How are annuities different from life insurance?

Both annuities and life insurance should be considered in your long-term financial plan. While both include death benefits, you buy life insurance in the event you die too soon and an annuity if you live too long.

Essentially life insurance provides economic protection to your loved ones if you die before your financial obligations to them are met, while annuities guard against outliving your assets.

Annuities are a retirement planning tool. You can invest in a:

- **Deferred annuity**: A long-term investment contract that builds savings on a tax-deferred basis.

- **Immediate annuity**: A type of personal pension plan that is purchased at or near retirement. It offers something that no other investment can guarantee – regular income payments for the rest of your life – no matter how long you live.

Life insurance provides financial protection to your loved ones when you die by providing:

- **Income replacement**
  If you have dependents, then you need to consider what would happen to them if they no longer have your income to rely on.

- **Payment of outstanding debts and long-term obligations such as burial costs, credit card debts and medical expenses not covered by health insurance.** In addition, life insurance can be used to pay off the mortgage, supplement retirement savings and help pay college tuition.

- **Estate planning**
  The proceeds of a life insurance policy can be structured to pay estate taxes so that your heirs will not have to liquidate other assets.

- **Charitable contributions**
  You can designate some of the proceeds from your life insurance to go to your favorite charity.

While both life insurance and annuities have death benefits, they are not the same. The purpose of life insurance is to provide death benefits to your loved ones, while the primary goal of an annuity is to supplement retirement savings.

Most annuities (deferred in particular) include a death benefit. Generally, the death benefit is determined by the amount in your account balance when you die. You can guard against declines in the market, by purchasing an enhanced death benefit, which locks in the account balance periodically.

Some immediate annuities, such as a Life Income Only Policy with No Guarantee, don't continue payments to a beneficiary after your death. Payments to a beneficiary are waived in exchange for providing a larger income stream while you are still alive.

Source: *Insurance Information Institute, Inc. (www.iii.org)*