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The Sterling Insurance & Financial Group
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October: National Breast Cancer Awareness Month – Ladies have you made your appointment for a mammogram?

October: Open enrollment!

Dear Client,

I trust you are well and you've had an enjoyable summer. Hopefully you've had the opportunity to go away on a vacation, if not a few days away for some well deserved rest and relaxation.

In my quest to provide top notch service I have been working hard and training on one of our new products that I can offer to you – annuities. As you know, In addition to understanding our products I like to put them through a rigorous vetting process.

Having done that, below is what I like to call Annuities 101. I wanted to give you a very brief picture of what an annuity is and how it can work in your long-term financial future. If you feel this is something worth considering for your financial portfolio, please give me a call or drop an e-mail.

Of course, you can visit my new website at: www.TheSterling-Ins.com for information on annuities, as well as all of the other services we offer.

Sincerely,

Patty Contreras

Annuities 101

What is an annuity?

An annuity is a contract between you and an insurance company, under which you make a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date. Annuities typically offer tax-deferred growth of earnings and may include a death benefit that you will pay your beneficiary a guaranteed minimum amount, such as your total purchase payments.

What makes an annuity different from a 401k plan?

Annuities offer lifetime income payments and death benefit protection that is discussed on the following page.

What types of annuities are there?

There are generally two types of annuities – fixed and variable. There is a third kind, which is a special type of annuity, an equity-indexed annuity.

What is an Index Annuity?

An equity-indexed annuity is a special type of annuity. During the accumulation period – when you make either a lump sum payment or a series of payments – the insurance company credits you with a return that is based on changes in an equity index, such as the S&P 500 Composite Stock Price Index. The insurance company typically guarantees a minimum return. Guaranteed minimum return rates vary. After the accumulation period, the insurance company will make periodic payments to you under the terms of your contract, unless you choose to receive your contract value in a lump sum.

Equity-indexed annuities combine features of traditional insurance products (guaranteed minimum return) and traditional securities (return linked to equity markets). Depending on the mix of features, an equity-indexed annuity may or may not be a security. The typical equity-indexed annuity is not registered with the SEC.

What is a Variable Annuity?

In a variable annuity, by contrast, you can choose to invest your purchase payments from among a range of different investment options, typically mutual funds. The rate of return on your purchase payments, and the amount of the periodic payments you will eventually receive, will vary depending on the performance of the investment options you have selected.

Variable annuities are securities regulated by the Securities and Exchange Commission.

What is a Fixed Annuity?

In a fixed annuity, the insurance company guarantees that you will earn a minimum rate of interest during the time that your account is growing. The insurance company also guarantees that the periodic payments will be a guaranteed amount per dollar in your account. These periodic payments may last for a definite period, such as 20 years, or an indefinite period, such as your lifetime or the lifetime of you and your spouse. Fixed annuities are not securities and not regulated by the Securities and Exchange Commission.

In a nut shell fixed annuities are interest-based vehicles similar to bank-issued CDs, but geared specifically towards retirement savings. Fixed annuities are very low risk, have more liquidity than CDs, are tax-deferred, and typically offer higher yields than bonds, CDs, treasuries, or money market accounts. Fixed annuity uses one of two distribution models: immediate or deferred. Immediate fixed annuities start issuing monthly payments right away, until the initial premium plus interest gets paid out. Deferred annuities don't pay out until the end of their term, compounding interest like a typical retirement savings account.

Most fixed annuities also feature a lifetime income option — allowing you to convert accumulated savings into a guaranteed monthly income for the rest of your life. This feature is highly desirable to many retirees and sets annuities apart from other types of retirement investments.

Fixed Annuity Performance

You can expect solid, guaranteed growth from an investment in a fixed annuity as long as you don't terminate prematurely. In the case of deferred fixed annuities, tax-deferral is going to add up and compound, earning substantially more than a CD, money market account, or even a mutual fund.

Who should buy a Fixed Annuity?

Fixed annuities are ideal for retirees or those wary of market volatility. Although potential for windfalls is limited compared to variable annuities, the fixed annuity's guaranteed rate-of-return beats many other investment vehicles. Fixed rate annuities are well suited for conservative of investors or retirees who need steady monthly income.

Key Benefits of a Fixed Annuity

Guaranteed lifetime income – An annuity is a great complement to a 401K. It can provide a financial cushion. Further, investors can add options to an ordinary annuity such as one that pays a death benefit to a beneficiary or one that continues to pay a surviving spouse until his or her death. And, the tax treatment of an ordinary annuity is very favorable. All earnings grow tax-deferred until they are taken as part of a monthly payout.

Protecting Assets from Creditors - Annuities represent irrevocable contracts. As such, the premium that is given to an insurance company in exchange for monthly payouts is protected from creditors and most legal judgments. In addition, several states also protect the annuity payouts as they are returned to the annuitant. This can be especially beneficial for those professionals who can be sued frequently, such as lawyers, surgeons and contractors.

No Limit to Contributions - There is no limit to the dollar amount of a fixed annuity, and no limit to the number of annuities an investor can have. For investors looking to guarantee a large income in retirement or for those who have contributed the maximum to retirement plans, ordinary annuities can provide a substantial advantage over other types of annuities and other types of retirement savings vehicles.

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