What Is an Annuity?

In its most simple form, an annuity is a contract between an individual and the insurance company. It typically allows you to invest on a tax-deferred basis and convert that investment into an income stream for retirement. The income can be guaranteed for your life or both the life of you and your spouse. Generally, annuities are considered to be long-term investment vehicles.

Types of Annuities

There are two main types of annuities. An annuity can be either immediate or deferred.

- Immediate and Deferred Income Annuities - Immediate annuities are purchased with a single payment and begin providing income at the time they are purchased or shortly thereafter. A deferred income annuity defines a specific amount of future income at the time a purchase payment is made. This income can be guaranteed for one life, two lives, or a specified period of time. Typically, once the income stream begins, it is irrevocable and you do not have access to your initial investment.
- Deferred Annuities - Deferred annuities typically have two phases, the “accumulation” phase and the “distribution” phase. During the accumulation phase, your money is invested and has the opportunity to grow on a tax-deferred basis.

  The second phase is known as the distribution or “annuitization” phase. During this phase, you receive either a lump sum or periodic income payments from the insurance company. Like immediate annuities, a deferred annuity in its distribution phase can offer income guaranteed for one life, two lives, or a specified period of time.

Types of Deferred Annuities

Annuity companies may offer one, or all, for the types below.

- Fixed Annuities - Fixed annuities credit the contract with a set interest rate for a specified period of time. Once this period of time is over, it may be possible to renew the fixed annuity at the prevailing interest rates.
- Fixed Indexed Annuities - Interest credited to a fixed indexed annuity is linked to the performance of a stock market index; however, your participation in any gain experienced by the index will be limited to the percentage of the gain set by the insurance company. This limits your upside potential while the insurance company helps to protect your principal in negative markets through a minimum guaranteed contract value.
- Buffered Annuities - The performance of a buffered annuity is linked to the performance of a market index; however, your participation in any gain experienced by the index will be limited to the percentage of the gain set by the insurance company. This limits your upside potential while the insurance company helps to protect your annuity value from market volatility. This protection from market volatility is limited and will not prevent your annuity from losing value.

Before placing money in a buffered annuity, please consider your investment objectives, time horizon, and risk tolerance. The value of the indexing strategies will fluctuate based on the performance of the underlying index(es), and it is possible to receive back less than what you invested. The upside potential may be subject to interest rate cap, spread, and/or participation rates, and these interest rate cap, spread, and/or participation rates may be changed periodically at the discretion of the insurance company. Information about the indexing strategies, such as management fees and other expenses, can be found in the prospectus, and this information should be read carefully before investing.

- Variable Annuities - Variable annuities may offer multiple ways to invest and manage your money. These investment options are referred to as "subaccounts," and most invest the assets in stocks and bonds. Variable annuities offer a wide variety of subaccounts that have different investment objectives, including accounts that pay a fixed interest rate. You have the ability to transfer money between these subaccounts without tax implications. Taxes are not due until the money is distributed from the annuity.

  Before placing money in a variable annuity, please consider your investment objectives, time horizon, and risk tolerance. The value of the subaccounts will fluctuate based on the performance of the underlying investments, and it is possible to receive back less than what you invested. Information about the subaccounts, such as management fees and other expenses, can be found in the prospectus, and this information should be read carefully before investing.

Variable and Buffered Annuity Charges and Fees

The charges and fees associated with variable annuities and buffered annuities can differ greatly between annuity contracts. Just as with most investments, these charges and fees impact the value of your account and can reduce the performance of your investments. These charges and fees typically fall into one of several general categories:

- **Surrender Charges** - Most annuities will charge a fee if you liquidate your annuity before a specified period of time. Usually, the surrender charge percentage decreases each year and eventually disappears after a holding period. However, during the surrender charge period, most annuities allow you to withdraw a certain percentage without incurring a fee (tax penalties may still apply if you are younger than age 59 ½).

- **Mortality and Expense (M&E) Charge** - This fee pays for the general expenses and insurance features of the annuity contract. The fee is normally expressed as an annual percentage and is charged against your account value. For example, if the M&E charge is 1.30%, you would be charged $130 annually for each $10,000 invested.

- **Administration and Contract Maintenance Fees** - These fees typically pay for record-keeping and administration costs. The administration fee is normally expressed as an annual percentage and is charged against your account value. For example, if the administration charge is 0.15%, you would be charged $15 annually for each $10,000 invested. The contract maintenance fee is typically charged as a flat annual fee of approximately $30 to $50 per year. Normally, the maintenance fee is waived if the value of your annuity exceeds a certain dollar amount.

- **Subaccount Investment Management Fees -** The subaccounts available within the annuity charge fees to manage the underlying investments. The fees vary depending on the chosen subaccounts. Details of these fees and other charges are disclosed in the prospectus.

- **Optional Benefit Fees -** Many annuities offer optional features, such as living and death benefits. Although these benefits offer additional protection, they carry additional fees. It is important to evaluate if these optional benefits are worth the additional cost. The prospectus will detail these optional benefit fees and describe how they are calculated. Also, under certain life events or market conditions, it is possible that you may pay for a benefit and never take advantage of its features.

Fixed and Fixed-Indexed Annuity Charges

Fixed annuities and fixed-indexed annuities typically do not charge mortality and expense, administration, or investment management fees, but there are still a few possible charges to understand:

- **Surrender Charges -** Similar to variable annuities, fixed and fixed-indexed annuities will charge a fee if you liquidate your annuity before a specified period of time. Usually, the surrender charge percentage decreases each year and eventually disappears after a specified holding period. However, during the surrender charge period, most annuities allow you to withdraw a certain percentage without incurring a fee (tax penalties may still apply if you are younger than age 59 ½).

- **Market Value Adjustment -** Some fixed annuities will impose a “market value adjustment” if you prematurely liquidate your fixed annuity. This adjustment could actually be positive or negative. Generally speaking, if interest rates have increased since you purchased your annuity, there may be a charge assessed to your account value. If interest rates have decreased since you purchased your annuity, your account value may receive a credit. Annuity companies may use different formulas to calculate a market value adjustment, so please make sure you understand the market value adjustment provisions for the particular annuity you are purchasing.

- **Optional Benefit Fees -** Many annuities offer optional features, such as living and death benefits. Although these benefits offer additional protection, they carry additional fees. It is important to evaluate if these optional benefits are worth the additional cost. The client contract will detail these optional benefit fees and describe how they are calculated. Also, under certain life events or market conditions, it is possible that you may pay for a benefit and never take advantage of its features

Annuities in Qualified Retirement Accounts

Qualified retirement accounts, such as IRAs and 401(k)s, already provide the benefit of tax deferral. There are no additional tax deferral benefits for annuities purchased inside a qualified retirement account. An annuity should be purchased in this type of account only if there is value in some other features of the annuity and you are willing to incur any additional costs associated with such benefits.

IRS regulations require you to begin taking distributions at age 70 ½ from many qualified retirement accounts. If you invest your qualified retirement account assets into an annuity, you should understand how these required minimum distributions (RMDs) will impact your annuity. For example, if your annuity is still within the surrender charge period, it is important to determine if the RMDs will be assessed a surrender charge. Also, if your annuity has any optional living or death benefit riders, please refer to the annuity's prospectus to understand how RMDs will impact these values.

Variable Annuity Share Classes

Deferred variable annuities are offered in different share classes. They may vary in their investment requirements, surrender charge schedules, and separate account charges. The most common variable annuity share classes are B share, C share, L share, and Bonus share. In general, the main difference can be understood in terms of the various surrender charge schedules and annuity mortality expense and administration fees.

B Shares

- The surrender period may range from 5 to 8 years. A surrender charge is applied if a withdrawal exceeds the free annual withdrawal amount within the surrender period.
- The surrender charge initially may range from 6 to 8% of the annuity's value. The surrender charge typically decreases until it reaches zero at the end of the surrender period.
- The mortality expense and administration fees may be less than other share classes and typically range from 1.20%-1.45%.

L Shares

- The surrender period may range from 3 to 5 years. A surrender charge is applied if a withdrawal exceeds the free annual withdrawal amount within the surrender period.
- The surrender charge initially may range from 7 to 8% of the annuity's value. The surrender charge typically decreases until it reaches zero at the end of the surrender period.
- In exchange for the shorter surrender period, the mortality expense and administration fees are normally higher than B shares and typically range from 1.50%-1.90%.

- Invicta does not offer new purchases of L Shares. However, additional contributions into existing contracts can be made if it is in the best interest of the client versus purchasing a new annuity with the same or similar benefits.

C Shares

- They generally do not have a surrender charge.
- The mortality expense and administration fees may be more than B shares and L shares and typically range from 1.55%-1.95%.
- Additional death and living benefits are not available for this share class.

Bonus Shares

- The surrender period may range from 8 to 9 years. A surrender charge is applied if a withdrawal exceeds the free annual withdrawal amount within the surrender period.
- The surrender charge initially may range from 8 to 9% of the annuity's value. The surrender charge typically decreases until it reaches zero at the end of the surrender period.
- The mortality expense and administration fees may be more than B shares and L shares and typically range from 1.40%-1.85%.
- Bonus annuities typically offer an upfront credit based on the amount of the investment. Over time, these higher fees may reduce or eliminate the benefit of the upfront credit.
- Many bonus products may "charge back" or "recapture" all or part of the upfront credit under certain circumstances. These may include death or surrender of the annuity within a specified period of time or conversion of the annuity into an income stream via annuitization. Please be aware of recapture rules for the particular annuity you are purchasing.
- Invicta does not offer new purchases of Bonus Shares. However, additional contributions into existing contracts can be made if it is in the best interest of the client versus purchasing a new annuity with the same or similar benefits.

Withdrawals From Your Annuity

Annuities are long-term products designed for retirement. Withdrawals of taxable amounts, including earnings, are treated as ordinary income. Withdrawals may be subject to surrender charges, and if made prior to age 59 ½, may be subject to a 10% federal tax penalty. Withdrawals will also reduce your cash surrender value. Invicta does not offer tax advice and recommends that you consult your CPA or tax advisor before taking actions that may have tax consequences.

Certain living and/or death benefits allow a specific amount or percentage to be withdrawn annually without reducing future guarantees. If the annuity you purchase has such a feature, please be aware of the negative impact associated with taking a withdrawal larger than the allowable annual amount.

Annuity Replacements

It is possible to transfer funds directly from one annuity to another annuity without creating a taxable event. For annuities outside of qualified retirement plans, this is made possible by Section 1035 of the Internal Revenue Code. Replacing your existing annuity may be useful if the new annuity has benefits and features that are better-suited to help you meet your financial goals.

If you are considering replacing your existing annuity, please compare both products thoroughly. There may be surrender charges on your existing annuity, and you will likely be subject to a new surrender schedule on the new annuity. If your existing annuity has any living or death benefit riders, these values may be higher than your account value. Replacing the annuity would forfeit any existing living and death benefit values. In addition, you need to be aware of any fee differences between your old annuity and the new annuity.

Compensation Invicta May Receive

In consideration for marketing and operational support services provided and additional costs that may be borne by Invicta, insurance companies may pay Invicta additional compensation, benefits, or contributions from their ongoing fees, operating costs, past profits, or other company resources. The marketing and support services may include processing and operations support, telephone and computer services, conference rooms, facilities, personnel, training, educational meetings, Financial Advisor compensation, publications, marketing and/or promotional activities, or other materials relating to annuities. While not all insurance companies pay additional marketing and support fees to Invicta (some pay none), the compensation for those that do may be a fixed dollar amount, an amount paid based on sales of up to 0.25% of purchases, an amount based on assets held of up to 0.05%, or a combination of these.

Our Financial Advisors are not required to recommend any product of an insurance company that provides additional compensation, nor do they directly share in any of the marketing support fees received.

Invicta may also, on occasion, receive commissions or other revenues as compensation for executing transactions on behalf of annuities.

Important Information

Annuities can be an important part of your overall portfolio, but may not be appropriate for everyone. Before purchasing an annuity, it is important to understand details of the product.

For variable and buffered annuities, investors should obtain a prospectus for an annuity's contract and the underlying subaccounts and consider the investment objective, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other important information, is available from your Financial Advisor and should be read carefully before investing. Variable annuities are not insured by the FDIC or any government agency and involve market risk, including the possible loss of principal. Variable annuities are suitable for long-term investment and entail fees, such as mortality and expense charges and optional benefit rider charges.

All guarantees associated with annuities are backed by the claims-paying ability of the issuing insurance company. Guarantees do not apply to the safety or performance of amounts invested in variable investment options.

Additional Information

Please discuss your particular needs and circumstances with your Financial Advisor as you are evaluating the available features, benefits, and costs involved to determine the type of annuity that may be best suited for your investment needs. It is also important to read the prospectus, annuity contract, statement of additional information, and offering material. For additional information on annuities, reference the following web sites: The FINRA (www.FINRA.org) the Securities and Exchange Commission (www.SEC.gov) Insured Retirement Institute (www.irionline.org) the National Association of Insurance Commissioners (www.NAIC.org) or your state's Insurance Department.