Always Evolving
Never Compromising

Lesson 3: Understanding Annuities

Welcome to our final lesson. We've covered why life insurance matters and the different types. Now let's talk about annuities — a product that's often misunderstood, and surprisingly, the mirror image of life insurance.

Here's the difference in a single sentence. Life insurance protects the people you love if you die too soon. An annuity protects you if you live a long time — by guarding against the risk of outliving your money.

So what exactly is an annuity? It's a contract with an insurance company. You put money in — either a lump sum or over time — and in return, the company pays you back, often as a guaranteed stream of income that can last the rest of your life. Think of it as trading a chunk of savings for a paycheck you can't outlive.

Why does that matter so much? Because we're living longer, pensions have mostly disappeared, and the job of making savings last, now falls on us. Recent research found that 54% of Baby Boomers and Gen Xers worry about outliving their assets. Yet only one in five people approaching retirement actually owns an annuity. That gap is exactly why annuity sales recently hit a record — over 460 billion dollars in a single year.

There are a few main types. An immediate annuity starts paying you right away, which is useful at retirement. A deferred annuity grows for years before income begins. And by how they grow: fixed annuities pay a guaranteed rate, variable annuities are invested in the markets, and indexed annuities are tied to a market index with built-in limits on losses and gains.

So, when does an annuity make sense? Imagine a retiree without a pension. They can use an annuity to turn part of their savings into a guaranteed monthly check that covers the essentials — housing, food, utilities — for life, no matter what the market does. It's like

creating your own personal pension. Others use annuities to calm their nerves near retirement, or to grow money tax-deferred after maxing out their other accounts.

Of course, annuities aren't for everyone. They can have fees and surrender charges, and your money is less liquid. They tend to make the most sense for people at or near retirement who value guaranteed income.

Here's the simplest way to picture it: with life insurance, you make small payments and your family receives a large sum. With an annuity, you hand over a larger sum and receive steady payments back for as long as you live. One protects the people who depend on you. The other protects you.

Together, they're two halves of a complete plan. Thanks for watching this series — and for taking the time to invest in yourself.