

MAKING ANNUITIES EASIER TO UNDERSTAND



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A new glossary of plain-English definitions and descriptions about annuities aims to make annuities and their benefits more easily understood, transparent and intuitive.

by Allan Kunigis

One key to enjoying a comfortable retirement is feeling confident your money will last. That confidence, of course, is based on a knowledge of how and why your money will last. But when it comes to understanding annuities and the importance of protected lifetime income, consumers often run into a wall of confusing technical language.

Because annuities are part investment and part insurance, the industry has tended to explain its products using legal language derived from contractual obligations contained in annuities, according to Mike Harris, Educational Advisor to the Alliance for Lifetime Income.

"When we speak in language that people can understand, we not only make annuities more understandable, but we can also help improve decision making, leading to better outcomes for tens of millions of Americans," says Harris.

For example, one long-used industry term encountered by consumers has been "surrender charge." It doesn't explain anything. Instead, calling it an "early withdrawal fee" actually tells consumers exactly what they can expect: If they make an early withdrawal, they'll pay a fee.

Harris concludes, "Once we see things from the perspective of people planning their retirement income, we can get out of our own way."



In an effort to create greater clarity and alignment, the Alliance for Lifetime Income has created an Annuities Language Glossary to make it easier for consumers and financial professionals to understand and discuss these important financial products.

The glossary contains a few dozen commonly used but often misunderstood terms. Here are other examples of more useful phrases that could promote clarity between financial professionals and consumers:

When discussing taxes: "funded with pretax dollars" is a clearer way of referring to the tax status of retirement savings than "qualified deduction."

When discussing working versus retirement: “growth” and “income” phases are simpler and briefer ways of referring to financial life stages than “accumulation” and “distribution” phases. First you grow your money while working and saving, and then you take it as income after your career ends.

When referring to investments: “investment options” is a clearer term that highlights the point that annuity owners have choice and control rather than “subaccounts” or “investment divisions.”

The Alliance’s glossary is a practical example of the organization’s mission. It aims to provide examples of ways to simplify and clarify the complex language of annuities so consumers can better understand the value and importance that protected lifetime income plays in planning for retirement security.

The glossary is available on the Alliance’s [RetireYourRisk.org](https://www.RetireYourRisk.org) website.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company.

Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½.

Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

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