KNOW WHAT YOU OWN

# Annuities in your 403(b), explained simply

Many educators own an annuity inside their 403(b) and do not know it. Here is what an annuity is, the three kinds you will meet, and the questions to ask about yours.

## WHAT AN ANNUITY IS

An annuity is a contract with an insurance company. You put money in, and the company promises to pay you later, often as a monthly income for life. That promise is the product. The fees, the caps, and the exit charges are the price of that promise.

## THE THREE KINDS

- **Fixed.** Pays a set interest rate, like a savings certificate from an insurance company. Simple and steady, but the rate is often low, and exit charges can lock your money in place.
- **Variable.** Your money goes into funds that rise and fall with the market. You carry the market risk, and the insurance wrapper adds extra yearly fees. All-in costs on variable annuities commonly run well above what a typical low-cost 403(b) charges, sometimes several times as much, so it is worth asking for the exact number in dollars, not just a percentage.
- **Indexed.** Tied to a market index. Your losses are limited, but so are your gains: a formula controlled by the insurance company limits how much of the market's growth reaches your account. Over a full career, that capped growth can end up costing more than a visible fee ever would, because the cost is the growth you never receive.

## WHY THIS COMBINATION RARELY ADDS UP

Many educator annuities are 403(b)(1) contracts in which the annuity is the 403(b) itself. An annuity's tax deferral adds nothing beyond the deferral a 403(b) already provides. And if you have a CalSTRS® or CalPERS® pension, you already have guaranteed lifetime income, which is the main feature most annuities are built to sell. Paying an ongoing insurance fee for a guarantee your pension already gives you is often money spent twice on the same thing. That does not mean an annuity is always the wrong choice. Some educators value the psychological certainty of a second guaranteed income stream, or have a specific gap an annuity is built to fill. But for many educators, especially anyone who already has a pension, the honest question is not "is this a bad product," it is "what am I paying for here that I do not already have." If the answer is "not much," that is worth knowing before you buy, or worth asking about if you already own one.

## THREE QUESTIONS TO ASK ABOUT YOURS

- ✓ Is there a cap, participation rate, or other mechanism in place that limits my gains?
- ✓ Is there a surrender charge if I move my money, and until what year?
- ✓ What are the total yearly costs, including any riders, in dollars?

**Not sure what you own?**

Bring your questions to a short call at **(916) 235-9800**, or **pick a time to talk to an advisor**. When you are ready, enroll at **enroll.ctaretirementplan.org**.

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