Income Annuities Frequently Asked Questions (FAQ's)

What is an income annuity?

An income annuity is an insurance product that converts a lump sum or series of payments into a guaranteed stream of income, typically for life or for a specified period.

What are the main types of income annuities?

Single Premium Immediate Annuity (SPIA): Income begins shortly after purchase (typically within 12 months).
Deferred Income Annuity (DIA): Income begins at a future date (e.g., 5–20+ years after purchase).
Qualified Longevity Annuity Contract (QLAC): A DIA purchased within a qualified retirement plan, allowing deferral of Required Minimum Distributions (RMDs) up to IRS limits.

What payout options are available?

Common options include:
Life Only: Highest income; payments stop at death
Life with Period Certain (e.g., 10 or 20 years): Guarantees payments for a minimum period
Joint & Survivor: Continues income to a surviving spouse
Period Certain Only: Pays for a fixed number of years (not life contingent)

What happens if the annuitant dies early?
With life only, payments stop at death.
With period certain or refund features, remaining payments or value are paid to beneficiaries.
With joint options, income continues to the surviving annuitant

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Are income payments fixed or can they increase?

Options include:
<u>Fixed payments:</u> Level income for life
<u>Inflation-adjusted payments:</u> Increase annually (lower starting income)
<u>Cost-of-living adjustments (COLA):</u> Predetermined annual increases

Are income annuities liquid?

No. Income annuities are generally illiquid once purchased, and lump sum access is typically not available.

What are the advantages of income annuities?

Guaranteed lifetime income
Simplicity and predictability
Protection against market volatility
Mortality credits enhance income efficiency

What are the disadvantages?

Illiquidity
Irreversibility once purchased
Inflation risk (unless indexed)
Dependence on insurer credit quality

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How do income annuities compare to systematic withdrawals?

Income annuity: Guarantees income for life, transfers risk to insurer
Systematic withdrawals: Maintain liquidity and flexibility but expose the investor to market and longevity risk

Can income annuities be customized?

Yes. Common features include:

Joint life coverage
Period certain guarantees
Inflation adjustments
Cash refund options

What role do income annuities serve in retirement plan design?

In a DC plan context, income annuities can:

Support retirement readiness by converting balances into income
Complement target date funds and managed accounts
Provide institutional pricing advantages

Are there fees?

Income annuities do not have explicit ongoing fees. Costs are embedded in pricing (mortality assumptions, interest rates, insurer margins).

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Can participants annuitize a portion of their balance?

Yes. Partial annuitization is common and allows individuals to balance guaranteed income with flexibility and liquidity.