Understanding single premium immediate annuities

One way to receive predictable income payments for life, regardless of how the market performs, is by investing in a single premium immediate annuity. You give the insurance company a lump sum in exchange for a guaranteed stream of income, generally lasting for life.

FEATURES

- **Payments** – By choosing a single premium immediate annuity, your income payments would begin within one year of purchase. Generally, your income payments are greater than income from other types of annuities with guaranteed lifetime withdrawal benefits. Payments remain level over time and are based on:
  - Your gender and age
  - Elected deferral period (time between purchase date and first income payment date)
  - The minimum number of total guaranteed income payments elected
  - Current interest rates
  - Some contracts that offer you the option to increase income payments each year – but your initial payments will be lower than if you were to choose level payments

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 generally fully taxable. There are no tax advantages to investing qualified funds in a single premium immediate annuity.

The chart illustrates hypothetical fixed payments from a single premium immediate annuity."
• **Survivor benefit** – A survivor benefit is determined by the minimum number of guaranteed income payments you elect. The different guarantees available are often called income payment options.

• **Income payment options** – You (or your beneficiary) can receive income payments for the duration of your life or for a set period of time, and your beneficiaries can continue to receive a portion of your investment after you pass away. There is a trade-off between the amount of income you receive and the income payment you select. Options include:
  - Life Only
  - Life with Cash Refund
  - Life with Period Certain
  - Period Certain

Your financial advisor can work with you on which payment option will best fit your situation.

**CONSIDERATIONS**

• **Liquidity** – A single premium immediate annuity does not provide liquidity. Some contracts offer a feature that allows you to request a lump-sum payment based on the total of some or all of your remaining guaranteed income payments, but this would come at an additional cost. This feature should not be considered as a source of liquidity.

• **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 single premium immediate annuity may be appropriate for a portion of your portfolio if you:

• Have a need for guaranteed income

• Have determined that your retirement expenses will not be covered by other sources of predictable income, such as a pension and/or Social Security

• Have sufficient assets outside of the single premium immediate annuity to meet unexpected expenses

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

2 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.

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