Understanding deferred income annuities

A deferred income annuity is designed to provide a guaranteed stream of income within two to seven years of initial purchase (but no longer than 10) and generally lasts for life. These annuities are issued by insurance companies and are usually funded with a single premium.

FEATURES

• Payments – By choosing a deferred income annuity, you can determine when your income payments begin, and whether it pays on the life of a single or a joint annuitant. (i.e., spouses) You have the option to receive payments on a monthly, quarterly, semiannual or annual basis. Typically, payments remain level over time and are based on:
  - Gender, age and life expectancy
  - Elected deferral period (time between purchase date and first income payment date)
  - The minimum number of total guaranteed income payments elected
  - Current interest rates

Costs are included in the insurance company’s calculation of your income payment amount.

• Taxation of income payments

  - If your premium is from a nonqualified (taxable) account, a portion of each income payment is usually considered to be a return of premium and is not subject to income tax. Once you have received the original principal back in the form of payments, all future income payments consist of earnings only and will be fully taxable.
  - If your premium is from a qualified (tax-deferred) account, such as an IRA, all income payments you receive are normally fully taxable. There are no tax advantages to investing qualified funds in a deferred income annuity.

• Income payment options – You can receive income payments for the duration of your life or for a set period. There is a trade-off between the amount of income and the income payment option you select. Options include:
  - Life Only
  - Life with Cash Refund
  - Life with Period Certain
  - Period Certain

I can work with you to discuss which payment option will best fit your situation.
• **Survivor benefit**
  - *Before your first income payment* – Typically your beneficiary will receive a return of your premium as a death benefit if you die during the deferral period.
  - *After your first income payment* – Once income payments begin, the death benefit (if any) is determined by the minimum number of guaranteed income payments you elected at the time of purchase.

**CONSIDERATIONS**

• **Liquidity** – A deferred income annuity does not provide liquidity. Some contracts may allow you an option to receive several monthly income payments at one time, but this feature should not be considered a source of liquidity. In general, you cannot cancel or change any of the terms of the contract. In return, you’ll likely receive a higher income payment than you would from other types of annuities.

• **Taxation at death** – If any guaranteed minimum income payments remain at the time of your death, the present value of those payments may be included in your estate for the purposes of calculating estate taxes. The payment received by the beneficiary will be part return of premium and part earnings. Earnings will be taxable as ordinary income at the beneficiary’s income tax rate.

**SUITABILITY**

A deferred income annuity may be appropriate for a portion of your portfolio if you:

• Have a need for guaranteed income
• Have sufficient assets outside of the deferred income annuity to meet unexpected expenses
• Have determined that your retirement expenses will not be covered by other sources of predictable income, such as a pension and/or Social Security

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1 Edward Jones, its employees and financial advisors are not estate planners and cannot provide tax or legal advice. You should consult your estate-planning attorney or qualified tax advisor regarding your situation.

2 Guarantees are based on the claims-paying ability of the issuing life insurance company.

*Annuities have fees and charges that are generally incorporated in the amount of the periodic payment.*

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