

What is an annuity? – Index annuities, and single- or multiple-premium?

Part 3 of 9

The indexed annuity

In addition to fixed and variable annuities, there's a third option: **indexed annuities** (also known as equity-indexed annuities). This type of annuity has characteristics of both fixed and variable annuities, but the return typically varies more than with fixed options – and not as much as with variable options.

During the accumulation period (the time when you contribute money), you make a lump-sum purchase or make a series of payments to the insurance company, which credits you with a return based on values in a stock index such as the S&P 500 Composite Stock Price Index. Indexed annuities have the potential to earn better returns than traditional fixed annuities when the stock market is rising. They also have a minimum return guarantee, backed by the insurance company's claims-paying ability, which insures a minimum return in a down market.

Single- versus multiple-premium annuities

A **single-premium annuity** is purchased with one payment to the insurance company. Conversely, a **multiple-premium annuity**, as the name implies, is purchased through a series of payments. There are two ways to purchase a multiple premium annuity:

- **Flexible premium.** Within set limits, you decide how much to pay and when to pay it.
- **Scheduled premium.** The annuity contract specifies the amount and schedule of your payments.

Either way, you decide when to begin receiving money. You also decide the form of the payments. Your choices include the following:

- Systematic withdrawals
- Random withdrawals
- Annuitization (the process of converting the annuity into a series of periodic income payments)

Read about more payout options in Part 5.

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