement portfolio will provide superior risk-adjusted return to a portfolio with a singular or uniform market exposure. That is, for nearly every target rate of return, a diversified portfolio of minimally-correlated investments can be constructed that will be lower risk than one investment with equal expected return. When diversifying your retirement portfolio, you will likely select a combination of equity and bond market investments that are appropriate for both your risk appetite and your investment horizon. In general, your portfolio should tend towards equity investments in the early years and then gravitate towards fixed income investments as you near retirement.

The fixed income assets in your portfolio serve to provide steady, reliable income that is minimally correlated with the equity markets. This is exactly the purpose that a longevity annuity or any income annuity serves, with one major added benefit: the annuity will continue to make payments until you die. Allocating a portion of your fixed income portfolio to a longevity annuity can generate comparable returns (see the Financial Value section) and reduce your longevity risk.

In fact, adding the security of a longevity annuity to your portfolio can enable you to earn a higher rate of return with the rest of your portfolio. If your longevity annuity or other annuities generate enough income to cover your retirement expenses, you might be comfortable taking even more equity risk and potentially generating a higher return than if you were relying on that money to cover your expenses.

One final benefit of owning a longevity annuity is the ability to invest and manage the rest of your portfolio to a fixed time horizon. Having your expenses covered starting at some future age means you can manage the rest of your portfolio to last a specific number of years until that age.

Features & Riders

It's best to think of the base longevity annuity product as that which provides the most income based on your premium, age, gender, and income start date. But, there's room to customize the product or add additional guarantees to meet your needs. In some cases, the insurance company will refer to these options as product features. Other times they'll be listed as riders.

Below are the various ways you can customize your policy, noting that these options can vary from insurer to insurer:

Single vs. Joint Life

Longevity annuity income can be tied to a single or joint life:

- **Single:** income paid over the lifetime of the one person insured
- **Joint:** income paid over the 'joint life' of two insureds, i.e. as long as one or both are alive

The income level following the loss of the first life can be designed to remain level or decrease. Opting to reduce the income upon the passing of the first spouse (typically to 40-99% of the starting income level) allows for a greater income level while both are alive.

An alternative to buying a joint life annuity is to purchase a single life annuity with a refund at death (a.k.a. death benefit or cash refund) and designate your spouse as the beneficiary. Upon your passing, he/she will have the option to continue the contract in his/her name until the full value of the death benefit has been paid out.

Payout Options

Income can be based purely on lifespan or can have a guaranteed component:

- **Life Only:** payments stop at death (or later of two deaths for joint)
- **Life with Refund at Death:** additional guarantee over life only that pays beneficiaries the difference between the premium and sum of all payments already received upon insured's death
- **Life with Period Certain:** additional guarantee over life only that guarantees payments for at least a certain number of years, with payments going to beneficiaries if insured passes away during this period of time
- **Period Certain Only:** a less common version of the product where payments are paid for a certain number of years regardless of whether the insured is alive

Payout Frequency

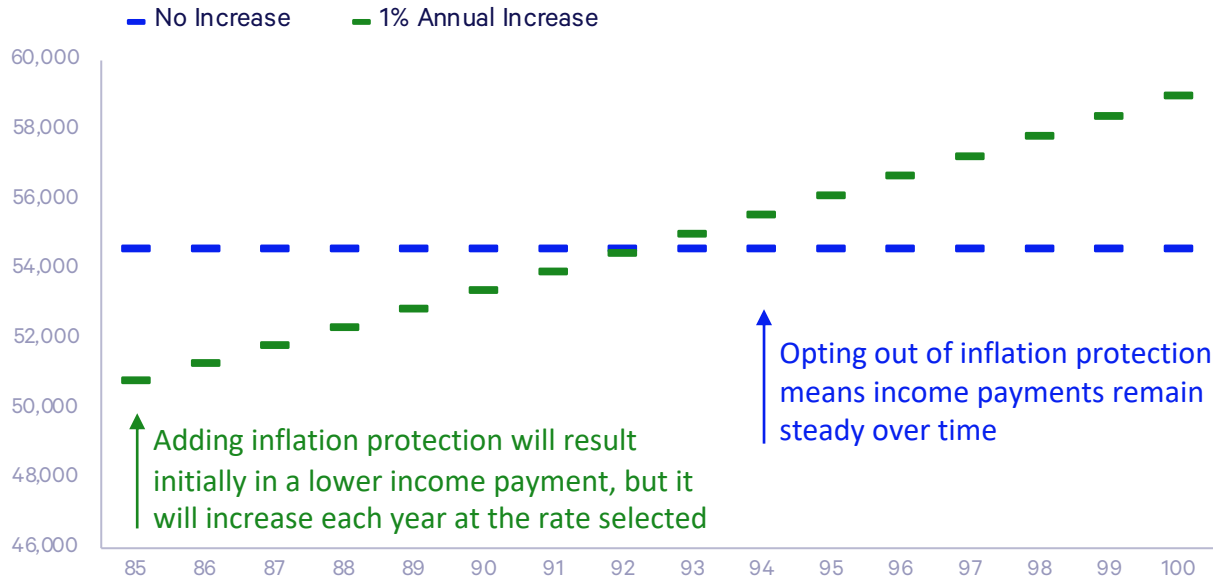
Income payments can be made monthly, quarterly, semi-annually, or annually.

Inflation Protection

Most insurance carriers offer an inflation adjustment or annual increase rider that will adjust the longevity annuity income payments annually for inflation. The adjustment made is typically a predetermined increase between 1-5%. Providing these increases will require a lower starting income. . Note that the rider does not cover the deferral period, instead only going into effect once the income stream begins.

CASE STUDY

To illustrate, let's continue with Alan, our 50-year-old who wants to purchase a $100,000 longevity annuity with income starting at age 85. His initial quote excluded inflation protection and got him $4,550 per month ($56,400 per year). If he'd like his income payments to keep pace with inflation, estimating it to be 1% per year, he'll have to accept a lower initial income of $4,240 per month ($50,800 per year) which will increase over time.



Longevity annuity rates based on $100,000 Integrity Life life-only policies with and without a 1% increase rider for a male aged-50 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

Because inflation affects the purchasing power of money, it presents a challenge for retirement, which could last 40 years. While we're currently experiencing a period of low inflation, it's averaged 3.2% over the past century, meaning that prices have almost doubled every 20 years.

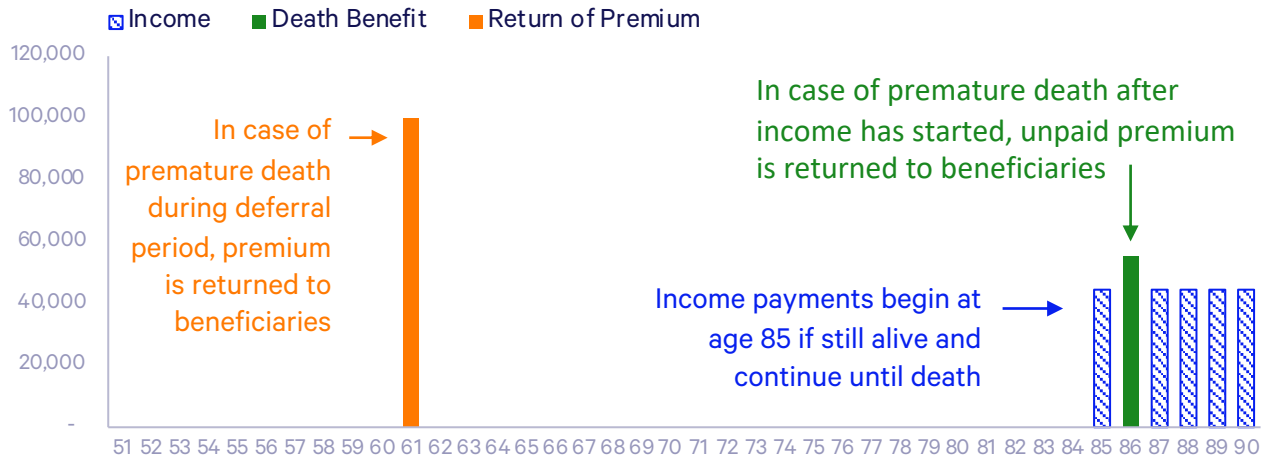
Adding inflation protection to your longevity annuity is one way to mitigate the risk of declining purchasing power, but it's probably not the most efficient way as the extra protection will come at a cost. Consider instead more direct ways to earn inflation-adjusted dollars. Your Social Security benefit, for one, will be indexed for inflation through a Cost of Living Adjustment. And, for the rest of your assets, maintaining exposure to equity markets and investing in inflation-linked bonds, such as TIPS or I-Bonds, can provide an effective hedge.

Principal Protection

Through the refund at death (return of premium and death benefit riders), you are guaranteed that the premium you paid will be returned to your beneficiary should you pass away before getting it back through income payments.

CASE STUDY

For example, if our 50-year-old pre-retiree Alan is worried about losing money in the event of prematurely passing away, he can add the refund at death to his longevity annuity. His $100,000 longevity annuity policy will offer a lower monthly income to cover the cost of the richer guarantee, but any unrecognized value in the contract will be passed onto his heirs. Should Alan pass away before income payments begin, his full $100,000 premium will be returned to his beneficiaries. If he passes away after income payments have begun but before those payments are cumulatively $100,000, his beneficiaries will receive $100,000 less the total income payments made.



Longevity annuity rates based on $100,000 Integrity Life life-only policy with the refund at death for a male aged-50 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

Additional Premium Payments (Flexible or Subscription)

With some insurers you have the ability to fund your longevity annuity over time, either through a flexible premium option or on a subscription basis. This is a good approach for those betting on pricing improvements or wanting to contribute a percentage of your income over time.

Income Start Date Flexibility

Some insurers' products allow you to change your income start date after purchasing the annuity, sometimes even more than once. Keep in mind that changing your income start date will affect your payments (increasing them if the start date is pushed back and vice versa).

Payment Acceleration

While longevity annuities are generally illiquid products, functioning like a pension check and not a savings account, many carriers offer some level of liquidity. Most commonly, this is in the form of commutation, or withdrawal benefit which permits accelerating upcoming monthly benefits. A limited number of monthly payments can be accelerated at once, and guidelines exist around when and how often the policyholder can take advantage of this liquidity.

Buying Tips

Buying a longevity annuity is a long-term commitment, so dedicate enough time and attention to doing it right! In addition to being available to help walk you through the process, Blueprint Income has compiled a list of things to keep in mind:

Available Carriers

Longevity annuities are offered by leading insurers including New York Life (rated A++ by A.M. Best), Guardian (A++), Pacific Life (A+), Lincoln Financial (A+), Mutual of Omaha (A+), Principal (A+) and Integrity Life (A+). Before you buy, you'll want to compare quotes and product features — and remember, not all companies sell all products in all states.

Where To Buy An Longevity Annuity

Longevity annuities are sold via insurance agents, brokers, and financial advisors who are licensed to sell annuities. Blueprint Income is licensed to sell longevity annuities in all 50 states and The District of Columbia. We limit our longevity annuity offerings to only those sold by top-rated insurers (A.M. Best rating of at least A). Compare quotes side-by-side on our website at https://www.blueprintincome.com/income-annuity-quotes/longevity.

Consider Your Agent/Broker's Incentives

The Department of Labor worked for nearly a decade to reform the requirements for giving financial retirement advice. The goal was to ensure that advisors, agents, and brokers put their clients' best interests before their own. The reforms were not implemented, so you should be extra cognizant when considering an annuity purchase to understand your agent or broker's incentives. How are they compensated on the sale? How do they select the products they're showing you? How many insurance companies do they work with?

Compare Quotes Apples-to-Apples

Some financial products are too unique to be compared to one another, but this isn't the case with longevity annuities. You should be able to see quotes from different carriers that are exactly the same in all major respects except two: price and credit rating.

Credit Ratings Matter

It can be enticing to just go with the company that offers the highest payout, but be careful. The value of a longevity annuity is undeniably linked to the claims-paying ability of the insurance company. The insurer needs to be around at least as long as you are. Buying from only highly-rated insurers is the way to go.

Consider Buying in Chunks or as a Subscription over Time

If you're still years away from retirement, are optimistic about pricing improving, and/or would like to diversify across carriers, you can buy longevity annuities in pieces over time. Keep in mind that, all else being equal, waiting to buy will reduce the amount of income the insurance company can offer. In addition, the pricing might not be quite as good at smaller purchase sizes.

Understand the Difference Between Qualified & Non-Qualified

The decision to buy a qualified vs a non-qualified longevity annuity is most likely driven by where your retirement savings are currently located: in a pre-tax IRA or 401(k), or in the form of after-tax savings. If you use pre-tax savings to purchase a longevity annuity, it will be qualified. Otherwise, the longevity annuity will be non-qualified. Like 401(k)s and IRAs, qualified longevity annuities are governed by Section 408 of the tax code and are subject to the same required minimum distributions beginning at age 72. On the other hand, non-qualified longevity annuities are not subject to RMDs and thus can have an income start date later than 72.

BLUEPRINT
INCOME

QLACs

Qualified Longevity Annuity Contracts

Defer RMDs and convert your retirement savings into guaranteed lifetime income

Introduction

As life expectancies lengthen and retirements grow to 30+ years, Americans are increasingly worried about outliving their savings. In response to these struggles and the decline of employer pension plans, the government has made significant advances to its retirement policy and tax code that allow for the purchase of annuities within qualified retirement plans.

With a Qualified Longevity Annuity Contract (QLAC) you can turn the savings in your 401(k) or IRA into a guaranteed lifetime paycheck that you can't outlive. It is the only qualified retirement product that allows you to defer those income payments to as late as age 85. In effect, a QLAC is a special type of longevity annuity, a.k.a. deferred income annuity, that also defers required minimum distributions (RMDs) applicable to 401(k)s and Traditional IRAs.

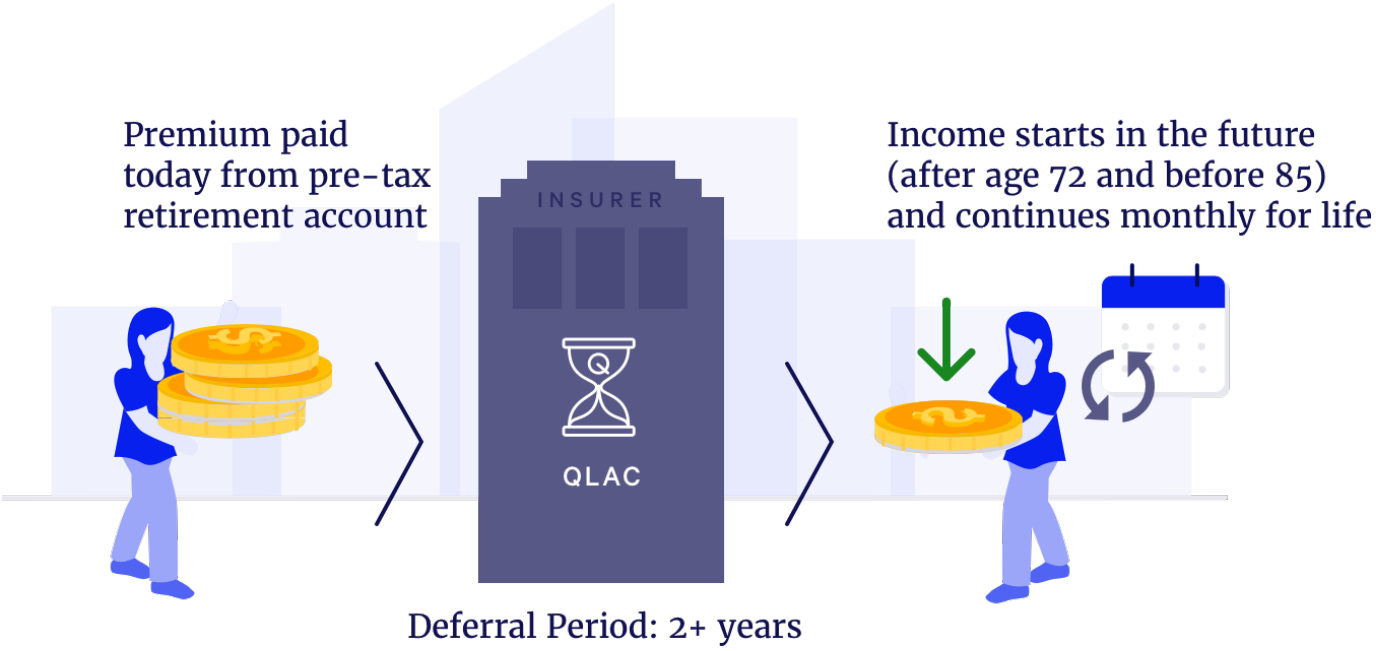
A Qualified Longevity Annuity Contract (QLAC) is a special type of longevity annuity that also defers RMDs.

Read on to learn more about this special type of longevity annuity, how it works, the tax benefits, and whether allocating some of your savings towards a QLAC can improve your quality of life in retirement.

CONTENTS

What Is a QLAC?

A QLAC is a special type of longevity annuity purchased with tax-deferred savings from your qualified retirement account. When you buy a QLAC, you commit money now in exchange for a monthly check starting at some point in the future and continuing for life. The significance of the QLAC, along with all income annuities, is that through a combination of investing and pooling, the insurer provides you with lifelong income when you might have otherwise depleted your savings. You can think of it like a pension you buy for yourself.



A QLAC is an **income annuity**

An income annuity is a contractual agreement between you and an insurance company. In exchange for a lump-sum premium, the insurance company promises to give you a steady, guaranteed check for life (or a certain period of time, a less-common version of the product). The size of the check is specified upfront and depends on factors such as your premium, age, and gender.

More specifically, a QLAC is a **deferred income annuity**

A deferred income annuity (a.k.a. longevity annuity) begins annuity payments at a future date, typically 2-40 years after the premium is paid. (In contrast, immediate income annuities begin payments within 1 year.) During the deferral period, the insurance company invests your money on your behalf. The longer you delay starting to receive payments, the greater the size of the payments they'll be able to offer you.

A QLAC is purchased with savings from your **qualified retirement account**

As a qualified annuity, the money used to make the purchase comes from your 401(k), Traditional IRA, or other qualified plan. The annuity maintains the special tax-deferred treatment, so you don't incur any penalties or pay any taxes until income payments begin.

And finally, a QLAC is **exempt** from required minimum distribution (RMD) rules

RMD rules force those older than 72 to withdraw a specific amount of money from their tax-deferred retirement accounts each year. Using funds from these accounts to buy a QLAC reduces the balance subject to the RMD calculation. That means lower RMDs and lower taxable income during the QLAC deferral period.

In summary, a QLAC is like a pension you can buy for yourself using your pre-tax retirement savings. Because of its special designation, QLAC income payments can start later than 72, reducing your RMDs and associated taxes during that period of time.

History & Importance

As defined benefit plans are being replaced by defined contribution plans, individuals are forced to do more retirement planning on their own. A 401(k) does a great job of helping you accumulate assets, but then what happens when you need to turn that pool of money you've accumulated into a steady stream of income you won't outlive?

That's where the QLAC rulemaking from July 2014 comes into play. Not only does a QLAC allow you to convert savings in your 401(k) or Traditional IRA into guaranteed lifetime income, it allows you to delay the start of that income through an exemption to the required minimum distribution rule. With Americans living longer and more concerned than ever about outliving their savings, this is an important enhancement to retirement policy and the tax code.

DEFINED CONTRIBUTION PLANS

- ✓ Tax-deferred savings growth
- ✓ Ability to diversify investments through mutual funds and ETFs
- ✓ Matched 401(k) contributions
- ✗ No easy easy way to turn your savings into income that won't run out

Benefits

Managing your retirement savings is difficult when you don't know how your investments will fare or how long you'll live. QLACs help simplify that process by providing steady guaranteed lifetime income you won't outlive. Buying a QLAC offers longevity protection and a number of other benefits:

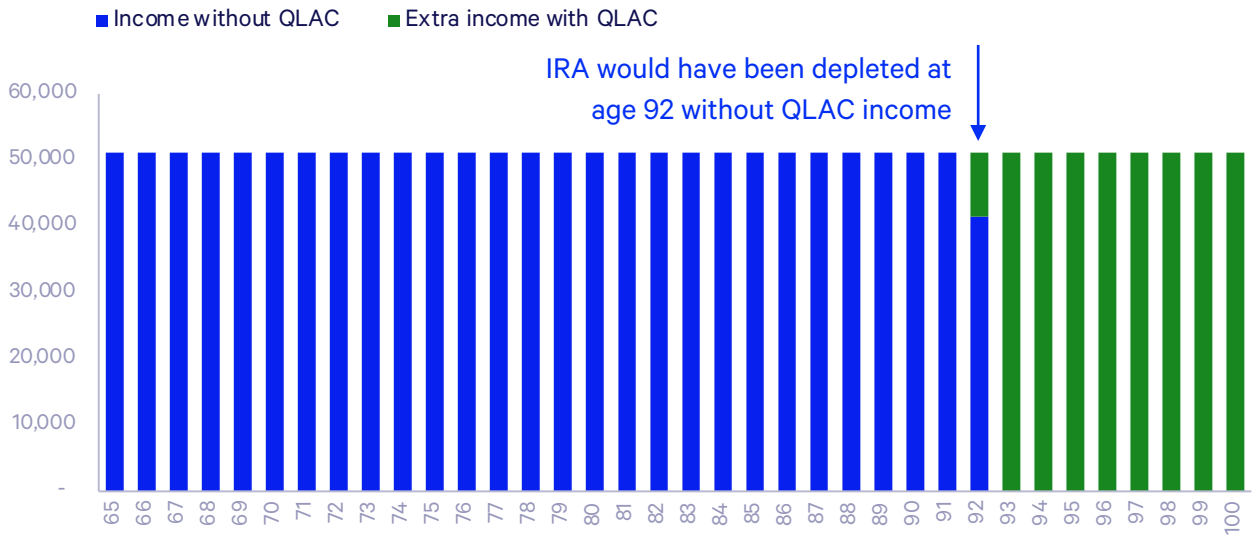
✓ Longevity Protection

If you take a finite amount of money and spend a certain amount each month, there is a date where you'll expect to run out of money. Longevity risk is the risk that you live beyond that date. By pooling assets, QLACs are able to provide extra income to those that outlive their life expectancy and would have otherwise run out of money.

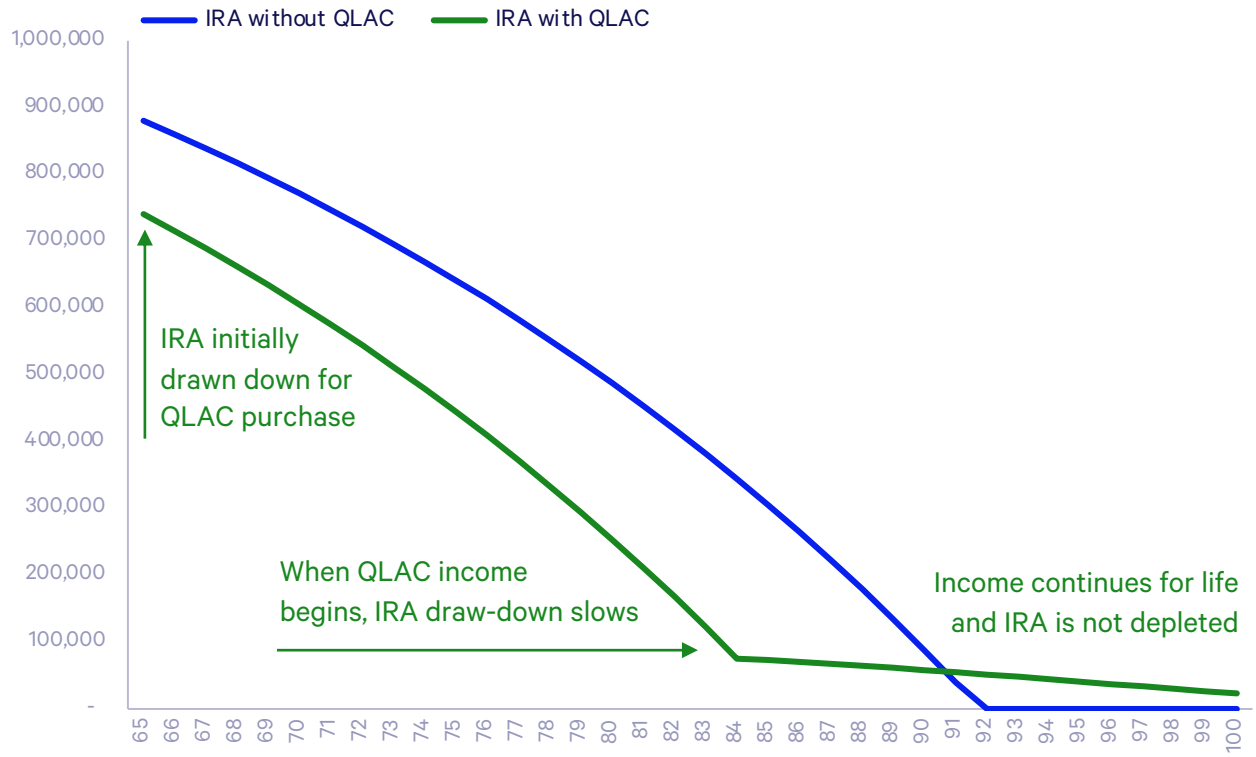
CASE STUDY

Let's take David, a 65-year-old about to retire, as an example. David has $900,000 in his IRA and he's worried about running out of money in the future. He would like to be able to spend $4,300 per month in retirement. Assuming his IRA will earn a 3.5% return and ignoring inflation for simplicity, he will deplete his IRA by age 92.

With $135,000 of his IRA balance, David can buy a QLAC that pays him a guaranteed $4,300 per month starting at age 85 and continuing for the rest of his life. With the QLAC he'll be able to maintain his lifestyle without depleting his IRA.



CASE STUDY



QLAC rates based on a $135,000 Mutual of Omaha life-only policy for a male aged-65 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

✓ Finite Planning Horizon

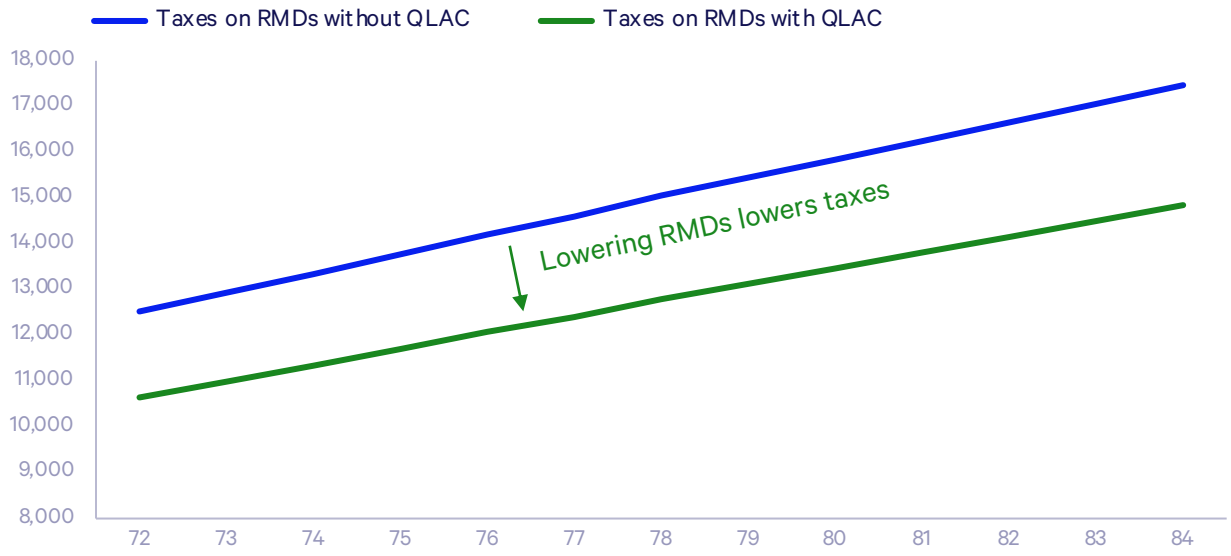
Adding a QLAC to your portfolio can dramatically simplify your retirement planning. Knowing that at a future date you'll have income that sustains your lifestyle allows you to manage your remaining assets to a fixed instead of unknown investment horizon. The certainty of guaranteed future income can completely change your approach to investing, withdrawing, and spending.

✓ Required Minimum Distribution (RMD) & Tax Deferral

The RMD is an IRS-mandated minimum amount you must withdraw from your tax-deferred retirement accounts every year starting at age 72. However, QLACs are exempt from this rule, allowing you to delay distributions until as late as age 85. By moving money out of your 401(k) or IRA and into a QLAC, you can reduce the required withdrawals and associated taxes between ages 72 and 85, allowing more of your money to work for you on a tax-deferred basis.

CASE STUDY

Adjusting our example above, let's instead assume that David has another source of income that will cover most of his expenses in the near future. He'd like to leave his IRA alone to continue accumulating, but RMD requirements force him to start withdrawing at age 72. By transferring $135,000 from his IRA into a QLAC, he can reduce his required withdrawals. Assuming a 28% tax rate, David is able to defer over $29,000 of taxes between ages 72 and 85.



QLAC rates based on a $135,000 Mutual of Omaha life-only policy for a male aged-65 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

✓ Principal Protection

The savings that you allocate to a QLAC are protected from swings in the stock and bond markets. And, by selecting the refund at death (more on this later), you can guarantee that all of your savings will be passed onto your beneficiaries if you pass away prematurely.

✓ Clear Product Structure

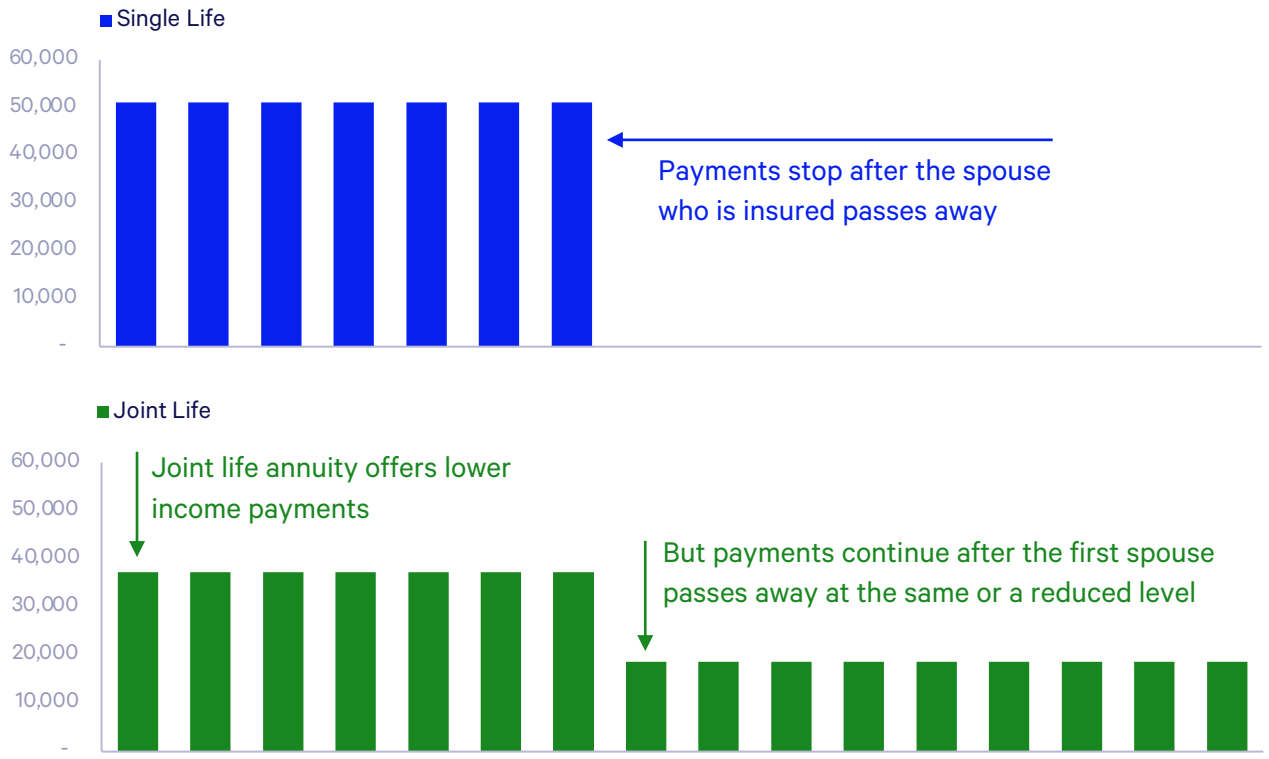
The QLAC has a simple structure. For any amount of premium you would like to put into the contract, the insurance company will tell you how much monthly income they can offer. There are some decisions you'll have to make (more on this later) that affect the level of income, but that's it. The income is net of the insurance company's expenses and the commission collected by the distributor.

✓ Spousal Benefits

QLACs can be set up as joint annuities, which means that payments continue as long as either you or your spouse are alive. Structuring the contract like this is a great way to preserve financial stability and quality of life for the surviving spouse.

CASE STUDY

Let's continue to use David as our example. David expects that he will pass away before his 62-year-old wife, Eve. He wants to know that that she'll be okay (at least financially) once he's gone, so he's considering adding her to his QLAC. David can purchase a joint life policy that's contingent on her life as well, such that income payments continue until both of them have passed away. The income payments will be lower, but they're expected to be paid over a longer period of time. Since their expenses will decrease when it's just Eve, they've opted for a 50% income reduction upon the first spouse's passing, which allows for higher income while they're both alive.



QLAC rates based on $135,000 Mutual of Omaha single and joint life-only policies for a male aged-65 and a female aged-62 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

Drawbacks

Despite these benefits, QLACs are not good for everyone or for all situations. Here are some of the drawbacks:

✗ No Liquidity or Cash Value

The QLAC is not liquid and does not have a cash value that can be withdrawn or borrowed from. Instead, the QLAC should be thought of as a future check, like a pension. While the value of your money will be growing during the deferral period, its growth will only be reflected in the income amount and will be otherwise invisible to you.

✗ No Market Exposure

The income you'll receive is determined upfront and fixed for the life of the contract, a requirement for the QLAC designation. The funds you use to buy the QLAC will be isolated from any market volatility. While this is a positive attribute for those focused on insurance coverage, it isn't the solution for those seeking a more investment-style product.

Typical Buyers

A QLAC is a powerful way to ensure you have a guaranteed source of income in retirement. That doesn't mean it's right for everyone, and it never makes sense to use all of your savings to purchase an annuity. Here's the methodology we've developed at Blueprint Income to help you think about whether a QLAC may (or may not) be a fit for you:

Consider buying a QLAC if...

- ✓ Social Security and/or pension benefits won't cover your regular expenses
- ✓ You're over 45 but not too far into retirement
- ✓ You've accumulated between $250,000 and $5 million in retirement savings
- ✓ You're in average or above-average health
- ✓ You're seeking greater certainty in retirement and more of an insurance product
- ✓ You'd like to reduce your required minimum distributions and defer associated taxes

A QLAC is probably not the right product for you if...

- ✗ Social Security and/or pension benefits fully cover your regular expenses
- ✗ You're younger than 45 or over 80 years old
- ✗ You've accumulated less than $250,000 or more than $5 million in retirement savings
- ✗ You're in below-average health
- ✗ You're seeking higher risk and more of an investment product
- ✗ You need access to the money immediately

A common objection to QLACs is that they don't build or provide access to cash value unlike other insurance products used for retirement planning. This is often true, but the trade off is access to higher guaranteed income than these more liquid products will offer. Using only a portion of your retirement savings to purchase a QLAC leaves the rest of your assets to provide liquidity and market upside.

Understanding how your personal attributes and the options you select drive quotes enables you to structure the policy to best suit your needs. Expect to have to think about the following when evaluating a QLAC:

Age: Income will decline as the age when you buy increases. The longer you wait to buy, the less time the insurance company will have to invest your money before beginning income payments. Holding all else equal, buying future income today will be cheaper than waiting until later to buy.

Gender: Income will be higher for males than females. Because women have longer life expectancies than men, the income women receive each year will be smaller.

Premium: Income will sometimes increase with higher premiums. A portion of the insurance company's expenses incurred are fixed per contract such that incremental premium can go entirely towards buying income. Said another way, there is often a discount for larger premium deposits.

Income Start Date: Income will increase the longer you delay its start. Longer deferral periods mean (1) more time for the insurance company to invest your money before starting payments and (2) fewer years of expected income payments.

Single vs. Joint Life: Income will be higher for single life than joint life policies. A joint life policy will provide income as long as either person is alive, which is at least as long and almost certainly longer than if contingent on one person.

Payout Option: Income will be lower for richer guarantees. Guaranteeing at least your money back at death (refund at death, a.k.a. cash refund or death benefit) or a minimum number of payments (period certain) increases the amount the insurer expects to pay you. To compensate for the extra guarantee, they will need to lower the recurring payments.

Riders: Income will be lower for each rider added. In general, any extra options or riders added to a policy will require compensating the insurer for additional risk they've assumed. Typically these options increase your guarantee or provide you with extra protection, both of which will result in lower base income amounts.

Finally, you'll usually notice an inverse relationship between the creditworthiness of an insurer and the income they offer. Insurers with higher credit ratings have earned them by maintaining higher capital reserves and more conservative investment portfolios, both of which limit their profitability and thus the income they can offer you. Only QLACs from highly-rated insurers (A.M. Best rating of at least A) make the cut for inclusion on the platform. And, even among the insurers we've decided to work with, it's worth distinguishing among the levels of financial strength. The guaranteed income you're promised is only as good as the financial strength and longevity of the insurer backing it.

On our website you can compare quotes across top-rated insurance providers.

Financial Value

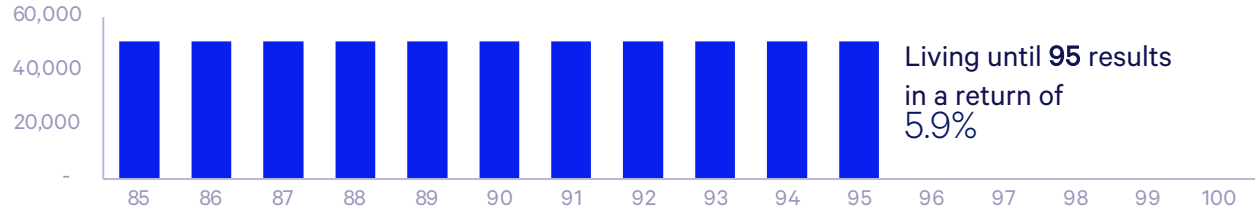
A common question asked when considering moving some of your retirement assets into a QLAC is: what value will I get from this purchase? Typically, pre-retirees look for a quantitative answer, such as an internal rate of return (IRR) or return on investment (ROI), that they can compare to returns generated in their fixed income portfolio.

Unfortunately, the value of a QLAC cannot be understood quite so simply or compared to the return of a traditional financial product on an apples-to-apples basis. That's because calculating an IRR or ROI requires knowing the upfront investment and all future income amounts and dates. As a longevity insurance product, the QLAC will provide you with income for as long as you're alive, i.e. end date to be determined.

Instead, we can calculate a range of IRRs based on your potential lifespan. The longer you live, the higher the IRR over the life of the product will be. While thinking about your quantitative return should be a part of your analysis, don't forget about the more qualitative risk reduction and peace of mind the product is providing as well.

CASE STUDY

In one of our earlier examples, 65-year-old David bought a $135,000 QLAC with income starting at age 85. The policy could wind up generating a 3.7% return if he lives until 90, which increases to 5.9% at age 95 and 7.0% at age 100.



QLAC rates based on a $135,000 Mutual of Omaha life-only policy for a male aged-65 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

Taxation

The taxation of annuities depends first and foremost on whether the annuity was purchased with pre-tax or post-tax money. If the premium was paid with post-tax money, as with a non-qualified annuity, the portion of any income payments that constitutes a return of that premium will not be taxable. This is not the case for QLACs, which are qualified annuities purchased with pre-tax retirement savings. Because the money used to fund the annuity has never been taxed, all distributions from the annuity will be fully taxable at ordinary income tax rates.

You should consult a tax professional for complete information regarding annuity taxation as it applies to your personal situation. At a high level, each phase of the QLAC contract and its corresponding tax treatment can be understood as follows:

Purchase: At purchase, pre-tax funds will be moved from one type of qualified retirement account to another. Traditional IRAs, 401(k)s, and QLACs all have the same tax status, so moving money among them will not incur any taxes or penalties.

Deferral: No taxes will be owed during the deferral period. QLACs do not have an account value that accumulates, so there isn't actually anything to tax. In fact, even if it had an account value that accrued interest (as with a fixed annuity) or earned capital gains (as with a variable annuity), no taxes would be due. As retirement savings vehicles, annuities can grow on a tax-deferred basis.

Annuitization: Once the QLAC is annuitized, i.e. income payments begin, taxes will be owed. Each distribution from the annuity will be taxed as ordinary income according to your applicable tax bracket. These taxable distributions will be reported to you and the IRS by your insurance company using tax form 1099-R.

Death Benefit: For QLACs including a refund at death option, a death benefit will be paid to a beneficiary if the premiums paid are greater than the cumulative income payments. Death benefits will be paid directly to the beneficiary and avoid the probate process. However, annuity assets will always be included in the deceased's estate. Beneficiaries will be taxed on any proceeds received at ordinary income tax rates. Non-spousal beneficiaries can receive the death benefit as a lump sum, over five years or in some instances in equal distributions over their lifetime.

Spousal Exception/Continuation: When you designate your spouse as your beneficiary, the annuity is typically not included in your estate.

Tax treatment of these payments can be tricky, so be sure to reach out to a tax advisor for a complete explanation.

Diversification

A diversified retirement portfolio will provide superior risk-adjusted return to a portfolio with a singular or uniform market exposure. That is, for nearly every target rate of return, a diversified portfolio of minimally correlated investments can be constructed that will be lower risk than one investment with equal expected return. When diversifying your retirement portfolio, you will likely select a combination of equity and bond market investments that are appropriate for both your risk appetite and your investment horizon. In general, your portfolio should tend towards equity investments in the early years and then gravitate towards fixed income investments as you near retirement.

The fixed income assets in your portfolio serve to provide steady, reliable income that is minimally correlated with the equity markets. This is exactly the purpose that a QLAC or any income annuity serves with one major added benefit: the annuity will continue to make payments until you die. Allocating a portion of your fixed income portfolio to a QLAC can generate comparable returns (see the Financial Value section) and reduce your longevity risk.

In fact, adding the security of a QLAC to your portfolio can enable you to earn a higher rate of return with the rest of your portfolio. If your QLAC or other annuities generate enough income to cover your retirement expenses, you might be comfortable taking even more equity risk and potentially generating a higher return than if you were relying on that money to cover your expenses.

One final benefit of owning a QLAC is the ability to invest and manage the rest of your portfolio to a fixed time horizon. Having your expenses covered starting at some future age means you can manage the rest of your portfolio to last a specific number of years until that age.

Product Specifications

QLACs differ from other longevity annuities, and it's worth understanding the distinction. A QLAC is a type of longevity annuity that is purchased with funds from Traditional IRAs and 401(k)s. The QLAC designation, which came out of a 2014 U.S. Treasury ruling, exempts these annuities from the standard RMD rules, which force those older than 72 to withdraw a specific amount of money from their tax-deferred retirement accounts each year. As such, the QLAC has extra specific requirements to earn the designation. Here are some relevant details:

QLAC Designation

Annuities must be specifically designated as QLACs to qualify for RMD exemption. Any previously purchased annuities not labeled as QLACs cannot be reclassified. To be a QLAC, the product cannot have any market-based features, with the exception of an inflation adjustment. There also cannot be any cash surrender value.

Premium Limits

QLAC premiums are limited to the lesser of $135,000 or 25% of your IRA holdings as of December 31st of the previous year

- If you have $540,000 or more, this means $135,000.
- If you have less than $540,000, this translates to 25% of your IRA.

These limits apply to individuals, meaning that couples with separate IRA accounts could have up to $270,000 worth of QLACs. Note that it's the insured's responsibility to make sure his/her QLAC purchase complies with the premium limitations. If the limits are exceeded, excess premium must be returned by the end of the calendar year following the purchase.

Sources of Funds

QLACs can be purchased with funds from all non-Roth IRAs, 401(k), 403(b), and 457(b) plans. QLACs can not be purchased with funds from Roth IRAs or defined benefit plans.

Deferral Period

Deferral of income is allowed until age 85, at which time income payments must begin. To benefit from the RMD exemption, you'd also want to start income after age 72.

Features & Riders

It's best to think of the base QLAC product as that which provides the most income based on your premium, age, gender, and income start date. But, there's room to customize the product or add additional guarantees to meet your needs. In some cases, the insurance company will refer to these options as product features. Other times they'll be listed as riders.

Below are the various ways you can customize your policy, noting that these options vary by insurer:

Single vs. Joint Life

QLAC income can be tied to a single or joint life:

- **Single:** income paid over the lifetime of the one person insured
- **Joint:** income paid over the 'joint life' of two insureds, i.e. as long as one or both are alive

The income level following the loss of the first life can be designed to remain level or decrease. Opting to reduce the income upon the passing of the first spouse (typically to 40-99% of the starting income level) allows for a greater income level while both are alive.

An alternative to buying a joint life annuity is to purchase a single life annuity with a refund at death (a.k.a. death benefit or cash refund) and designate your spouse as the beneficiary. Upon your passing, he/she will have the option to continue the contract in his/her name until the full value of the death benefit has been paid out.

Payout Options

Income can be based purely on lifespan or can have a guaranteed component:

- **Life Only:** payments stop at death (or later of two deaths for joint)
- **Life with Refund at Death:** additional guarantee over life only that pays beneficiaries the difference between the premium and sum of all payments already received upon insured's death

Payout Frequency

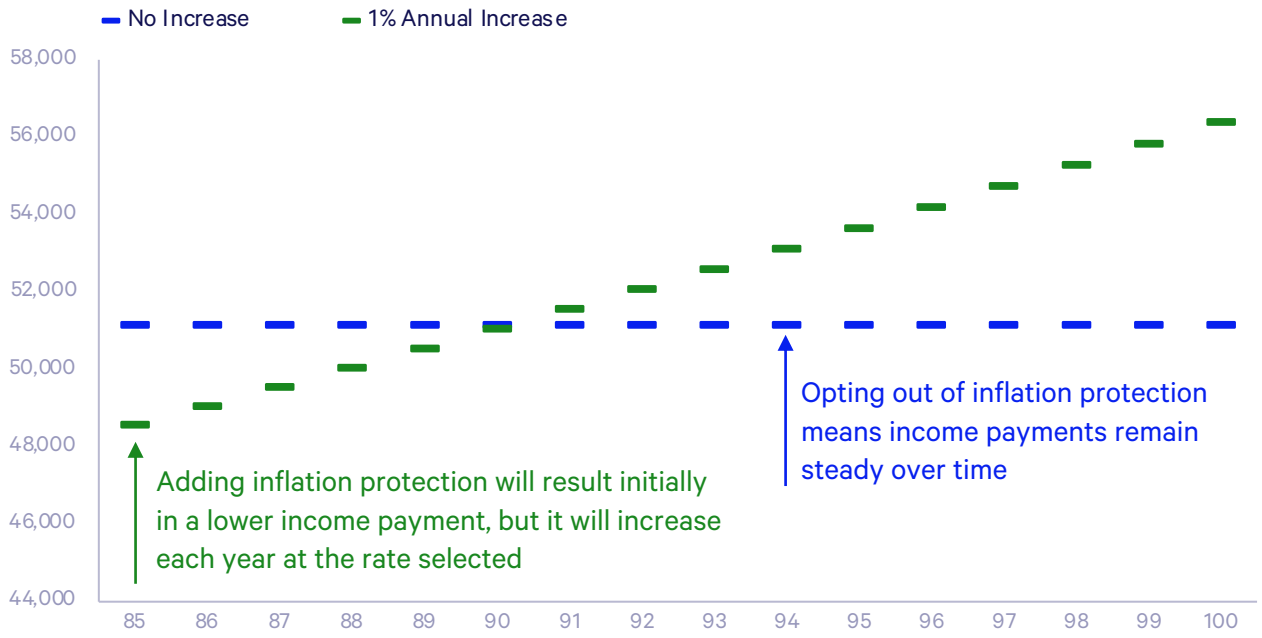
Income payments can be made monthly, quarterly, semi-annually, or annually.

Inflation Protection

Most insurance carriers offer an inflation adjustment or annual increase rider that will adjust the QLAC income payments annually for inflation. The adjustment made is typically a predetermined increase between 1-5%. Providing these increases will require a lower starting income. Note that the rider does not cover the deferral period, instead only going into effect once the income stream begins.

CASE STUDY

To illustrate, let's continue with David, our 65-year-old who wants to purchase a $135,000 QLAC with income starting at age 85. His initial quote excluded inflation protection and got him $4,260 per month ($51,200 per year). If he'd like his income payments to keep pace with inflation, estimating it to be 1% per year, he'll have to accept a lower initial income of $4,050 per month ($48,600 per year) which will increase over time.



QLAC rates based on $135,000 Mutual of Omaha life-only policies with and without a 1% increase rider for a male aged-65 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

Because inflation affects the purchasing power of money, it presents a challenge for retirement, which could last 40 years. While we're currently experiencing a period of low inflation, it's averaged 3.2% over the past century, meaning that prices have almost doubled every 20 years.

Adding inflation protection to your QLAC is one way to mitigate the risk of declining purchasing power, but a flat annual increase does not protect you from real inflation. Consider instead more direct ways to earn inflation-adjusted dollars. Your Social Security benefit, for one, will be indexed for inflation through a Cost of Living Adjustment. And, for the rest of your assets, maintaining exposure to equity markets and investing in inflation-linked bonds, such as TIPS or I-Bonds, can provide an effective hedge.

Additional Premium Payments (Flexible or Subscription)

With some insurers you have the ability to fund your QLAC over time, either through a flexible premium option or on a subscription basis. This is a good approach for those betting on pricing improvements or anticipating converting more of their IRA into income as it grows over time.

Income Start Date Flexibility

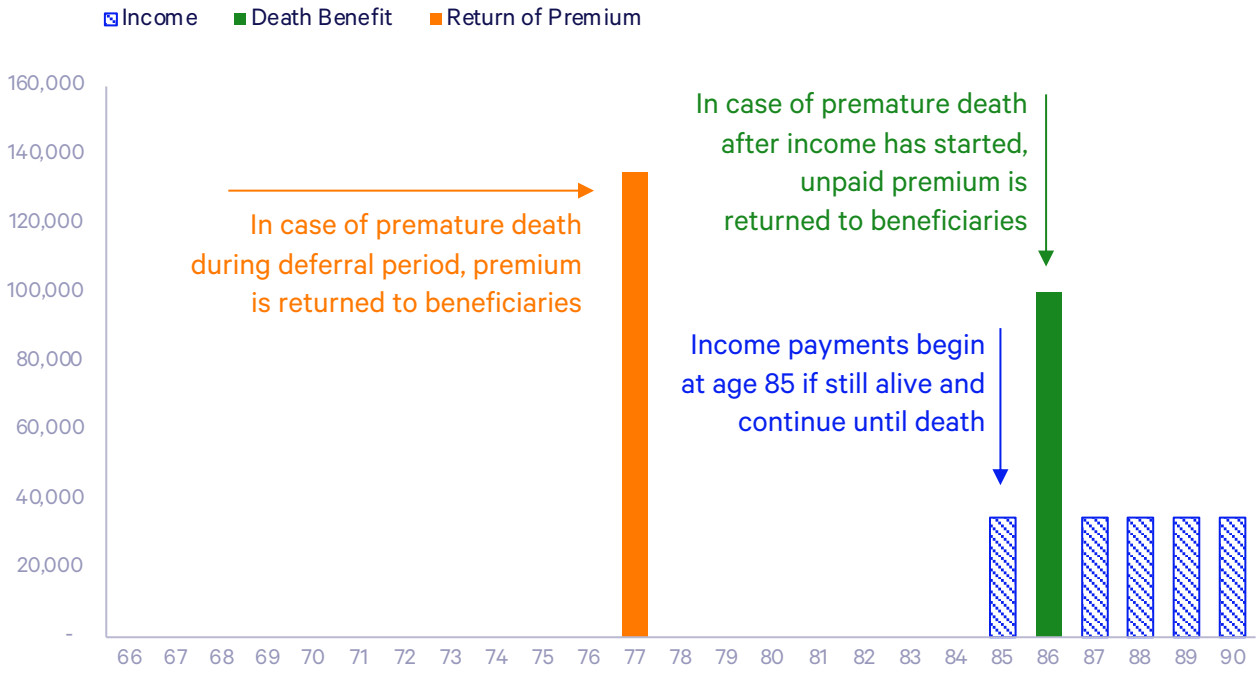
Some insurers' products allow you to change your income start date after purchasing the annuity, sometimes even more than once. Keep in mind that changing your income start date will affect your payments (increasing them if the start date is pushed back and vice versa).

Principal Protection

Through the refund at death (i.e. return of premium and death benefit riders), you are guaranteed that your principal (premium paid into the contract) will be returned to your beneficiary should you pass away before getting it back through income payments. The insurers use return of premium to refer to the protection before the income start date, and death benefit to refer to the protection after income begins. Terminology varies from carrier to carrier, but we simplify it and always line up quotes apples-to-apples on our platform.

CASE STUDY

For example, if our 65-year-old pre-retiree David is worried about losing money in the event of prematurely passing away, he can add the refund at death to his QLAC. His $135,000 QLAC policy will offer a lower monthly income to cover the cost of the richer guarantee, but any unrealized value in the contract will be passed onto his heirs. Should David pass away before income payments begin, his $135,000 premium will be returned to his beneficiaries. If he passes away after income payments have begun but before those payments are cumulatively $135,000, his beneficiaries will receive $135,000 less the total income payments made.



QLAC rates based on $135,000 Mutual of Omaha life-only policy with the refund at death for a male aged-65 with income starting at age 85. Rates are for example purposes only and do not represent current rates.

Buying Tips

Buying an QLAC is a long-term commitment, so dedicate enough time and attention to doing it right! In addition to being available to help walk you through the process, Blueprint Income has compiled a list of things to keep in mind:

QLAC Designation

Annuities must be specifically designated as QLACs to qualify for this special treatment. If you bought a product that wasn't labeled a QLAC, it can't be reclassified.

Available Carriers

There are now about a dozen companies that offer QLACs, including New York Life (rated A++ by A.M. Best), Guardian (A++), Pacific Life (A+), Lincoln Financial (A+), Mutual of Omaha (A+), Principal (A+) and Integrity Life (A+). Before you buy, you'll want to compare quotes and product features — and remember, not all companies sell all products in all states.

Where to Buy a QLAC

QLACs are sold via insurance agents, brokers, and financial advisors who are licensed to sell annuities. Blueprint Income is licensed to sell QLACs in all 50 states and The District of Columbia. We limit our QLAC offerings to only those sold by top-rated insurers (A.M. Best rating of at least A). Compare quotes side-by-side on our website at https://www.blueprintincome.com/income-annuities-quotes/qlac-qualified-longevity-annuity-contract.

Consider Your Agent/Broker's Incentives

The Department of Labor worked for nearly a decade to reform the requirements for giving financial retirement advice. The goal was to ensure that advisors, agents, and brokers put their clients' best interests before their own. The reforms were not implemented, so you should be extra cognizant when considering an annuity purchase to understand your agent or broker's incentives. How are they compensated on the sale? How do they select the products they're showing you? Do they work with only one or a handful of insurance companies?

Compare Quotes Apples-to-Apples

Some financial products are too unique to be compared to one another, but this isn't the case with QLACs. You should be able to see quotes from different carriers that are exactly the same in all major respects except two: price and credit rating.

Credit Ratings Matter

It can be enticing to just go with the company that offers the highest payout but be careful. The value of a QLAC is undeniably linked to the claims-paying ability of the insurance company. The insurer needs to be around at least as long as you are. Buying from only highly-rated insurers is the way to go.

Consider Buying in Chunks or as a Subscription over Time

If you're still years away from retirement, are optimistic about pricing improving, and/or would like to diversify across carriers, you can buy QLACs in pieces over time. Keep in mind that, all else being equal, waiting to buy will reduce the amount of income the insurance company can offer. In addition, the pricing might not be quite as good at smaller purchase sizes.

Options for Buying With 401(k) Funds

401(k) plan sponsors are currently not required to offer QLACs to their employees and adoption has been slow. If you are looking to use funds in your 401(k) to buy a QLAC, you have a few options:

- Roll your 401(k) funds into an IRA. You will then have to wait until January 1st of the next calendar year to purchase your QLAC. Don't forget the value caps that apply, so ensure you are transferring enough into an IRA account that allows you to purchase a QLAC for the value you want. For example, in order to purchase a $135,000 QLAC, you'd need to have at least $540,000 in your IRA.
- Talk to your benefits department and ask them for more retirement income options within your 401(k).
- Have Blueprint Income write a letter to your plan sponsor. We are happy to send benefits departments more information on the QLAC product and why it makes sense to include in 401(k) plans. Just send us an email (support@blueprintincome.com); we'd love to hear from you.

BLUEPRINT INCOME

Insurers

Blueprint Income is proud to offer fixed and income annuities from over 30 insurance companies, ensuring a competitive marketplace of options for you to choose among.

Guardian

securian FINANCIAL

F&G ANNUITIES & LIFE — Experience the Power of Collaborative Thinking

NEW YORK LIFE

Western & Southern Financial Group

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

RELIANCE STANDARD — A MEMBER OF THE TOKIO MARINE GROUP

AIG

AMERICO

Lincoln Financial Group

AMERICAN NATIONAL

Sagicor Life — Wise Financial Thinking for Life

Mutual of Omaha

ATHENE ANNUITY

American Life

Nationwide

Brighthouse FINANCIAL — Established by MetLife

Atlantic Coast Life Insurance Company

PACIFIC LIFE

SBLI

ManhattanLife — Standing By You. Since 1850.

PennMutual

SYMETRA — RETIREMENT | BENEFITS | LIFE

GUARANTY — INCOME LIFE INSURANCE COMPANY

NORTH AMERICAN — A Sammons Financial Company

TheStandard — Insurance, Retirement, Investments and Advice.

GUGGENHEIM — LIFE AND ANNUITY COMPANY

Protective

Delaware Life

Liberty Bankers Insurance Group

About Us

> "Modernize retirement security through trust, transparency, and by putting the customer first."

A few years ago, we were a small team with a simple and straightforward belief — that the decision to buy an annuity should be easy, unbiased, and all about you.

That belief is reinforced every day as we continue to grow and connect with people all over the United States that we're able to help in ways large and small. Sometimes, helping out means saying it doesn't make sense to buy an annuity. And of course that means less business for us. But we're OK with that because the most valuable thing we can build is trust.

If you're considering purchasing an annuity for your retirement, you won't find better product selection and a more informed team than the one at Blueprint Income. We hope to have the opportunity to demonstrate that to you.

Here's what we promise to everyone who works with us:

- No sales pitch
- Information on retirement income products in plain English
- Only simple annuities from insurers with strong financial ratings
- Sophisticated and tailored advice from our team and our technology solutions

Platinum Trusted Service Award
For consistently delivering excellence
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Have questions? **Get in touch.**

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