

PERSONAL CAPITAL®

INSURANCE GUIDE



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People need insurance for a number of reasons.

At Personal Capital, we understand that insurance can be complex and overwhelming. Adequate insurance coverage, or lack thereof, can have a huge impact on your financial life and long-term goals.

As a fiduciary, Personal Capital is required to act in our clients' best interests. We can help you understand what type of insurance may be most beneficial for you and your family, and how it plays into your long-term financial plans. Our Personal Capital Insurance Guide will help you navigate the murky waters of insurance by explaining the various types of policies available, and which ones might be beneficial to you given your unique situation.



All insurance analysis and insight provided is extended to you as a courtesy for educational purposes only. You should not rely on this information as the primary basis of your insurance planning decisions. We are not licensed insurance professionals. You should consult a qualified licensed insurance professional regarding your specific situation.



Life Insurance

What would happen to your family if you were gone? Would you be ok if you lost a member of your family that contributes to the household in a significant way? Life insurance analysis is an important step in ensuring financial protection if the death of a significant contributor occurs in your family. The amount of insurance you purchase should cover cash flow needs, debts, and other goals - such as ongoing expenses, funding education or retirement.

Term Life Insurance

Term life insurance is usually the least expensive option compared to other – more permanent – insurance policies. As the name indicates, term life insurance provides coverage for a specified amount of time – anywhere from 10 to 30 years, with 20 being the most common – for a predetermined premium. Term insurance is generally considerably cheaper than the permanent alternative, and once the term period ends, your coverage ends. If you pass away prior to the term period ending, then your beneficiaries get the face value of the policy.

Insurance costs vary widely when buying a term policy. You should shop around to ensure you're getting the best rates and the coverage you need from a company with a good credit rating. A good rule of thumb is to pursue quotes from online brokers as well as the large national agencies. When purchasing term life insurance, consider the length of term carefully. Be sure it covers all of your dependents until they no longer need support. It can be very expensive — or impossible to renew term insurance later if your health situation changes.

PERSONAL CAPITAL STRATEGY



[When you use our free tools](#) to input your financial information, we can recommend a level of insurance coverage to help keep you and your family protected and on track for your long-term goals.

For most people in normal health, term insurance is preferable to universal or whole life insurance; however, each case is unique, and [you should speak with your advisor](#) to determine what kind of life insurance is right for you.

LIFE INSURANCE

Permanent Life Insurance

Permanent life insurance covers the lifetime of the insured. It usually is composed of an insurance product coupled with a savings or investment component. Your insurance company invests part of your premium and your cash value is then built up by the accrued interest. This growth is generally tax deferred and can be accessed over the life of the policy, with some constraints. However, if you do not touch this cash value prior to passing, the full value of the contract's death benefit will be disbursed to your family members.

Because of both the extended coverage period and the investment aspect, permanent life insurance policies tend to have larger up-front costs with higher premiums. In addition, investment choices tend to be high cost and inefficient, almost always exceeding any potential tax benefit. For most people, permanent life insurance is not a necessary product in context of their financial planning needs. There are a few notable exceptions to this, including estate tax mitigation, financial legacy enhancement, pre-existing health issues, and trying prevent illiquid assets from having to be sold.

ESTATE TAXES

A permanent insurance death benefit can provide the cash necessary to settle any estate taxes that are assessed when an estate is settled. Permanent life insurance can be an attractive option for high net worth individuals, whose primary assets are likely illiquid, e.g. private businesses, ranches/land or real estate of significant value. Grantors can create trusts (generally Irrevocable Life Insurance Trusts – or ILITs) to keep life insurance proceeds outside of the taxable estate and fund premium payments via lifetime gifting.

Through lifetime gifting or transfers at death, individuals can gift \$5.49 million (2017) without incurring any gift or estate taxes, not including the annual exclusion (\$14,000). Married couples can gift up to \$10.98 million (2017). It is critical that ILITs are administered carefully to keep them outside of the grantor's estate. It is also important to consider other wealth transfer and business succession planning prior to obtaining life insurance. [You should consult a financial advisor if you have complex estate planning needs.](#)

WHOLE LIFE INSURANCE

One of the most common types of permanent life insurance is whole life insurance, which, as the name states, covers you for your whole or entire life. The insurance premiums will be significantly more expensive than what you will generally find in the term alternative, because they consist of both a premium payment and investment component that is added to the cash value of the policy. These excess premiums are not invested in the stock market, but rather are *invested at the insurance company provider's discretion*. This means that you will likely be hampered in regards to the return you will enjoy through a whole life policy, but you have the benefit of having level premiums for your life – assuming you hold the policy until passing.

DO YOU NEED LIFE INSURANCE?

Not everyone needs life insurance. The primary goal of life insurance is usually to ensure the spouse and/or children are taken care of if the primary earner dies early. Therefore, typically:

- Single people with no children are less likely to need life insurance.
- People nearing retirement are generally less likely to need life insurance.
- A high level of net worth will likely lead to less life insurance needs – except in certain estate planning circumstances

The appropriate level of life insurance is a personal decision with no single right answer. [Talk to a Personal Capital advisor](#) today to discuss your insurance needs.

UNIVERSAL LIFE INSURANCE

Another permanent insurance policy is universal life insurance. You can build up cash value in a universal life policy much like you can in a whole life policy, but this is generally where the similarities between the two end. With universal life insurance, you can make premium payments at any time and in any amount you wish, offering you some flexibility, which is why universal life insurance is sometimes referred to as adjustable life insurance. If you cease making premium payments or withdraw the built-up cash value, it can impact your coverage amount, which may necessitate putting more cash in or surrendering the policy (in extreme cases, which can trigger negative tax consequences).

Assuming you make excess premium payments, which is generally how these products are sold, they can be allocated across separate accounts holding anything from stocks to bonds to mutual funds/annuities, but your investments are restricted by what your insurance company offers in terms of investment options for cash values. Options vary widely from company to company based on their investment philosophies and what they want to make available to their policyholders, which makes it necessary to find a company and policy that aligns with your investing preferences.

If your permanent life insurance policy has too much cash value built up within it, either through extreme dividends accrued or through excessive deposits, your policy may be considered a Modified Endowment Contract (MEC). This negatively affects the tax treatment of the policy, particularly if withdrawals are taken before age 59 ½. If you're concerned about MEC considerations, [please contact your financial advisor](#).

How Much Life Insurance Do You Need?

Once you've decided on the type of insurance you need, how do you know if you have enough coverage? Oftentimes, arbitrary numbers are chosen because they sound like they will be enough - \$500,000 or \$1 million seems like a lot - but most people underestimate the amount of insurance they need. You will need to think through all the things that need to be taken care of if you or another household provider is no longer around. Another way to look at it is: if I died, how much would my spouse and/or dependents need to be ok? And if my spouse died, what would we need to be ok?

Calculating this number doesn't just rely solely on a breadwinner's financial contributions. For example, if one member of the household stays at home and cares for the children, arranges household tasks, makes meals, runs errands, and contributes in other valuable ways, this could mean you will need to factor in the extra expense of covering these types of things. So when it comes to having enough insurance, you should think about all the financial items that are needed to fill the gap of what one person does – including those items outside of salaries or concrete monetary contributions. [Speaking to a fiduciary advisor](#), in addition to an insurance broker, can be helpful so you aren't sold insurance products you don't need.

PERSONAL CAPITAL STRATEGY



We model the effect of losing one or both wage earners on the surviving family's savings and spending goals, and then use that simulation to calculate the probable amount of current assets required to keep those goals on track. That amount (after subtracting current savings) is the life insurance needed.

LIFE INSURANCE

Life Insurance as an Investment

Having appropriate life insurance coverage is an essential part of proper retirement planning; however, it shouldn't be viewed as an investment. Life insurance is usually not meant to be an investment – typically its purpose is to provide for financial needs and for your family members once you do pass. The problem comes into play when life insurance companies promote permanent life insurance as an efficient investment to those who are uninformed about what is actually offered by their policy.

A major problem behind using permanent life insurance as a savings vehicle is that you have little control over how the funds are invested. You can find a company that might fit alongside your general investment philosophies, but you still cannot fine-tune your allocation to various assets – and the investments that are available often come with high fees attached. While you can access the cash value, if in need, it comes with a cost. In the event of it being a whole life policy, it generally means the lowering of your face value (or death benefit) of the policy. In the event of trying to access cash values from a universal life policy, such an action could cause the cash values to go lower than the associated costs, harming the policy.

Remember that any loans taken out against these policies, while tax deferred, do incur interest, which must be paid back. If you're young, then that might not be a problem, but many in retirement aren't seeking to pay back loans on things such as life insurance.

LIFE INSURANCE LOANS

Remember that any loans taken out against life insurance policies, while tax deferred, do incur interest, which must be paid back along with the principal. Many policies use projections assuming that all loans and interest will be covered tax-free by the death benefit. The catch is that these illustrations have non-guaranteed return assumptions to make the numbers work. If actual returns end up smaller than predicted, the loans plus accrued interest will approach the death benefit of the policy more quickly than illustrated. When that occurs, the policyholder will be required to either add more money or risk a lapse, potentially exposing them to the entire tax burden of the policy during their retirement.

IRREVOCABLE LIFE INSURANCE TRUSTS (ILITS)

In the past several years, irrevocable life insurance trusts (ILITs) have become less common, though they can still be relevant if you are a high net worth individual. Life insurance proceeds are subject to estate tax, which can amount to a significant chunk of change.

The key to keeping life insurance safe from estate taxes is somewhat simple: avoid owning policies on your own life. If you're the owner of a policy and the insured person under the policy, then the proceeds will be part of your taxable estate. An ILIT can be a way to protect your proceeds from the estate tax. In the case that the value of your assets – including the proceeds from your policy – exceed the estate tax exclusion amount, then you might want to create an irrevocable trust to buy the policy instead of purchasing it yourself. When proceeds get paid out, the insurance proceeds won't be part of your estate because you aren't considered the owner and the insured; the proceeds will be paid into the trust upon your death.

ILITs can be tricky to design and cumbersome to administer. Consult your financial advisor to see if an ILIT might be appropriate for you.

CASE STUDY

Permanent Insurance and a Down Payment



THE BACKGROUND

Rodolfo was in his late 30s, engaged to be married and was on a quest to buy his first home in New England. He approached his financial advisor about how to finance a home, and in reviewing all his available assets to determine how much he could afford, they uncovered two life insurance policies – both of which had a cash value.

THE CHALLENGE

A life insurance broker had sold Rodolfo two life insurance policies around a decade before. One was a universal life policy and the other was a whole life policy, two types of policies that accumulate cash, but are very expensive and not efficient from an investment standpoint.

Rodolfo sat down with his financial advisor who walked him through a full insurance needs review, evaluating his income, his assets, what he would be protecting (the reason why he would purchase insurance), and his financial goals – in this case, buying a home. He didn't have any children, his fiancée was in the workforce with a healthy salary, and there weren't any other dependents he needed to be concerned about leaving assets to. In short, there wasn't a great reason why he bought these policies. However, he needed cash for his purchase, and he was still paying into these expensive insurance policies.

THE SOLUTION

Rodolfo and his advisor discovered that the universal life policy had accumulated about \$30,000 worth of cash value, which, unfortunately, was less than what he had paid into the policy at that point. This did mean, however, that there were no tax consequences for him to surrender the policy (i.e. withdraw the funds). Because he didn't have insurance needs at the time, wanted cash for a home down payment, and any potential future insurance needs could be met through buying term insurance, Rodolfo surrendered his first policy and used that toward his down payment. His other policy was structured a bit differently and had a longer surrender schedule, which meant he could face penalties by the insurance company as well as small tax liabilities if he surrendered it. His advisor recommended he hold onto that policy through the surrender period, but if he needed the cash, he might be able to access it without too much of a financial hit.

THE RESULTS

Through the course of a full insurance needs analysis, Rodolfo determined his insurance needs could be met through a much simpler, less expensive policy, and could use the policies he had already purchased to fund some other investment – in this case a home purchase. Rodolfo ended up successfully purchasing his first home, and he and his now-wife are enjoying homeownership to the fullest.

This case study is fictional and does not depict any actual person or event.

Disability Insurance

Disability insurance covers your earned income in the event of a disability that prevents you from doing your job. If you are no longer able to earn an income, but still have spending needs, then you can end up being a burden on your loved ones. The loss of an income can be financially devastating if not properly planned for; having a safety net can make a lot of sense, particularly for families with a sole breadwinner.

Who Should Have Disability Insurance?

Typically, all employed people should consider this type of insurance. Because its main purpose is to replace income lost due to a disability, it's good for self-employed individuals, households with a non-working spouse, and people without an employer sponsored policy. Disability insurance is usually structured to replace 60%-70% of monthly income.

Companies may also take policies out on "key" employees, which is called "Key-Person Disability" insurance. This type of disability insurance aims to financially protect a company in the case that key employee becomes disabled. If you are self-employed, you can buy disability insurance for yourself and can write it off as a business expense. It's especially important if you are self-employed to have this type of insurance, since your business likely would struggle to function in the event you are not able to work, and you need this as income replacement. It can also be very useful for one-income families or those with tight cash flows.

You can choose the length of your elimination period (the period between injury and receipt of benefit payments); although 90 days is the most common length, you should choose an elimination period that aligns with your emergency savings.

SHORT-TERM VS. LONG-TERM DISABILITY INSURANCE

Short-term disability coverage, which typically provides coverage for less than a year, is often packaged as an employee benefit, and offered through your workplace. If you have a company-paid plan, then the disability payments received will be taxable. Premiums are usually based on age, job title, health, elimination period desired, monthly benefit desired, and length of coverage.

Long-term disability insurance is usually purchased privately. The claim may last from one-to-three years, but when you purchase the policy, you have the option to choose multiple benefit durations. These can range from two years, all the way to the age of 70. This will affect the cost of your policy, but it's something you can elect at the time you purchase it. Individual policies are a tax-free benefit if paid for by the insured.



Long-Term Care Insurance

Not to be confused with long-term *disability* insurance, long-term *care* coverage insures you against needing long-term care; policies will pay for the associated expenses. [Recent research](#) estimates that about half of Americans turning 65 today will require long-term care, and on average, will incur \$138,000 in future long-term care costs. Long-term care insurance generally pays for custodial care, home care, or nursing home care, for periods longer than a year for those who have a chronic illness or medical disabilities. These costs are usually not covered by standard health insurance, Social Security or Medicare.

Who Should Have Long-Term Care Insurance?

Long-term care insurance is an important consideration for many who are nearing or in retirement. You should do research on how much long-term care services and support would cost to meet your health and personal needs. The cost of long-term care insurance has increased dramatically over the years, and if you have a family history of health problems, long-term care insurance may be advisable. It can help offset the costs of caring for a family member suffering from illnesses that require costly medical care.

Statistics show single people tend to utilize long-term care insurance more, but they also may not care as much about depleting their assets at the end of their life, so this becomes a personal preference issue.

If you have children, it is worth it to discuss it with them, as unpleasant as it may be. Ultimately, they will likely have a lot at stake in the decision.

Does Long-Term Care Insurance Make Sense for You?

Long-term care is also a personal issue that requires an individual solution for each situation. A common belief is that if you have less than \$250,000 or more than \$1,500,000 in liquid savings, long-term care insurance does not make sense. There is some logic to this when you compare it to how much out-of-pocket expenses may cost you and what resources you may have to rely on. For instance, if you have less than \$250,000 saved, making long-term care insurance payments will noticeably dent your lifestyle in retirement. While it could end up saving you some money, it is too expensive relative to spending some savings and relying on Medicare for the rest.

If you have more than \$1,500,000, paying several hundred thousand in long-term care expenses would be unfortunate, but would still leave you able to maintain a comfortable lifestyle. Typically, at the point you are relying on long-term care, your other discretionary expenses usually drop. [You should speak with a financial advisor](#) to see if long-term care insurance fits into your overall financial plan.

When Should You Buy Long-Term Care Coverage?

Another important question to ask yourself is when you should start thinking about long-term care. Premiums are, of course, cheaper if you start paying earlier. For most people, however, it probably does not make much sense to worry about this before they are around 45 years old. In most cases, premiums can increase over time, so there is rarely a large benefit to starting too early.

On the other hand, your current health and age plays a critical role in determining what type of insurance you can get at what cost. That's why you may want to start planning for long-term care insurance before you turn 64. At 65, when you qualify for Medicare, you'll be eligible for a slew of preventative screenings, which are likely to spot a problem that may disqualify you from obtaining insurance.



Property & Casualty Insurance

Property and casualty insurance is a term that covers several different types of insurance. The term refers to insurance that protects the things you own: the “property” component refers to protection of the things you own, while the “casualty” part refers to financial protection in the event you are sued.

Different Types of Insurance

There are myriad types of insurance that are grouped under the property and casualty insurance term. Some of the more common ones include:



HOMEOWNERS INSURANCE

Homeowners insurance can cover numerous items associated with your home, from the property itself to what's inside. You will want to make sure you are properly insured when it comes to your home, and that your policy is based on accurate and up-to-date rebuild numbers. There are different types of homeowner's insurance. For example, one type might cover all "perils," except for war, flooding and natural disasters. Another type will only cover a specifically named incident that happens in your home. And there are regionally specific policies that are offered by the government – this is typically a requirement by your lender.



AUTO INSURANCE

Auto insurance is typically required in almost every state for all drivers. It is important to know your auto insurance policy meets the needs to cover your ability to pay in the event you are liable for damage. This is direct asset protection and the coverage can vary significantly. Recently, there have been many auto insurance commercials touting cheaper insurance premiums. These lower premiums, however, may stem from a lack of necessary insurance coverage, so it's a good idea to take these cheaper rates with a grain of salt. In the most extreme cases, you may see coverage as low as "30/60/25." This means that the insurance company will pay a maximum of \$30,000 to any one person for their medical damages if they're in a car accident, a maximum of \$60,000 for total medical expenses of all people hurt in one car accident, and a maximum of \$25,000 for property damage. Your coverage should be closely aligned with cash on hand, as well as emergency savings and taxable investment accounts. For example, if your net worth is greater than \$500,000, you will likely want to consider insurance coverage of 100/300/100.

Consult your insurance agent to review your auto insurance policy to ensure it's appropriate given your assets subject to creditors.



RENTER'S INSURANCE

Like homeowner's insurance, renter's insurance can help protect your belongings if you rent your home. Generally speaking, if you rent, you should have this – and monthly premiums can be as low as \$14 per month.



LANDLORD INSURANCE

If you are a property owner renting out one or more residences (including single-family homes, condos, and apartments), then landlord insurance will protect your property from damages and lost income should damages make the properties unlivable.



POWERSPORTS INSURANCE

Powersports insurance covers the types of vehicles outside of your car, such as boats, RVs, and motorcycles.

There are other types of insurance for some of the more uncommon needs, such as insurance for drones or artwork. Many of these types of insurance can be grouped into other policies you already have – for instance, you may consider adding jewelry that is valued at over \$2,500 on to your homeowner's insurance. Just be careful to double-check the conditions under which those items are covered. And remember, bundling your insurances can often help lower costs.



Umbrella Insurance

Umbrella insurance is extra liability insurance. It is designed to help protect you from major claims and lawsuits and, as a result, it helps protect your assets and your future. Simply put, it's liability insurance above and beyond your property and casualty insurance.

Umbrella insurance is usually inexpensive – around \$300 or less per year for \$1 million in coverage. Keep in mind that you'll need to make sure that there is no gap between home and auto coverage maximums and when the umbrella coverage kicks in. (Most good insurance brokers account for this.)

Umbrella insurance covers two main areas beyond property and casualty insurance:

1. Provides additional liability coverage above the limits of your homeowners, auto, and boat insurance policies. This protection is designed to kick in when the liability on these other policies has been exhausted.
2. Provides coverage for claims that may be excluded by other liability policies including: false arrest, libel, slander, and liability coverage on rental units you own.

Umbrella insurance is more essential for individuals and families with higher net worth, especially those with a high level in taxable accounts. Oftentimes, if you have real estate with a lot of equity built up, you may be a good candidate for this type of coverage. Generally speaking, umbrella insurance can help make auto and homeowner's insurance – as well as other policies – even cheaper. However, each state is different and sometimes you'll need to increase certain liability coverage on auto and homeowners insurance to be approved for an umbrella policy.

For more information about whether you should consider umbrella insurance, [consult your advisor](#).

COST VS. QUALITY

We all see the commercials for insurance and how much companies save the people in them. But as many things in life, cheap coverage doesn't always mean the best coverage. Make sure you review your policy to ensure you have adequate coverage for your net worth.



Annuities

An annuity is an insurance contract that typically provides a guaranteed annual amount of income for life once you reach a certain age. The primary appeal of an annuity is that it takes away some of the guesswork in retirement planning, because you don't have to worry as much about outliving your assets. Should you be considering an annuity?

ANNUITIES

Annuity Types

There are two basic types of annuities:

1. IMMEDIATE ANNUITY – If you need a guaranteed stream of income right away, you can convert a lump sum to an immediate annuity that pays out monthly, quarterly or annually.

2. DEFERRED ANNUITY – If you are years away from your retirement and want to make sure you have a fixed income coming in every month in your retirement, you can get a deferred annuity. You invest tax-deferred money in the annuity to receive payments at a later date. Until you are ready to start receiving the payments your money will grow tax-free, similar to your 401k.

Each of these can have multiple options – single premium, flexible premium, fixed annuity, variable annuity, life income annuity, joint annuity, equity indexed annuity, to name a few. A fixed annuity means your money will earn a fixed interest rate set by the insurance company, so when you begin receiving income, a fixed payment is guaranteed. A variable annuity means money will be split into sub-accounts depending on your risk level, and be invested in stocks, bonds or other investments. The annuity pays a minimum income, which could go up depending on performance but the downside is that it has substantially higher fees than mutual funds.

There are many annuities available that may not be suitable for investors, but if an annuity is appropriate for you, then you should try to find a lower-cost option.

PERSONAL CAPITAL STRATEGY



We generally don't find deferred annuities to be beneficial for most of our clients. You shouldn't consider getting an annuity if you are not already taking maximum advantage of the tax advantaged accounts (401k or IRA) because these plans provide the same tax advantage but without as many fees. If you have maxed out all your tax-advantaged accounts, then you might want to explore annuities to see if they are right for you. **Consult your advisor** to ensure whether an annuity is appropriate for you.

ANNUITIES

Annuity Advantages

There are a few potential benefits to annuities, largely surrounding payout stability and taxes.

REASSURANCE: A big concern among people saving for retirement is the possibility of outliving their retirement assets. Some annuities offer a guaranteed stream of income for the remainder of your life.

CONTROL RISKS: A variable annuity will let you take some risks while giving you some control of the outcome.

TAX DEFERRAL: When you buy a deferred annuity, the earnings are tax deferred. You can let the money grow until you start making withdrawals. If you are in a high tax bracket now and expect to be in a low tax bracket at retirement, this can add a good chunk of money to your nest egg.

UNLIMITED CONTRIBUTIONS: Unlike tax-advantaged accounts, there is no yearly contribution limit for a non-qualified annuity (non-qualified annuities are different from annuities held in an IRA). This can be especially beneficial for people who are nearing retirement and need to catch up or for people who are in a high tax bracket now, but expect to be in a lower tax bracket during retirement.

ANNUITIES

Annuity Disadvantages

A steady stream of income for life sounds great, so why isn't everyone flooding insurance companies to buy an annuity? Because any type of "guarantee" comes at a high cost and not everyone will need one. On top of that there are so many different varieties of annuities with hundreds of options, riders, disclaimers, footnotes and contingencies, making them extremely complex.

MORTALITY AND EXPENSE RISK FEE (M&E FEE): This is a major fee that pays the carrier to assume the risk that you and other annuity owners will live longer than expected.

OPTIONAL RIDER FEES: You can add a lot of riders to your annuity, like guaranteed living benefits for deferred variable annuity or long term care insurance. Each of these riders will cost money.

ANNUAL CONTRACT FEE: This fee may be a fixed dollar amount or an expense ratio. For high-value annuities, this fee may be waived.

COMMISSIONS: When you buy an annuity through a broker, you will pay a commission. The commissions can range from 1% to 10% depending on the product. The longer the surrender period/higher the surrender fee, the higher the commission.

INVESTMENT MANAGEMENT FEES: This is similar to the management fees you pay an investment manager to manage your investments. Variable annuities can have a lot of subaccounts, each of them holding a different investment. If they are actively managed funds, the fees can be very high. You will pay the underlying fund expense ratio, which may not be easily identified as the expense ratio since these funds generally are not from publicly traded funds, and are therefore not completely transparent.

WITHDRAWAL OR SURRENDER CHARGES: Penalty fees for taking out part or all of the cash value of the annuity prior to a specified date. If you invest the money and want to take it out before this date, you might lose a major portion of your money. There are some annuities with no surrender charge.

ANNUITIES DISADVANTAGES

SOCIAL SECURITY: You already own an income annuity, called Social Security. If you have worked and paid payroll taxes in the United States for at least 10 years, you own an annuity from the Social Security Administration. If you are still in the workforce, you own a deferred annuity. If you are 65 or older, you can start taking payments immediately, which means you own an immediate annuity.

ANNUITY TAXATION: Annuity earnings are taxed as ordinary income when you start drawing the payments. In contrast, if you own funds or stocks in a taxable account, you will be paying the long-term capital gains rate on the earnings. This can make a huge difference on your effective tax rate, depending on your income at retirement.

REDUCED LIQUIDITY: Annuities provide a guarantee. To provide that guarantee, you are giving up the access to your money for a certain period of time – often the more generous the guarantee, the longer you will relinquish access. If you want to get your hands on the money, you will find out that annuity contracts have a lot of fees and penalties that can shrink your investments drastically.

LACK OF TRANSPARENCY: Annuities are a very complex insurance product. You should spend a lot of time and effort researching various annuity products to make sure you are buying the right product for your needs.

You should [contact your advisor](#) to see if an annuity is the right purchase for you.

The smart way to track & manage your financial life.



Personal Capital combines award-winning online financial tools that provide unprecedented transparency into your finances with personal attention from registered financial advisors. The result is real time financial visibility and management for 1.5 million registered users. The firm manages more than \$5 billion in assets on behalf of its clients and tracks \$350 billion in assets for registered users.

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