

The Difference Between Annuities And Life Insurance

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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 in case you live too long. In other words, 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.

Comparing deferred and immediate annuities

There are two main types of annuities-deferred and immediate-and two main types of life insurance-term and whole life.

	Life Insurance		Annuities	
	Term life	Whole life	Deferred annuities	Immediate annuities
Main reason for buying it	Provide income for dependents	Provide income for dependents or meet estate planning needs	To accumulate money in a tax-deferred product	To assure you don't ?outlive your income?
Pays out when	You die	You die, borrow the cash value or surrender the policy	You make withdrawals	One period after you buy the annuity, stops paying when you die*
Typical form of payment	Single sum	Single sum	Single sum or income	Lifetime income
Buyer?s age when it is typically bought	25-50	30-60	40-65	55-80
Accumulates money tax-deferred?	No	Yes	Yes	Yes, but only in the early payout years
Pays a death benefit?	Yes	Yes	Yes	*payments continue if the annuity has a guaranteed-period option that hasn?t expired at the annuitant?s death
Are benefits taxable income when received?	No	No, unless a cash value withdrawal exceeds the sum of premiums	Yes, but only the part derived from investment income	Yes, but only the part derived from investment income

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