ANNUTIES, ENDOWMENT, WHOLE LIFE & TERM LIFE INSURANCE POLICIES

WHAT ARE ANNUTIES?

- Annuity is a fixed sum of money paid to someone each year, typically for the rest of their life.

- a form of insurance or investment entitling the investor to a series of annual sums.

- Examples of **annuities** are regular deposits to a savings account, monthly home mortgage payments, monthly insurance payments and pension payments.

- An annuity is an insurance contract. Many people think of an annuity as an investment, but when you purchase an annuity, you are buying an insurance policy. You are ensuring an outcome.

- You put money into the insurance contract or policy, and the insurance company provides you a guarantee as to when and how you will get that money back, or what interest rate your money will earn.

- There are about as many types of annuities as there are breeds of dogs, and each type works differently.

TYPES OF ANNUITIES

- There are 5 types of Annuities:
  1. Immediate Annuity
  2. Fixed Annuity
  3. Indexed Annuity
  4. Variable Annuity
  5. Deferred Annuity

TYPES OF ANNUITIES: IMMEDIATE ANNUITIES

- With an immediate annuity, you give the insurance company a lump sum of money, and they pay you a guaranteed amount of monthly income.
- They pay the income out either over a set time period, such as ten years (this is called a term-certain annuity), or they guarantee to pay you as long as you live.
- Think of an immediate annuity that pays out over your entire life like a jar of cookies. You give the insurance company your money (a full jar of cookies), and they hand you back a cookie each year.
- If the jar becomes empty, they promise to keep handing you cookies anyway, for as many years as you live.
- In return, you agree that once you hand them the jar, you can't reach in and take a cookie anytime. If one year you want three cookies, you'll have to get them from somewhere else — not from that jar.
- This unending supply of cookies means a life payout annuity is a good hedge against living a long time.
- No matter how long you live, and no matter how much of your other money you spend early in retirement, you'll still get a cookie each year.
- For older single retirees, an immediate annuity can help make sure they don't outlive their money.

TYPES OF ANNUITIES: FIXED ANNUITIES

- A fixed annuity is a contract with the insurance company in which they provide you a guaranteed interest rate on your investment.
- A fixed annuity works a lot like a Certificate of Deposit (CD) issued by a bank. Instead of the bank guaranteeing your interest rate, the insurance company is providing the guarantee.
- With a fixed annuity, the interest accumulates tax-deferred. You pay tax when you take a withdrawal.
- The interest rate is usually guaranteed for a fixed amount of time, such as five years or 10 years. After that time period is over, the insurance company will tell you what your new interest rate will be.
- At that point, you can continue the annuity, exchange it for a different type of annuity, or (like a CD) cash it in and decide to invest the funds elsewhere. (If you cash it in, you will owe taxes on the accumulated tax-deferred interest.)
- Most fixed annuities have surrender charges, so if you cash in the annuity early, be prepared to pay a hefty fee.
- A fixed annuity can be a smart choice if you want a low-risk investment, might be in a lower tax rate later when you withdraw the funds, and are willing to leave your funds in the contract for the required amount of time.

TYPES OF ANNUITIES: INDEXED ANNUITIES

- An indexed annuity is a type of fixed annuity that is often called a fixed indexed annuity (FIA) or an equity-indexed annuity.
- With this type of annuity, the insurance company offers a minimum guaranteed return along with the potential for additional returns by using a formula that ties the increases in your account to a stock market index.
- Indexed annuities have complex features such as participation rates and cap rates that spell out the formulas for how your returns are calculated.
- Compare such features side by side when looking at this type of product. Consider this product as a CD alternative, not as an equity alternative. If someone proposes it to you as an equity alternative, think twice.
- Some indexed annuities also have features that guarantee the amount you can withdraw later in retirement.
- This type of product is called a deferred indexed annuity, and it can be a good choice for someone about 10 years away from retirement, as it guarantees the income they'll have in the future.

TYPES OF ANNUITIES: VARIABLE ANNUITIES

- A variable annuity is a contract with an insurance company in which you get to choose how the funds inside the contract are invested.
- The insurance company provides a list of funds to choose from.
- It is called a variable annuity because the returns you earn will vary depending on the underlying investments you choose.
- Contrast this with the fixed annuity, where the insurance company is contractually providing you with a guaranteed interest rate.
- For the variable annuity to qualify as an insurance contract, guarantees must be provided.
- The most common type of guarantee is a death benefit guarantee which guarantees that upon your death the greater of the current contract value or the full amount of your contributions (minus any withdrawals) will be paid out to your beneficiary.
- For example, if you invest Rs. 100,000, and the investments went down in value to Rs. 90,000, and you passed away at that time, the contract would pay Rs100,000 to your named beneficiary. If the investments had gone up in value and were worth Rs. 110,000, the contract would pay out Rs. 110,000.

TYPES OF ANNUITIES: DEFERRED ANNUITIES

- With a deferred annuity, you deposit money today, and an income stream is guaranteed to start at a defined time in the future, usually at least ten years from the time you initially purchase the annuity.

- This type of annuity can help reduce the risk that a big downturn in the stock market would thwart your planned retirement date.

- Many fixed, indexed, and variable annuities offer a deferral feature where you have the option to buy a guaranteed amount of future income.

- These features go by names like guaranteed withdrawal benefit, living benefit, guaranteed income riders, etc.

WHAT IS ENDOWMENT INSURANCE?

- Life Insurance Policy that pays the assured sum (face amount) on a fixed date or upon the death of the insured, whichever comes earlier.

- Endowment policies carry premiums higher than those on conventional whole life policies and term insurance, but are useful in meeting special lump sum needs such as college expenses or for buying a retirement home.

- Also called endowment life policy or endowment policy.

- An endowment policy is an investment product that you buy from a life assurance company. They are set up as regular savings plans and at the end of a set period pay out a lump sum. The policy includes life assurance, so it will also pay out if you die during the term.

BENEFITS OF ENDOWMENT POLICIES

- Endowment Policies can function as a low-risk way to save.
- Policyholders choose how much they want to contribute each month or the premium amount and how long they want to the term to last, generally 10 or 20 years.
- As long as the premiums are paid, the policyholder or their beneficiary is guaranteed to receive the endowment when the term ends
- insurance endowment policies are risk-free, and so the policyholders don’t have to worry about the ups and downs of interest rates or the stock market.
- Once the term matures and the policyholder receives the endowment, funds can be used toward whatever the policyholder or beneficiary chooses.
- Business owners can ensure that their business continues to operate after their death by designating the policy payout for use as operational capital.

WHAT IS A WHOLE LIFE INSURANCE POLICY?

- Whole life insurance provides coverage for the life of the insured.
- In addition to providing a death benefit, whole life also contains a savings component where cash value may accumulate.
- These policies are also known as permanent or traditional life insurance.
- The most common of life insurance products, whole life insurance guarantees payment of a death benefit to beneficiaries in exchange for level, regularly-due premium payments.
- The policy includes a savings portion, called the cash value, alongside the death benefit.
- In the savings component, interest may accumulate on a tax-deferred basis.
- Growing cash value is an essential component of whole life insurance.

DIFFERENCE BETWEEN ENDOWMENT & WHOLE LIFE INSURANCE

ENDOWMENT	Whole Life
• have a shorter coverage period and mature sooner, usually in 10 to 20 years	• are designed to last for the insured's *whole life*, so they mature when the insured policyholder reaches the age of 95 or 100.
• Highly likely to mature.	• less likely for whole life policies to mature.
• Endowments typically have high monthly premiums — the shorter the endowment term, the higher the premiums	• whole life policies often have relatively lower monthly or annual premiums.

FACTORS TO CONSIDER

	ENDOWMENT	WHOLE LIFE INSURANCE
Factors to consider	Benefit amount, premium, investment rate, coverage term	Payout, Premium, Policy cash value, participating/non-participating.
Definition	Endowment is type of permanent life insurance in which the premium paying period is shorter than whole life insurance and the insurance amount is paid out within a certain period (10-20 yrs) or when the insured reaches a certain age.	A life Insurance plan with an unspecified period, under which the death benefits are paid on death whenever it may occur.
Payment	Death benefits paid at the time of death or a lump sum paid on maturity.	Death benefits paid on death (in full) up to age 100 or 120.
Premium	Cost or premiums every month is comparatively expensive and premium paid over a shorter period of time.	Higher premium as whole life insurance plans must always pay out eventually and builds a cash value

FACTORS TO CONSIDER

	ENDOWMENT	WHOLE LIFE INSURANCE
If alive at the end of the policy / coverage term	Guaranteed payout	Guaranteed payout
Types	There are three different types of endowment policies: with-profit, unit-linked and low-cost endowments insurance.	Whole life insurances are of different types: non-participating, participating, limited pay, single premium.
Advantages	Limited period to pay premium, which builds cash value faster. Also, it is possible get a lump sum of cash in case of illness or at the time of maturity.	Level premiums distributed throughout life of insured and more affordable.

WHAT IS A TERM INSURANCE POLICY?

- Term insurance is a type of life insurance policy that provides coverage for a certain period of time, or a specified "term" of years.
- If the insured dies during the time period specified in the policy and the policy is active, or in force, then a death benefit will be paid.
- There are many different types of term insurance policies available. Many policies offer level premiums for the duration of the policy, such as 10, 20 or 30 years.
- These are often referred to as "level term" policies. While premiums for these level term policies remain level for a set number of years, after this time period the premium increases significantly, making the policy cost prohibitive.
- Most term policies have a built-in privilege to convert to a permanent policy regardless of any changes in the insured's health.

FEATURES OF A TERM INSURANCE POLICY

- Features inherent to term life and those that differentiate it from other life insurance types include:

1. **Temporary Coverage:** Term life insurance offers coverage for a limited period of time, typically 10-30 years. Unlike other types of life insurance, a term policy eventually expires.

2. **Pure Death Benefit:** Permanent forms of life insurance come with savings and investment components that may or may not be suitable for your needs. Term life offers no such component; think of term life as life insurance proper, whose aim is to provide a lump-sum payout upon the death of the Policy Owner.

3. **No Capital Build-up:** Term life insurance doesn't accumulate wealth over time as a whole, universal, or variable policy would.

4. **Fixed Coverage Amount:** Like all life insurance, term life can be purchased with widely varying death benefits

FEATURES OF A TERM INSURANCE POLICY

- Features inherent to term life and those that differentiate it from other life insurance types include:

5. **Increasing Premiums:** Most term life insurance (non-level term life) comes with premiums that increase every years. This results from the rising risk of death as the policyholder ages.

6. **Medical Exam for Qualification:** Except for guaranteed life, virtually all forms of life insurance force potential policyholders to undergo a medical examination before issuing a policy. The exam is performed by a paramedical hired by the insurance company.

7. **Tax-Free Inheritance:** Unlike other investments vehicles, life insurance is uniquely designed as a wealth transfer instrument. Beneficiaries don't have to pay taxes on any funds coming to them via a life insurance death benefit.