

What is an annuity? — Before you withdraw ...

Part 5 of 8

Know what surrender charges are in your annuity contract. Most annuities allow free withdrawals, but if you withdraw funds from your annuity before allowed by your contract, you may have to pay a penalty fee or surrender charge. Generally, you are only penalized on the amount withdrawn over the free withdrawal amount.

The surrender charge period typically lasts from five to 10 years after the annuity is purchased. The charge, which may apply to the contract as a whole or separately to individual purchase payments, frequently decreases to zero as the annuity nears the end of the withdrawal charge period. Withdrawal/surrender charges can reduce the value of your investment.

When time comes to consider your payout options ...

Here's a term you should know, to **annuitize** is to convert the funds in your annuity into a series of payments. Annuities offer a large variety of payout options. It's a good idea to learn about your payout options so you can choose the option that will work best for you. And bear in mind that you can choose an option that will provide a retirement income you cannot outlive.

When deciding your payout option, you must consider whether you want to annuitize all or only a portion of your account balance – and also how often you want to receive payments. The value of an annuity is the sum of premiums you have paid, plus the interest and/or earnings that have been credited minus any charges and withdrawals. This value is used to calculate the amount of most benefits you will receive.

Retirement income payout options to consider

When you select an annuity payout option, generally you have the following choices:

- How often to receive payments
- Whether to annuitize all or only a portion of your account balance

Be sure to discuss these options with your financial advisor, because annuitization is an irrevocable election. You may also choose between a fixed or variable payout option.

- **Fixed payout option** – Your cash value is used to fund a fixed payout.
- **Variable payout option** – This provides scheduled benefit payments and the potential to achieve investment growth that has historically outpaced the cost of living. Your payment amount will fluctuate according to the performance of the investment options you select and the assumed interest rate you chose.

To minimize investment risk and maximize returns, consider combining fixed and variable payout options. We'll talk about lifetime income payout options in part 6.

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