

What is an annuity? – Fixed or variable?

Part 2 of 9

Do you need guaranteed return? Potential for growth?

A **fixed annuity** provides a guaranteed return — generally paying a set amount of interest. During the accumulation period (or the build-up period — the time between when you start paying premiums and when income payments start), your money earns interest at rates set by the insurance company. The insurance company, backed by its claims-paying ability, guarantees it will pay no less than a minimum rate of interest. These interest rates are usually reset annually and guaranteed for one year.

With a **variable deferred annuity**, you pay premiums to the insurance company during the accumulation period, and the company places those premiums (less any applicable charges) into a separate account. You select the investment options in which your money is invested according to your tolerance for risk.

Variable option values (stock funds, bond funds) will fluctuate so that your investment units, when redeemed, may be worth more or less than their original cost.

What's the bottom line?

Generally, with a fixed annuity, the principal is guaranteed. With a variable annuity, you have the opportunity for higher returns, but that comes with a higher risk. In other words, you can possibly lose some of your principal investment.

Read about more annuity types in Part 3.

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