



Annuities have been around a long time. But the retirement landscape is changing—traditional defined benefit pension plans are going by the wayside in the private sector, and people are living longer in retirement. More and more retirees will be faced with having to convert retirement savings into retirement income. In response to the changing needs of retirees, the annuity concept has evolved. It is worth taking a fresh look to see how today's modern annuities can play a role in your retirement income plan. Today's volatile markets only serve to underscore the importance of protecting retirement nest eggs and the income streams that individuals need to get from those nest eggs.

## First, how do traditional annuities work?

An annuity is a contract between you and an insurance company where you deposit a sum of money with the insurance company, and in exchange, if you so choose, annuity payments are paid to you on a regular basis and are guaranteed for a set period of time or for life. Usually, the money in annuities grows tax-deferred. There are a number of options and features to explore, including fixed or variable investment and payment options.

- Fixed annuities offer guaranteed rates of return and safety of principal. This can give you a hedge against market volatility. The downside is that, over time, inflation may eat into the buying power of this fixed amount.
- Variable annuities can provide you with access to a variety of investment portfolios without a guaranteed rate of return. There is potential for higher earnings when market conditions are good, but lower earnings or losses when the market is down, depending on investment performance.

Additional options allow you to choose a payment start date that is either immediate or deferred, and payments that are payable to just yourself or to a beneficiary after you die. Further, annuities traditionally have both death benefits, which guarantee a value payable to a beneficiary, and living benefits, which guarantee levels of accumulation and/or income payments. The focus of this article is on living income benefits.

With most traditional annuities, the individual has the option to annuitize, at which point control (ownership) of his/her assets is surrendered to the insurance company in exchange for a guaranteed stream of payments.

Historically, annuity contract holders have been reluctant to annuitize, because they do not want to cede control and ownership of their money.

## Now here's what's different about the new generation of annuities.

Prudential and other retirement companies listened to their customers, and responded with a new generation of annuities. The result—a living benefit option for guaranteed income for life without annuitization. In essence, individuals can maintain access to their account values—while receiving guaranteed lifetime income. (There are typically fees associated with this option, so it is important to speak with a financial professional to understand any applicable fees.)

Today's modern annuities build on many of the features of traditional annuities: they grow tax-deferred and offer guaranteed income for life. Further, they allow individuals to customize their retirement income to meet specific retirement needs. Customization can be achieved through the optional living benefits available. Some of the new and more significant features of optional living benefits include:

- A measure of control and ownership of assets while receiving guaranteed lifetime income.
- The ability to capture market upswings in your "Protected Withdrawal Value"—used to determine income payments—while helping to protect income from market downturns. This may be particularly important during The Retirement Red Zone<sup>®</sup>—the critical years before and after retirement, when careful planning and prudent action is essential. (The Protected Withdrawal Value is separate from the account value and is not available as a lump sum.)
- A wide selection of investment portfolios to meet your risk tolerance, whatever it may be. The guaranteed income under the optional living benefit is protected regardless of how portfolios are invested.

The table on the following page highlights key differences between traditional variable annuities and the new generation of variable annuities with guaranteed lifetime income benefits—also known as a guaranteed minimum withdrawal benefit. A key difference not addressed in the table is tax treatment. Whether payments are received as a guaranteed minimum withdrawal benefit or through

traditional annuitization, distributions of investment returns are taxed at ordinary income tax rates. However, payments received from guaranteed minimum withdrawal benefits are generally considered to be distributions of taxable investment earnings first, until all such gains have been paid out, and then tax-free distributions of the original investment. In contrast, payments received through traditional annuitization are generally considered to contain proportional amounts of investment earnings and the return of the original investment, the result being that taxes are spread more evenly over the annuitization period. Information on a variable annuity’s fees, expenses, tax treatment, and surrender charges can be found in the prospectus for that specific product.

In effect, with a guaranteed lifetime income option, you’ll never have to worry about outliving your income stream regardless of how the market performs. Like traditional annuities, you have income for life; unlike traditional annuities, you have a measure of control over and access to the underlying assets. For example, you can withdraw an amount in excess of the guaranteed income payments, but this will reduce your future guaranteed income payments proportionately. This control allows you to potentially grow your assets, access your money when needed, and possibly leave money behind for your heirs.

**Side-by-Side: Traditional vs. Modern Variable Annuity**

	Traditional Variable Annuities (with Guaranteed Lifetime Income through annuitization only)	New Generation of Variable Annuities (with Guaranteed Lifetime Income Benefits)
Provides for tax-deferred accumulation	✓	✓
Has fees and surrender charges	✓	✓
Offers a variety of investment options and may include asset allocation models	✓	✓
Addresses longevity risk	✓	✓
Provides guaranteed lifetime income without annuitization through optional benefits, such as a guaranteed minimum withdrawal benefit		✓
Provides flexibility once lifetime income has begun (e.g., income can be stopped and started, and contract holders can access the underlying assets)		✓
Potentially provides downside protection from market risk (for lifetime income)		✓
Offers potential to “lock-in” market gains for retirement income purposes		✓
Passes any remaining account value to beneficiaries after lifetime income has begun	✓*	✓

\* This feature is available with some traditional variable annuities as well as with most of the new generation of variable annuities with guaranteed lifetime income benefits.

## What's right for you?

Annuities aren't for everyone. There are many features from which to choose. That's why you should talk to your trusted financial professional and tax professional to be sure

**Investors should consider the contract and the underlying portfolios' investment objectives, risks, charges and expenses carefully before investing. This and other important information is contained in the prospectus, which can be obtained from your financial professional. Please read the prospectus carefully before investing.**

Annuity contracts contain exclusions, limitations, reductions of benefits and terms for keeping them in force. Your licensed financial professional can provide you with complete details.

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The benefit payment obligations arising under the annuity contract guarantees, rider guarantees, or optional benefits and any fixed account crediting rates or annuity payout rates are backed by the claims-paying ability of the issuing insurance company. Those payments and the responsibility to make them are not the obligations of the third party broker/dealer from which this annuity is purchased or any of its affiliates. They are also not obligations of any affiliates of the issuing insurance company. None of them guarantees the claims-paying ability of the issuing insurance company.

All guarantees, including optional benefits, do not apply to the underlying investment options.

a variable annuity makes sense for your retirement plan and to help you select the variable annuity and optional features that are right for you.

A variable annuity is a long-term investment designed to create guaranteed income in retirement. Investment returns and the principal value of an investment will fluctuate so that an investor's units, when redeemed, may be worth more or less than the original investment. Withdrawals or surrenders may be subject to contingent deferred sales charges. Withdrawals and distributions of taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty. Withdrawals, other than from IRAs or employer retirement plans, are deemed to be gains out first for tax purposes. Withdrawals can reduce the account value and the living and death benefits.

Fixed income investments are subject to risk, including credit and interest rate risk. Because of these risks, a subaccount's share value may fluctuate. If interest rates rise, bond prices usually decline. If interest rates decline, bond prices usually increase.

Variable annuities offered by Prudential Financial companies are available at a total annual insurance cost of 0.55% to 1.85%, with an additional fee related to the professionally managed investment options. Optional living and death benefits may not be available in every state and may not be elected in conjunction with certain optional benefits. Note: All products may not be available through all third party broker/dealers. Optional benefits have certain investment, holding period, liquidity, and withdrawal limitations and restrictions. The benefit fees are in addition to fees and charges associated with the basic annuity. Please see the prospectus for more information.

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• NOT BANK OR CREDIT UNION GUARANTEED • MAY LOSE VALUE