R.M.M. Law College, Saharsa

Pt. Lecturer- KESHAV KUMAR SHRIVASTAVA

L.L.B Part- 2nd

Subject- Insurance Act

Paper- 8th

Date- 23/07/2020

Topic- Explain the objects of contracting annuities and the advantage of an annuity.

What is an annuity?

An annuity is a contract between you and an insurance company to cover specific goals, such as principal protection, lifetime income, legacy planning or long-term care costs.Even though they may be marketed as investments, "annuities are not investents," Haithcock. "They're contracts." They lock you and the insurance company into contractual obligations, and breaking them – if that's even possible – can come at a steep cost."Annuities have been around for centuries," says Troy Bender, president and chief executive officer at Asset Retention Insurance Services in Laguna Hills, California. "In Ancient Rome, people would make a single payment in return for annual lifetime payments. Even back then, retirement planning was a concern."Beyond these basics, there's little about annuities that's simple. Annuities and the rules under which they operate can be complicated, so it might help to recognize that a common source of retirement income – Social Security – is an annuity of sorts."Annuities work by giving you limited access to your funds annually much like how income is received from Social Security," Bender says.

Why buy an annuity?

You buy an annuity because it does what no other investment can do: "provide guaranteed income for the rest of your life no matter how long you live," says Walter Updegrave, editor of RealDealRetirement.com, a site offering retirement planning advice.

This makes annuities popular retirement planning strategies. Annuities can provide more tax-sheltered ways to save for retirement if you've already maxed out your 401(k) and IRA. Since annuities have no contribution limits, you can save to your heart's content.

And since your annuity will provide guaranteed income later on, you may be able to take a more aggressive investing strategy with your other assets.

How does an annuity work?

An annuity works by transferring risk from the owner, called the annuitant, to the insurance company. Like other types of insurance, you pay the annuity company premiums to bear this risk. Premiums can be a single lump sum or a series of payments, depending on the type of annuity. The premium-paying period is known as the accumulation phase.

Unlike other types of insurance, you don't pay annuity premiums indefinitely. Eventually, you stop paying the annuity and the annuity starts paying you. When this happens, your contract is said to enter the payout phase.

There's great flexibility in how annuity payments are handled. Annuities can be structured to trigger payments for a fixed number of years to you or your heirs, for your lifetime, until you and your spouse have passed away, or a combination of both lifetime income with a guaranteed "period certain" payout. A "life with period certain annuity" pays you income for life, but if you die during a specified time frame (the period certain years), the annuity will pay your beneficiary the remainder of your payments for the contractual period you chose at the time of application.

As with Social Security, annuity lifetime income streams are based on the recipient's life expectancy, with smaller payments received over longer periods. So the younger you are when you start receiving income, the longer your life expectancy is, or the longer the period certain term is, the smaller your payments will be.

Payments can be monthly, quarterly, annual, or even a lump sum. They can start immediately or they can be postponed for years, even decades.

"Annuities are highly customizable," Haithcock says. Finding an annuity to meet your needs comes down to two questions, he says: First, "what do you want the money to contractually do? And second, when do you want those contractual guarantees to start?"

Advantages of Annuities:

Even though annuity products may come in all shapes and sizes depending on the terms you choose, most work in the following way:

- You invest in an annuity.
- The annuity starts making payments to you on a future date or series of dates.
- A variety of factors, including the length of your payment period determine the size of your income payments.
- The income you receive from an annuity can be doled out on a monthly, quarterly, annual basis. It can even be doled out in a lump sum payment.

- Depending on your annuity purchased or preferences, you can opt to receive payments for the rest of your life, or for a set number of years.
- The amount of income payments you receive depends on if you opted for a fixed or variable annuity. This means whether it was a guaranteed payout or a payout stream determined by the performance of your annuity's underlying investments.

Annuities can be helpful in some situations. In general, some of the advantages and benefits include:

- Tax-deferred growth and compounding within the annuity contract. Which means you only get taxed on the interest you earn once you start receiving payments, not while it's building up.
- Guaranteed rates of return on your dollars
- Guaranteed lifetime payments if you annuitize (in some cases you don’t even have to annuitize to receive this benefit)
- Other features that may be important to you. These are various bells and whistles that do very specific things, ask your annuitant about these options before signing on any dotted lines.

Note that the guarantees are only as strong as the insurance company that issued the annuity. In other words, if the insurance company fails, the promise is no good. You should mitigate this risk by using only the strongest insurance companies out there.

The End