Glossary of Annuity Terms

1035 Exchange
A tax-free replacement of an insurance policy for another insurance contract covering the same person that is performed in accordance with the conditions of Section 1035 of the Internal Revenue Code.

401 (k)
An employer-sponsored retirement savings plan that lets employees withhold and invest a portion of their income before it is taxed. From an employer-selected list of investment options, employees choose how they want their money invested. Employers sometimes contribute to employees' 401 (k) plans based on a percentage (such as contributing 50 cents for every dollar an employee invests).

403 (b)
A tax-deferred retirement savings plan similar to a 401 (k) but aimed at teachers and employees of some non-profit organizations. Participants contribute to either annuity contracts (often called a TSA) with insurance companies, or directly with mutual fund companies.

457 Plan
A tax-deferred compensation plan available to employees of certain governmental and non-profit organizations, allowing participants to defer income until retirement.

4% Rule
A retirement strategy suggesting that retirees can withdraw 4% of their retirement savings annually, adjusted for inflation, without depleting their portfolio over a 30-year period.

72q
A provision allowing penalty-free early withdrawals from an annuity under substantially equal periodic payments (SEPP) without incurring a 10% IRS penalty for withdrawals before age 59½.

72t
IRS Rule 72(t) allows for penalty-free, early withdrawals from a retirement savings account. However, the IRS limits the amount of each withdrawal to prevent the premature depletion of the retirement account.

Accelerated Benefits Rider
(also known as Living Benefits Rider). Allows for all or part of the death benefit to be paid to the insured while he/she is still living but suffering from a terminal illness or permanently confined to a nursing home.

Accumulation Phase
The accumulation phase is the period when an annuity owner can add money and accumulate assets in a tax-deferred manner. Now that the national trend is individuals wanting to save money for retirement, it is common for people to ask, "How am I doing?" This really means, "Will I have enough to retire on - because I don't want to run out." Understanding the accumulation phase can better prepare you to avoid confusion as you save money for your retirement.

Accumulation Period
The period of time between the initial premium payment into a deferred annuity and the time the payout period begins. The premiums paid into the contract "accumulate" with interest during this time.

Accumulation Value
The total value of the annuity, including premiums, credited interest, and bonuses, minus withdrawals and fees.

Activities of Daily Living
Officially there are 6 activities of daily living: bathing, dressing, eating, toileting, transferring, continence.

Actuarial Soundness
A standard ensuring that the annuity pricing and reserves meet financial obligations under reasonable assumptions.

Annuitant
The named individual whose lifetime is used as the measuring life in a life annuity.

Annuitization (Annuitize)
When you annuitize your contract, you trade the value of your annuity for the issuing company's guarantee to make payments to you periodically for a certain time, or for the span of your lifetime.

Annuity
An annuity is a contract issued by a life insurance company that provides for tax deferral of investment income until withdrawn from the contract. An annuity can also be referred to as a contract or agreement by which one receives fixed payments on an investment for a lifetime or for a specified number of years.

Annuity Owner
The annuity owner is the person or people who make decisions about an annuity's investments. The owner or owners have the rights to make withdrawals from the annuity, surrender or change the designated beneficiary or other terms of the annuity.

Annuity Premium
A payment into an annuity contract.

Anticipated Initial Investment
The anticipated initial investment is the amount of money you want to invest at the beginning. Most companies have certain minimum initial investment amounts for annuities or other investments.

Asset Protection Trust (APT)
An APT is a legal arrangement in which an individual (the trustor) gives fiduciary control of property to a person or institution (the trustee) for the benefit of beneficiaries. This type of agreement applies to both annuities and other investments.

Attained Age
The age the insured has reached since original policy issue; it is equal to the issue age plus the number of contract years since the issue date.

Bailout provision
A clause in an annuity contract that allows the contract owner to withdraw funds without incurr ing surrender charges if the interest rate drops below a specified level.

Base Rate
The anticipated rate to be charged in the second year of an annuity contract. This rate is not guaranteed and may differ from the actual interest credited at that time.

Basis Points
A unit of measure in regard to interest rates; one hundred basis points is equal to one percent.

Behavioral Hedging
A strategy addressing emotional investing decisions by incorporating annuities for consistent income and peace of mind.

Benefit
The indemnity provided to an insured or beneficiary for a loss incurred (as specified under the terms of the insurance contract).

Beneficiary
The person or persons designated by the contract owner to receive the death benefit under the contract.

Bonus Rate
A bonus rate is the "extra" or "additional" interest paid during the first year (the initial guarantee period), typically used an added incentive to get companies to switch or select their annuity policy over another.

Cap
For an indexed annuity contract, the cap is an upper limit on the amount of an index's gain in value that will be credited to the annuity value.

Cash Refund SPIA
A single premium immediate annuity (SPIA) option that guarantees the return of any remaining premium to the beneficiary if the annuitant passes before receiving total payments equal to the initial premium.

Certificate of Deposit (CD)
Short or medium-term, interest-bearing, FDIC-insured debt instrument offered by banks and savings and loans. A low risk investment vehicle with low returns, there is usually an early withdrawal penalty.

Charitable Annuity (Gift Annuity)
A charitable gift annuity is a contract between a donor and a foundation, under which the foundation guarantees payment of an annuity, unlike a trust which pays the annuity from its assets alone. Two features in particular make charitable gift annuities appealing. An individual may specify whether he or she wants an immediate annuity, with payment to begin not later than one year from the date of the gift, or a deferred gift annuity, from which payments are not to begin until a specified future date. In addition, the income stream from such an arrangement can be higher than current market rates.

Charitable Lead Trust

These trusts provide income-either a percentage or a specified amount-to a Foundation for a specific number of years. At the termination of this period, the principal is returned to the donor or others whom the donor has designated. Under one type of charitable lead trust the donor includes the income in his or her taxable income, but is entitled to a corresponding charitable deduction if he or she itemizes the amount of income paid to the Foundation in that year.

Charitable Remainder Annuity Trust

One of many types of available trusts, charitable remainder annuity trusts provide that a specified dollar amount (at least 5% of the fair market value of the assets at the time the trust is created) be paid at least once a year to the beneficiary for their lifetime or for a term of years, not to exceed twenty.

Charitable Remainder Trust

In turn for the irrevocable transfer of cash or property to a trustee such as a Foundation or Charity, you receive a certain percentage or amount of the annual income from the property to you and/or another named beneficiary for life or for a specified term of years. The remainder interest in the property would then pass to the Foundation, for their benefit. You would be entitled to a federal income tax deduction for the value of that charitable remainder interest, which is based on the number and ages of life income beneficiaries and the percentage of payout you and the trustee agree upon.

Charitable Remainder Unitrust

This type of trust provides that a fixed percentage (at least 5% of the fair market value of the assets in trust, computed each year) be paid to the beneficiary(ies) at least once a year. In a unitrust, however, the amount paid to the beneficiary(ies) will vary on a yearly basis according to the annual reevaluation of the trust principal.

Chronic Illness rider

A rider on an annuity or life insurance policy that accelerates access to funds, or lifetime income, when the owner/insured is either: A) unable to perform at least 2 of the 6 activities or daily living, in a qualified facility, or having a cognitive impairment such as alzheimer’s or dementia.

Claim

The right, actual or alleged, of an individual or corporation to recover a loss

Clause

The words or paragraph in a policy that describe some certain coverage, limitation or revision.

COLA (Cost-of-Living Adjustment)
An optional feature in annuities that increases payments over time to keep pace with inflation, ensuring purchasing power is maintained.

Collateral Assignments
A collateral assignment is when the ownership rights in a contract or account are transferred from one person to another to serve as collateral for a debt. This transfer is usually made with the provision that the ownership rights revert to the original owner when the debt is repaid. A collateral assignment of a nonqualified annuity is considered a taxable event to the owner of the contract.

Compounding Interest
The type of interest that is earned on both the original principal amount and on the interest accumulated from earlier periods.

Cost Basis
Your initial payment/premium(s) paid to a nonqualified annuity is known as the cost basis in your contract. Since it was previously taxed, your cost basis will not be taxed upon withdrawal. If a previous distribution was not fully taxable, the cost basis would be reduced by the amount that was not taxable. For contracts purchased after August 14, 1982, a "withdrawal" must come from earnings first for tax purposes, and any amounts in excess of your cost basis will be taxed as ordinary income (an additional 10 percent "federal income" tax penalty may apply for those less than 59 1/2 years of age) upon withdrawal.

Cost of Insurance PS58
When life insurance protection is used to fund benefits in a qualified retirement plan or Section 403(b) tax-deferred annuity, the contributions used to pay the life insurance premiums must be included in gross income for the year in which they are made.

Current Interest Rate
This is the interest rate that an annuity is paying, including the sum of the base rate, if any and the bonus rate, if any. The current rate is set by the insurance company at the time of issue and is guaranteed for specific length of time.

Death Benefit
The sum of money payable to the beneficiary upon the applicable death.

Deferred Annuity
Deferred annuities are annuity contracts for people who want to save on a tax-deferred basis for many years, and then convert to a payout schedule once they retire. Contrary to an immediate annuity, taxes on deferred annuities do not become payable until some years after its purchase. The single premium or regular premiums are capitalized during the deferred period; then the

built-up capital is converted into an annuity. Deferred annuities typically stipulate that payments be made to the Annuitant at a later date, such as when the annuitant reaches a certain age.

Defined Benefit
Defined Benefit Plan
A type of retirement plan in which an employer guarantees a specified pension amount upon retirement, typically based on salary history and years of service. These retirement plans were once the norm and are now limited to high-net-worth business owners looking to max out their deductible contributions.

Defined Contribution Plan
A retirement plan where employees and employers can contribute to an investment account, and the final retirement benefit is based on investment performance, such as 401(k) or 403(b) plans.

Direct Rollover
This is when an eligible qualified retirement plan or Section 403(b) distribution is moved directly from a qualified retirement plan or Section 403(b) tax-deferred annuity to an IRA or to another qualified retirement plan or Section 403(b) tax-deferred annuity. The individual's employer will not have to withhold 20% for federal income taxes from a direct rollover.

Direct Transfer
A tax-free transfer of funds directly from one financial institution to another without the owner taking possession of the funds.

Dollar Cost Averaging
An investment strategy in which a fixed dollar amount is invested regularly, regardless of market conditions, helping to mitigate the impact of market volatility.

Dynasty Trust
A trust designed to pass wealth from generation to generation while minimizing estate taxes and protecting assets from creditors.

Early Withdrawal Penalty
A fee imposed on withdrawals made from an annuity or retirement account before a specified age, typically 59½, to discourage premature withdrawals.

Effective Annual Yield
The total annual return on an investment, taking into account the effects of compounding interest.

Effective Interest Rate
The actual annual interest rate that accrues, after taking into consideration the effects of compounding.

Employer Plan or Qualified Plan
A tax-qualified retirement plan is an advantage that an employer establishes to benefit employees. Permissible contributions will depend on the type of plan (such as a defined benefit plan or a profit-sharing plan, including a Section 401(k) plan) and on what the particular employer elects. These plans are highly regulated and subject to significant IRS restrictions.

Enhanced Death Benefit Rider
Increases the death benefit payout in specific conditions, such as growth tied to a predetermined rate or index performance.

Estate Planning
The preparation of a plan of administration and disposition of one's property before or after death, including will, trusts, gifts, power of attorney, etc.

Endorsement
There are many circumstances that require that a policy be changed; e.g., change of name, change in coverage. Such changes are made by attaching to the policy an endorsement - a form bearing the language necessary to record the change.

Exchange (1035)
A 1035 exchange is an exchange of one nonqualified annuity contract for another. Internal Revenue Code (IRC) Section 1035 generally allows individuals to exchange life, endowment, or annuity contracts for similar contracts that are better suited to their needs, if eligibility requirements are met. For a 1035 exchange, the annuity contract owner and the insured or annuitant combination on the old and new contract must be the same.

Exclusion
Something not covered and so set forth in the wording of a policy.

Exclusion Ratio
(Nonqualified Income Annuity.) This is the ratio that determines which portion of an annuity distribution is earnings and which portion is a return of your original investment. Only the portion consisting of earnings is taxable.

Expiration
The time when a contract is no longer in force or in effect.

Face Amount of Policy / Face Value/Specified Amount
The amount for which a life insurance policy is issued. The amount stated in a policy as the limit of the insurance company's liability, or the sum to be paid in case of the insured's death.

Fiduciary Rule
A regulation requiring financial advisors to act in their clients' best interests, particularly when recommending annuities for retirement accounts.

FINSECA (Financial Security for All)
A professional association representing the financial security profession, including life insurance, retirement planning, and annuities.

Fixed Account
A component of an annuity that earns a guaranteed fixed interest rate, providing a predictable return over time.

Fixed Amount Option
For an annuity, fixed payments paid to the recipient up to the point when the last payment uses up the remaining principal and interest.

Fixed Annuity
Fixed annuities are an investment vehicle offered by insurance companies that guarantee a stream of fixed payments over the life of the annuity. The insurer, not the insured, takes the investment risk.

Fixed Deferred Annuity
With fixed annuities, an insurance company offers a guaranteed interest rate plus safety of your principal and earnings. Your interest rate will be reset periodically, based on economic and other factors, but is guaranteed to never fall below a certain rate.

Fixed Index Annuity (Index Annuity)
An annuity whose returns are based upon the performance of an equity market index, such as the S&P 500, DJIA, or NASDAQ. The principal investment is protected from losses in the equity market, while gains add to the annuity's returns.

Fixed Period Option
For an annuity, the liquidation of principal and interest over a designated period of time until that period expires.

Flexible Premium
A flexible premium annuity allows additional payments be made to the contract.

Floor

For an indexed annuity contract, the floor is a guaranteed annuity surrender value based on premiums to be returned if the contract is surrendered. The customer would receive the higher of the account value minus withdrawals and applicable surrender charges or the floor.

Free Withdrawal

A feature allowing annuity owners to withdraw a limited percentage of their contract value each year without incurring surrender charges.

GLWB (Guaranteed Lifetime Withdrawal Benefit)

A rider ensuring the annuitant can withdraw a specific percentage of the account value annually for life, even if the account is depleted.

Grace Period

In life insurance, additional time (usually thirty-one days) allowed for payment after the premium is due without lapsing the policy.

Guaranty Association (State Guarantee Fund)

A state-level fund that provides limited protection to annuity holders if an insurance company becomes insolvent, with coverage limits varying by state. https://nolhga.com

Harkin Amendment

A 2010 legislative provision ensuring indexed annuities (FIA's)are regulated by state insurance departments rather than being classified as securities under federal law.

Hybrid Annuity

A product combining features of fixed and variable annuities, offering growth potential with some protection.

ILIT (Irrevocable Life Insurance Trust)

A trust used to exclude life insurance proceeds from the taxable estate of the deceased, often paired with annuities for advanced estate planning.

Immediate Annuity

An immediate annuity is an annuity which is purchased with a single payment and which begins to pay out right away or at least within 12 months.

When you purchase an immediate annuity, it is generally with a single lump sum, and your income payments are required to begin within 12 months of the date of purchase. With fixed immediate annuities, your payment from the annuity is based on a fixed interest rate. With variable immediate annuities, your payment is based on the value of the underlying investment, usually a stock portfolio.

After choosing an immediate annuity the annuity owner determines the schedule of payments. This can be done either monthly, quarterly, semiannually or annually. Another important decision to make with your immediate annuity is how long the payments will last. The annuity owner can choose to receive payments for a specified period of time, an entire lifetime or even for the life of a beneficiary.

Income Laddering
Staggering multiple annuities with different start dates to meet varying income needs over time.

Income Rider
An optional feature in annuities that guarantees a specific income stream, regardless of market conditions, often with a fee.

Indemnify
To compensate for actual loss sustained. Many insurance policies and all bonds promise to "indemnify" the insured. Under such a contract, there can be no recovery until the insured has actually suffered a loss.

Indexed Annuity (Fixed Index Annuity)
An annuity whose returns are based upon the performance of an equity market index, such as the S&P 500, DJIA, or NASDAQ. The principal investment is protected from losses in the equity market, while gains add to the annuity's returns.
The principal deposit into the indexed annuity is protected from losses in the equity market, as the funds are not directly invested in the market. While there are no losses attributed to losses in the market, gains are added to the annuity's returns. This means that once you make a premium payment you will never have less in your indexed annuity account than your premium payment, based on market downturns, and as the index appreciates in value, so does the Indexed annuity.

Indirect Rollover
A rollover in which funds are distributed to the account owner, who then has 60 days to reinvest them into another qualified account to avoid taxes and penalties.

Indirect Transfer
A non-direct transfer of funds where the account holder temporarily takes possession of the funds before reinvesting them.

Individual Retirement Account (IRA)
An IRA is a tax-advantaged personal savings plan that lets an individual set aside money for retirement. All or part of the participant's contributions may be tax deductible, depending on the type of IRA chosen and the investor's personal financial circumstances. Distributions from many employer-sponsored retirement plans may be eligible to be rolled into an IRA to continue tax-deferred growth until the funds are needed.

Inflation
The rate at which the purchasing power of money decreases over time, often influencing annuity payment structures through COLA options.

Inherited IRA
An IRA inherited by a non-spouse beneficiary, subject to specific withdrawal rules, typically a maximum 10 year payout, under the SECURE Act. In order to qualify for an inherited IRA payout, it must be established and first payout made within 12 months of the date of death.

In-Service Withdrawal
A withdrawal option for employees still working and contributing to qualified retirement plans, typically available after age 59½.

Installment Refund SPIA
A single premium immediate annuity (SPIA) option that ensures that if the annuitant dies before receiving total payments equal to the initial premium, remaining payments will continue to the beneficiary in installments.

Interest Only Option
Often referred to as an "interest-only free withdrawal" and typically available either within 30 days of issuance of the contract or 1 year. The owner is paid only the interest on the account value or simply any gains credited in that calendar year or month. A Form 1099-R is issued in the year withdrawals of interest are taken and will report any taxable gain. From that point on, the owner receives interest on the proceeds left on deposit.

Interest-Out-First Rule
If a withdrawal or loan is taken from an annuity contract, the withdrawal must be treated as interest (and taxed accordingly) if the cash value of the contract exceeds the amount paid into the contract at that time.

Joint-Life Annuity
A policy that covers two or more lives and makes annuity payments to two or more annuitants, sometimes payments cease at the first death and sometimes at the last death.

Keogh Plan
A tax-deferred retirement plan for self-employed individuals or unincorporated businesses, offering high contribution limits.

Ladybird Deed
A legal document used in estate planning that allows property to pass automatically to a designated beneficiary upon the owner's death while retaining control and use of the property during the owner's lifetime. This type of deed helps avoid probate and may be used alongside annuities for wealth transfer strategies.

Lapse
In insurance this term applies to the termination of a policy because of the insured's failure to maintain sufficient surrender value in the policy.

Level Premium
Premiums remain fixed and level for the specified term or the entire contract.

Life Only Annuity
A life annuity is an annuity that continues to pay out as long as the annuitant is alive.
An annuity settlement option or immediate annuity in which regularly scheduled payments are made from the time distribution begins through the end of the annuitant's life.

Life with Period Certain
An annuity settlement option or immediate annuity in which lifetime annuity payments are made, however, there is a guaranteed minimum number of payments that will be made to the beneficiary if the annuitant dies within a specified period of time.

Living Trust
A trust created for the trustor and administered by another party while the trustor is still alive. Can be either revocable or irrevocable.

Longevity Risk
The risk of outliving retirement savings. Annuities are often used as a hedge against this risk, providing lifetime income.

Lump Sum Payment
Payment of the entire proceeds of an annuity policy to the annuitant at one time, as distinguished from installment payments.

Margin
- For a business organization, the margin is any money that remains from the company’s sales revenues after deductions have been made for sales costs, operating expenses, and taxes. Also known as profit, profit margin, net income, and spread.

Maturity
When an obligation becomes due and payable. In life insurance an ordinary (whole) life policy matures on the death of the insured at a specified age.

MVA (Market Value Adjustment)
A product feature that uses a fixed interest rate guarantee combined with an interest rate adjustment factor to cause the surrender value to fluctuate in response to market conditions.
When someone buys an annuity, the insurer buys a bond which is how they guarantee the rate of a fixed annuity. Now if the annuity is surrendered early then the bond would need to be surrendered early. If bond prices are up when surrendered, the insurer will make money on the surrender, and so will the owner. But, if bond prices are down, they will lose money on the surrender, and so will the owner. However they are affected (positively or negatively) the person surrendering the annuity will be affected similarly.

Medicaid Annuity
A Medicaid annuity is the term given to the process of using an immediate annuity to help protect assets against the high cost of nursing homes and expensive healthcare charges.
Since Medicaid won't pay for people's nursing home care if they have assets of more than about $2,000, (not counting a house or car), some individuals utilize a technique whereby they transfer all of their liquid assets into an irrevocable medicaid annuity. The annuity effectively transfers all of their wealth to a third party insurance company, which in return guarantees the medicaid annuity owner a monthly fixed income for a specified period that typically aligns with their official life expectancy. In many states, the medicaid annuity can be an attractive alternative to traditional advice of self-impoverishment to qualify for welfare.
Several states have initiated look back policies whereby the medicaid annuity is not allowed to be utilized due to state regulations. In many states however, the medicaid annuity is an ideal tool for certain individuals, providing that the annuity contract is irrevocable, actuarially sound, includes equal payments over the lifetime of the annuitant, and does not include a benefactor or balloon payment upon death.

Medicaid - 1/2 Loaf Plan
A Medicaid planning strategy that allows individuals to protect a portion of their assets while still qualifying for Medicaid benefits. This involves gifting half of one's assets while using the remaining half to pay for long-term care during the penalty period imposed by Medicaid.

MYGA (Multi-Year Guaranteed Annuity)
A fixed annuity offering a guaranteed interest rate for a specified number of years, typically longer than one year.

NOLHGA (National Organization of Life & Health Insurance Guaranty Associations)
A nonprofit organization coordinating state guaranty associations to protect policyholders in case of insurer insolvency.

Non-Cancelable
Life insurance and annuities may not be cancelled by the company, assuming premiums are paid.
Nonforfeiture Clause
Ensures a policyholder retains a portion of benefits or premiums if they surrender the policy or stop payments.

Non-Qualified Annuities
Funds that have already been taxed (post-tax dollars), except Roth IRA funds.
Whereas qualified funds are required to begin taking income at a specific age (known as an RMD 'required minimum distribution') non-qualfied annuities have no set age whereby the client is required to begin taking funds. Non-Qualified Annuities = Tax Control!

Non-qualified sources
Sources of money where the money has already been taxed, such as cash, mutual funds, certificates of deposit (CDs), and money market funds.

Non-qualified transfer
Transfer of assets that have already been taxed. This is typically a transfer from a bank or wire house, where all funds have already been taxed, to an annuity or other product.

Old Money Rate/Renewal Rate
The interest rate that applies to the portion of the insured's account balance that is no longer in the new money period as defined in the insurance contract.

Participation Rate
For an indexed annuity contract, the participation rate is the amount of an index's gain that will be credited to the annuity value. The participation rate will reflect the cap and floor in its calculation.

Payout phase or payout period
The period during which the money accumulated in an annuity is paid out as regular income payments.

Pension
A pension is a qualified retirement plan set up by a corporation, labor union, government, or other organization for its employees. Examples of pensions include profit-sharing plans, stock bonus and employee stock ownership plans, thrift plans, target benefit plans, money purchase plans, and defined benefit plans.

Percentage change
The change in the S&P 500 Index from the beginning of the term to the end of the term expressed as a percentage.

Period Certain Annuity (Term certain annuity)
An annuity with income payments over a set number of years, regardless of whether the annuitant is alive or deceased.

Policy
The written statement of an agreement to insure. The written expression of a contract to insure.

Policy Loan
A loan taken by the policyholder from the insurer, secured by the policy's cash value.

Premature Distribution
(Premature Distribution Penalty.) Withdrawals made from certain tax-favored plans may be subject to an additional 10% federal income tax if the withdrawal is made before the contract owner reaches age 59 1/2. Certain exemptions do apply. The contract owner should seek legal and tax advice before making plan withdrawals.

Premium Bonus
A Premium bonus is additional money that is credited to the accumulation account of an annuity policy under certain conditions.

Prevailing Document
The primary legal document governing an annuity contract, defining terms, conditions, and obligations of the parties involved.

Private Annuity
A private annuity is a personal or restricted annuity. The major difference between private annuities and commercial annuities is that the person or entity that assumes the obligation for the private annuity is not in the business of selling annuities. The private annuity is an arrangement where the client transfers property to another in return for the other's promise to make periodic payments to the client in fixed amounts for the rest of the Client's life. The typical situation involves an insurance company; but properly established private annuities are fully recognized by the Internal Revenue Service as well.

Prospectus
A legal document providing details about an investment product, including risks, fees, and features, required for variable annuities and securities.

Qualified Annuity
Annuity funds that have not yet been taxed (pre-tax dollars), like IRA's, 401k's, 403b's, pensions, except Roth IRA funds.

Qualified Retirement Plan
Qualified retirement plans are generally any plan or arrangement eligible for special federal income tax treatment. Examples of qualified retirement plans include 401(k) plans, profit sharing plans, IRAs, etc.

Qualified Transfer
In the United States, a federal income tax rule stating that when the ownership of a life insurance policy has been transferred for a valuable consideration, policy proceeds following the insured's death are taxable to the recipient to the extent the proceeds exceed the total amount the recipient paid for the policy.

Renewal Rate
The interest rate applied to an annuity after its initial guaranteed period expires, which may vary based on market conditions.

Required Minimum Distribution (RMD)
The minimum amount of money an annuitant MUST receive per year from an Individual Retirement Account funded with an annuity contract beginning by April 1st of the year following the year they attain a specific age (historically 70 ½, but that number has gradually been increasing). The IRS requires a minimum distribution of funds, which is calculated based on the annuitant's age and the value of the contract.

Riders
Another name for endorsement or a special provision that is not contained in the base policy contract, but that legally adds further benefits or considerations.

Rider Charge
A fee associated with optional riders added to the annuity contract, typically expressed as a percentage of the contract value.

Rollover
The tax-free movement of retirement funds from one qualified plan to another, such as from a 401(k) to an IRA, with no tax consequences if completed within 60 days.

Rollover - Direct
A direct transfer of retirement funds from one qualified plan to another plan of the same type or to an individual retirement arrangement (IRA) that does not pass through the hands of the owner and thus does not incur any tax liability for the owner. Also known as direct transfer.

Rollover - Indirect
A rollover is a distribution from a qualified retirement plan or Section 403(b) to an individual and then from the individual to another qualified retirement plan, Section 403(b), or IRA. After constructive receipt of the distribution, an individual has 60 days to roll the funds over into another qualified funding vehicle in order for the funds to remain qualified. (If the funds are distributed from a qualified plan or Section 403(b) tax deferred annuity, mandatory withholding will take place at a rate of 20%.)

Roth Conversion
You can roll over funds from a traditional IRA to a Roth IRA if you meet certain requirements. The taxable amount of the rollover funds will be included in the gross income for the year in which the conversion is made.

Roth IRA
A Roth IRA is a special type of IRA under which distributions may be tax exempt. Individuals may make nondeductible contributions into a Roth IRA if certain income requirements are met. Qualified distributions from a Roth IRA are tax-free.

Rule of 100
A guideline suggesting individuals should subtract their age from 100 to determine the percentage of their portfolio that should be allocated to riskier investments like stocks, with the remainder in safer assets like annuities or bonds.

Rule of 72
A simple formula to estimate the number of years required to double an investment at a fixed annual rate of interest. Divide 72 by the annual interest rate to calculate the doubling time.

SEPP (Substantially Equal Periodic Payments)
A method of early retirement income distribution from an IRA or other qualified plan without incurring the IRS 10% penalty for early withdrawal.

SEP IRA
A Simplified Employee Pension plan allowing employers, including the self-employed, to make tax-deductible contributions to their employees' retirement savings accounts.

SEC (Securities and Exchange Commission)
The federal agency responsible for enforcing securities laws and regulating the securities industry, including oversight of variable annuities classified as securities.

SECURE Act (Setting Every Community Up for Retirement Enhancement)
A 2019 law that made significant changes to retirement accounts, including removing the stretch IRA strategy and increasing the age for required minimum distributions (RMDs).

Sequence of Returns Risk
The impact of the order of investment returns on withdrawals. Fixed annuities help mitigate this risk by providing stable income.

Settlement Options
Provision in an annuity policy for optional methods of settlement in place of a lump-sum cash payment.

Simple Interest
Interest that is calculated only on the initial principal and does not compound over time.

Simplified Employee Pension
A simplified employee pension (SEP) is a written arrangement or program that allows an employer to contribute tax-deductible dollars toward an employee's retirement. It may be established by a corporate or noncorporate employer. From an individual's perspective, a SEP has the administrative simplicity of an IRA but also allows the employer to make contributions on the employee's behalf in addition to the employee's annual contribution limit.

Single Premium Annuity
An annuity purchased with one lump sum payment.

Social Security Optimization
Using annuities to complement delayed Social Security benefits for maximizing lifetime income.

Source of funds
Where you'll get the money you plan to invest. Your source or sources can be qualified or non-qualified. Qualified sources are pre-tax sources such as 401(k) accounts, traditional individual retirement accounts (IRAs), 403(b) retirement plans for teachers and other employer-sponsored plans. Non-qualified sources are after-tax sources such as cash, mutual funds, certificates of deposit (CDs), money market funds and exchanges of other non-qualified annuities (1035 exchanges).

SPIA (Single Premium Immediate Annuity)
An annuity contract that is purchased with a single premium payment and that will, in general, begin making periodic income payments one annuity period after the contract’s issue date.

Spendthrift Trust
A trust providing income to a beneficiary while protecting the trust assets from creditors and poor financial decisions.

Split Annuity
A split annuity is a very tax efficient and intelligent investment vehicle combining two different types of annuities - a single premium deferred annuity and a single premium immediate annuity. One annuity repays you a set sum of money each and every month over a specified period of time. The other annuity is left in place to grow on a fixed interest basis, with the goal being that by the time funds in your immediate annuity are depleted, the single premium deferred annuity will be restored to your original starting principal. This allows you to then restart the process with new prevailing interest rates.

Spread
The spread is the difference between the interest rate an insurer earns on its investments and the interest rate the insurer credits to a product or assumes when pricing the product.

Straight Life Annuity
An annuity that provides guaranteed income payments for the life of the annuitant, with no remaining benefits paid to beneficiaries upon death.

Stretch IRA
A strategy, no longer available post-SECURE Act, allowing beneficiaries to stretch required minimum distributions (RMDs) over their lifetime.

Structured Annuity
An annuity with limited market exposure and predefined outcomes for both gains and losses.

(SEPP) Substantially Equal Periodic Payments
A method of early retirement income distribution from an IRA or other qualified plan without incurring the IRS 10% penalty for early withdrawal.

Surrender Charge
An amount charged to an annuity contract owner when they prematurely withdraw a portion or the entire contract's accumulated value. Also known as withdrawal charge.

Surrender Value
The amount in cash to which the contract owner is entitled on discontinuance and surrender of a life insurance or annuity contract prior to maturity or death.

Tax-Free Exchange
A transfer of funds between annuity contracts or life insurance policies under IRS Section 1035, allowing deferral of tax on gains.

Tax Sheltered Annuity (TSA)
Tax sheltered annuities are a type of retirement plan for employees of tax-exempt organizations or schools, also known as a Section 403(b) plans as that's the section of the Internal Revenue Code that it's found. The tax-sheltered annuities are made possible by "before-tax contributions," made via salary reduction agreements to the tax sheltered retirement plan. Employers are also allowed to make direct contributions on behalf of employees.

TEFRA (Tax Equity and Fiscal Responsibility Act)
A 1982 law that impacted taxation on life insurance and annuities, setting guidelines for tax-deferred treatment and establishing Modified Endowment Contract (MEC) rules. This is the origination of "last-in, first-out" whereby any funds withdrawn must first be any taxable gains before tax-free return of principal.

Term
The length of time for which a policy runs.

Term certain annuity (Period Certain Annuity)
An annuity with income payments over a set number of years.

Transfer
The direct transfer of funds from one financial institution to another financial institution for the benefit on an individual.

Underwritten SPIA
Identical to a traditional Single Premium Immediate Annuity but payments are adjusted to reflect the medical history of the individual customer.

Underwriter
One who accepts or rejects risk for an insurance company. More broadly, anyone who makes insurance.

Uniform Gifts to Minors Act / Uniform Transfers to Minors Act (UGMA/UTMA)
This particular legislation allows gifting to the name and taxpayer identification number of a minor. It may provide a tax benefit because some or all of the income produced by the investment may be taxed at the rate for the minor's presumably lower income.

Variable Annuity
An annuity contract under which the dollar payments received are not fixed, but vary with the fluctuations of the value of the investments.

Withdrawal Charge
A fee imposed when funds are withdrawn from an annuity before the surrender period ends, designed to discourage early withdrawals.