What Is an Annuity?

An annuity is a contract between you and an insurance company that requires the insurer to make payments to you, either immediately or in the future. You buy an annuity by making either a single payment or a series of payments. Similarly, your payout may come either as one lump-sum payment or as a series of payments over time.

Why do people buy annuities?

People typically buy annuities to help manage their income in retirement. Annuities provide:

- Periodic payments for a specific amount of time. This may be for the rest of your life, or the life of your spouse or another person.
- Death benefits. If you die before you start receiving payments, the person you name as your beneficiary receives a specific payment avoiding probate.
- Tax-deferred growth. You pay no taxes on the income and investment gains from your annuity until you withdraw the money.
- Reallocation/transfer among investment options (applies to variable annuities only)
- Optional features and benefits (e.g., nursing home benefits, principal protection, death benefits, etc.)

What types of annuities are there?

There are two types of annuities: immediate and deferred. In the case of an immediate annuity, there is no accumulation phase and the periodic income payments commence shortly after the initial premium is paid. In the case of a deferred annuity, your premium(s) will grow tax-deferred (a period commonly referred to as the accumulation phase) until you elect or are required by contract to begin to take distributions, a process commonly referred to as annuitizing. Income payments from a deferred annuity may be distributed by annuitizing the contract, taking withdrawals from an optional rider or exercising a penalty-free withdrawal provision (terms vary by contract). The chart below provides other key distinctions between the two main annuity types.

Immediate Annuity	Deferred Annuity
Income payments begin shortly after the premium is paid.	Income payments begin at a future date, allowing time for accumulation.
Assets do not accumulate on a tax-deferred basis.	Assets accumulate on a tax-deferred basis. When distributions begin, they are made using a predetermined formula.
Annuity is purchased with a single premium.	Annuity is purchased with either a single premium or periodic premiums.
Contract is usually irrevocable—after you enter into the contract, it cannot be changed.	Contract is usually revocable (but may be subject to surrender charges, penalties and taxes).

Types of deferred annuities

Deferred annuity types primarily vary by how interest is credited during the deferral period and are categorized as either fixed, fixed indexed or variable. Most deferred annuities have a surrender charge period, which is the period of time in which an annuity provider may impose a surrender charge or penalty for a full or partial liquidation of the annuity. Surrender charges are typically imposed on the value of the liquidation and decline gradually each year during the surrender charge period (e.g., 7%, 6%, 5%, 4%, 3%, 2%, 1%, 0%). Depending on the terms of your annuity contract, these charges may be waived for certain liquidations during the surrender charge period.

Traditional fixed annuities

Traditional fixed annuities earn a guaranteed fixed interest rate for a specific period of time. Although called a "fixed" annuity, the insurance company may have the right to renew your interest rate, but never below the stated contractual minimum guaranteed rate. If income payments commence, you will receive a fixed amount of money for a period of time stated in the annuity contract or potentially

longer, such as for the remainder of your life or the life of a beneficiary. Traditional fixed annuities offer greater predictability and lower volatility than other deferred annuities. However, because of their fixed nature they offer less opportunity for appreciation.

Fixed indexed annuities

A fixed indexed annuity (FIA) is a fixed, tax-deferred annuity contract offered by many insurance companies. Unlike a traditional fixed annuity, the interest credited on premiums paid is determined based upon the performance of an equity index, such as the S&P 500. It's important to note your premiums are not subject to market risk as the premiums are not invested directly into an index. Additionally, a FIA's count index gains from market price changes only, excluding any amounts attributable to dividends paid. The methods used to calculate a FIA's credited interest may vary significantly, but credited interest is generally expressed as a function of the participation rate of the contract (subject to the various adjustments and limits discussed below). The participation rate represents the percentage of the index gain the contract will participate in. For example, if the S&P 500 index rises by 5% in a stated period, a 100% participation rate would mean that the credited interest would also equal 5% for that period; however, if the participation rate is 50%, the credited interest would equal 2.5%. Many of today's fixed indexed annuities offer a 100% participation rate for the life of the contract, but are subject to the interest crediting methods and factors below:

- Point-to-point. Index number value at the beginning of the contract term is compared to the value at the end of the term. Interest is credited only once, based on the percentage increase between those two points in time. One- and two-year reset point-to-point terms are the most commonly offered.
- Averaging. Various index number values taken at different points over the course of the contract are averaged. These points may be daily, monthly or yearly. Interest is credited based upon the difference between the beginning index number value and the averaged value(s) determined by the averaging. Interest may be credited monthly, yearly or at the end of the contract.
- Performance trigger. Index number value at the beginning of the contract term is compared to the value at the end of the term. If the percentage is positive or flat, a specified (or declared) rate is credited.
- Monthly sum. Individual monthly index number increases and decreases are tracked and summed at the end of the contract term. The total sum determines the amount of interest to credit for that period.

Once index values and rates are calculated using the methodologies discussed above, a number of factors are then applied to potentially limit the full upside of the gain (if any) you may be credited. "Caps" and "spreads" are two common examples of such limits. Caps apply a maximum rate of interest an annuity will earn and are generally stated as a percentage. For example, if the index linked to the annuity gained 10% and the cap rate was 5%, the gain in the annuity would be 5%. A spread is an amount that will be subtracted from any gain in the index linked to the annuity and is also generally stated as a percentage. For example, if the index gained 10% and the spread is 2%, the gain in the annuity would be 8%. If the index you select has a negative return in any given year, no interest would be credited to your contract. In recent years, FIAs have become popular since they capture some upside potential of an index while protecting your premium(s) on the downside. Some FIAs allow the insurance company to change participation rates, interest rate caps or spreads at stated intervals, such as annually or at the start of the next contract term. If an insurance company subsequently changes any of these rates, your return will be affected.

Buffered or structured annuities

Buffered or structured annuities (also known as Registered Index Linked Annuities) are a type of annuity allowing for long-term, tax-deferred investments, with performance based on an underlying index crediting strategy you choose. This product differs from other annuity types in that it typically caps the upside potential of your index-linked performance in exchange for downside protection in the form of a buffer, which provides a level of protection in the event of a loss of value in the underlying index. For example, a product offers a 10% buffer (downside protection) with a 15% cap. If the underlying index decreases by 15% over the relevant period, the first 10% drop in the value of the index is absorbed by the buffer and the portion of the contract value allocated to that index crediting strategy would lose 5%. In this example, the insurance company would absorb the first 10% drop in the underlying index and the remaining 5% loss would be absorbed by you. However, if the underlying index is up 17% over the relevant period, the portion of the contract value allocated to that index crediting strategy would gain 15%. In general, the greater the downside protection provided by a product, the lower the cap. It's important to understand the various downside protections and upside limitations prior to choosing this type of product. Buffered or structured annuities may offer several different index crediting strategies with various term lengths (e.g., five-year point-to-point).

Depending on your contract terms you may be able to take withdrawals, transfer out of an index crediting strategy or even annuitize before the index term is complete. However, in such an event, an interim value may be used to determine the value of the indexed account and for a death benefit payout that occurs before the index term is complete. This interim value calculation varies by insurance company and the amount may be less than or greater than the amount you allocated to the indexed account. It's important to remember the interim value is impacted by various economic factors, including but not limited to, index movements, market rate movements and volatility. The insurance carrier may reserve the right to remove certain index crediting strategies in the future, which may limit the remaining options available to you. You also may not be able to transfer out of an index option until the end of the term. Please refer to the product prospectus or discuss any questions you may have with a Wealth Manager.

Variable annuities

Variable annuities offer tax-deferred growth based upon the performance of mutual fund-like investment options, called "separate accounts." The investment options you select are typically mutual funds that invest in stocks, bonds, money market instruments or some combination of the three. As a result, variable annuities are securities registered with the Securities and Exchange Commission ("SEC"), and sales of variable insurance products are regulated by the SEC and the Financial Industry Regulatory Authority ("FINRA"). Unlike a fixed indexed annuity, your account value is typically invested in the market and will subsequently fluctuate during the accumulation period based on the performance of the investment options selected. You may typically transfer funds from one investment option to another within the annuity without paying tax on investment income and gains, although you may be limited as to the number of transfers and you may be charged by the insurance company for any such transfers depending upon the terms of your annuity contract. Variable annuities may also allow you the option to allocate part of your purchase payments to a fixed account which, unlike a mutual fund, pays a fixed rate of interest similar to a traditional fixed annuity. The insurance company may renew this interest rate periodically, but will usually provide a contractually guaranteed minimum rate. Before considering a variable annuity, you should be informed about its characteristics. It is important that you carefully read the annuity prospectus, which can be obtained from your First Republic Wealth Manager or the insurance company. The prospectus contains important information about the annuity contract, including fees and charges, investment options, death benefits, optional riders and annuity payout options. You should compare the benefits and costs of your annuity to other annuities and investments.

Variable annuity fees and expenses

In addition to the surrender charges previously discussed, your variable annuity will contain other fees and expenses. These fees and expenses are typically charged as a percentage of your account value or as a flat fee and commonly include:

- Asset-based fees
- Mortality and expense (M&E) risk charge. The M&E risk charge compensates the insurance company for the actuarial insurance risks it assumes under the annuity contract.
- Administrative fees. Administrative fees may be assessed by the insurance company to cover distribution and other expenses associated with servicing the annuity.
- Contract maintenance (or annual) fees. A flat annual fee (e.g., $50) is typically assessed for record-keeping and administrative purposes, and is commonly waived if the contract value exceeds a certain value.
- Fund expenses. Fund expenses are charged by the separate accounts and include management fees paid to the investment advisor responsible for making investment decisions affecting your separate accounts, similar to the investment manager's fee in a mutual fund. These expenses will also include the costs of buying and selling securities for the fund and administering trades.

Variable annuities: Share class options

In order to meet investor needs, insurance companies offer a variety of contract structures, called "share classes," with varying fees and surrender charge periods. Certain share class options may not be suitable for all annuity purchasers.

The table below provides important information regarding various share class options commonly offered by insurance companies:

Share Class	Surrender Charge Period	Surrender Charges	Contract Fees	Common Utilization
B Share	6-8 years per contribution	Commonly start at 8% and decline each year to 0% over the surrender charge period	• Asset-based fees generally range from 1.15% to 1.45% • Contract maintenance fees generally range from $0 to $50 • Fund expenses generally range from 0.70% to 2.50%	• Those with a long-term time horizon (e.g., 7+ years) and those who do not need access to their full investment value until the end of the surrender charge period • Those who want the lowest-cost annuity
L Share	3-4 years per contribution	Commonly start at 8% and decline each year to 0% over the surrender charge period	• Asset-based fees generally range from 1.50% to 1.75% • Contract maintenance fees generally range from $0 to $50 • Fund expenses generally range from 0.70% to 2.50%	• Those needing earlier access to their investment (e.g., 3-4 years) • Those willing to pay higher fees in exchange for a shorter surrender charge period
C Share	Fully liquid (none)	0% immediately	• Asset-based fees generally range from 1.65% to 1.80% • Contract maintenance fees generally range from $0 to $50 • Fund expenses generally range from 0.70% to 2.50%	• Those valuing immediate access to their investment • Those willing to pay higher fees in exchange for full and immediate liquidity
Bonus or X Share	8-9 years per contribution	Commonly start at 9% and decline each year to 0% over the surrender charge period	• Asset-based fees generally range from 1.40% to 1.85% • Contract maintenance fees generally range from $0 to $50 • Fund expenses generally range from 0.70% to 2.50%	• Those with a long-term time horizon (e.g., 10+ years) • Those seeking a premium bonus or investment credit to help outweigh the higher cost of the annuity

Striking the right balance between liquidity and accessibility to your investment, contract fees and charges, your time horizon for your annuity investment and any potential income needs are all important factors that should be discussed with your Wealth Manager.

Other common features and benefits of annuities

As stated above, annuities offer a number of potential benefits not generally found in other investment products. In addition to tax-deferred growth, many annuity contracts also include waivers. Waivers give you 100% access to your contract value during the surrender charge period, assuming certain conditions are met. For example, if you are admitted to a nursing home for an extended period of time (e.g., 30 days) or deemed terminally ill, the insurance company will waive any applicable surrender charges for partial or full liquidations. Waiver conditions vary by contract. Annuities also help you avoid probate. By simply naming a beneficiary, the assets of your annuity are transferred directly to your beneficiaries without passing through probate. Certain variable annuities may also boast the ability to reallocate among investment options without paying fees or taxes. Optional riders such as enhanced living and death benefits may offer additional value to investors. These features are discussed in greater detail in the follow sections.

Living benefits

Certain annuity products offer living benefits that provide premium and income guarantees to protect your retirement income from declining markets. There are four basic types of living benefits offered in many of today's variable annuities, each discussed in greater detail in the following chart. Certain FIAs may also offer living benefits.

Living Benefit Options	Benefit Description
Guaranteed Minimum Accumulation Benefit (GMAB)	Generally this benefit guarantees the return of your purchase payments or a higher stepped-up value at the end of a waiting period, typically 10 years from issue or the last step-up, regardless of your investment performance. If your contract value is below the guaranteed amount at the end of the waiting period, the insurance company will increase your contract value to equal the guaranteed amount (adjusted by any withdrawals).
Guaranteed Minimum Income Benefit (GMIB)	This benefit typically guarantees a lifetime income stream when you annuitize the GMIB amount, after a specific holding period (e.g., 10 years), regardless of your investment performance. Most insurance companies provide GMIBs with some flexibility for taking earlier withdrawals under certain guidelines. Withdrawals reduce the value of the benefit. A GMIB can provide income protection for an individual or a couple.
Guaranteed Minimum Withdrawal Benefit (GMWB)	Generally these benefits guarantee a return of your purchase payments over a specified number of years (e.g., 7% payments for 14.2 years).
Guaranteed Lifetime Withdrawal Benefit (GLWB)	The lifetime GMWB (or GLWB) can provide annual income over a lifetime of an individual or a couple. Certain benefits may provide for a higher stepped-up benefit base via a roll-up percentage and/or positive market performance.

Death benefits

Most deferred annuity contracts include a standard death benefit where your named beneficiary is guaranteed to receive a specified amount — typically the greater of the contract value at the time of death or the amount of your purchase payments, adjusted for any withdrawals. Annuities may also offer "enhanced" death benefits for an additional charge. Enhanced death benefits are usually found in variable annuities and give you the right to periodically "lock in" your investment performance and/or guarantee a minimum rate of return. Upon death, the greater of the standard death benefit or the enhanced death benefit is distributed to your beneficiaries.

Other important considerations

Taxation of withdrawals

Annuity contracts may offer the right to withdraw a stated amount without incurring surrender charges. However, withdrawals from annuity contracts may be subject to federal, state and local taxes. When taxable earnings are paid out, they are taxed as ordinary income. Earnings withdrawn prior to age 59½ may also be subject to a 10% IRS penalty. You should consult with a tax advisor before purchasing any annuity contract and prior to taking distributions.

Annuities in tax-advantaged retirement accounts

Tax-deferred growth is a significant advantage of investing in an annuity. However, if you are investing in an annuity through a tax-advantaged account, such as an IRA or other retirement plan where tax-deferred growth is available, there is no additional tax benefit to you. You should consider buying an annuity through a tax-advantaged account only if other unique annuity features are available, such as a living or death benefit.

Section 1035 tax-free exchanges and IRA annuity transfers/rollovers

It is possible for an existing annuity contract to be exchanged for a new annuity contract without a tax consequence (known as a "section 1035" exchange, named for the applicable provision of the Internal Revenue Code). These tax-free exchanges or transfers can be useful if another annuity has more attractive features than the one you currently own. Purchasing a new contract with an existing contract may begin a new surrender charge period. Further, the new annuity may have higher annual fees and charges than your previous annuity. Carefully consider all features and benefits available on an existing contract before exchanging or transferring to a new annuity.

Spousal continuance

Certain annuity contracts may allow your spouse to continue the contract after your death. This feature, known as a spousal continuation feature, may allow the surviving spouse to lock in a higher death benefit amount and delay a taxable event for the new named beneficiary.

Complexity

A potential drawback of annuities is their complexity. Investors may not be able to fully understand exactly what the investment entails and thus may be at the mercy of the insurance company selling the product to be educated about the risks and rewards.

High costs

High fees can often be associated with annuities, which can make them among the most expensive investment products on the market. Make sure you are aware of all fees, including initial commissions, ongoing investment management fees and early withdrawal fees. To test whether it is really worth it to take on the fees for an annuity, compare the cost of the annuity with a no-load mutual fund.

Free-look period

Annuity contracts typically have a "free-look" period of 10 or more days (this amount varies by state), during which you can terminate the contract without paying any surrender charges and get back your purchase payments (which may be adjusted to reflect charges and the performance of your investments).

During any "free-look" period, you should ask any remaining questions and review your contract to ensure it contains all the provisions you and your Wealth Manager agreed upon.

How First Republic and your Wealth Manager are compensated for annuity sales

First Republic and your First Republic Wealth Manager are compensated by the insurance companies whose products we sell.
First Republic and your First Republic Wealth Manager are paid based on the type of annuity, share class selected (if variable), the amount invested, the insurance company and the commission option selected by the First Republic Wealth Manager. When you purchase an annuity, the insurance company pays First Republic a commission. These commissions generally range from 0.25% to 7% based on the value of your purchase payment(s). First Republic may also receive future ongoing payments known as "trail" commissions. Trail commissions generally range from 0% to 1.25% per year based on your invested assets. In general, the higher the initial commission selected, the lower, if any, the trail commission(s). All commissions are paid out of the insurance company's assets and are derived from product fees and expenses described in the prospectus. First Republic pays a portion of initial and trail commissions to First Republic Wealth Managers. First Republic may receive additional financial support from insurance companies in the form of "marketing support payments."

The marketing support payments that First Republic receives from insurance companies are not paid to First Republic Wealth Managers, and a First Republic Wealth Manager's compensation is not tied to such payments.

Consider all costs, risks and expenses of investing in an annuity

Although annuity contracts typically have a "free-look" period, you should learn about the specific annuity you are considering before you invest. Before making any purchase decision, you should consider all costs, fees and expenses associated with an annuity and whether such a purchase is consistent with your risk tolerance, liquidity needs, potential long-term care needs, life expectancy and your ability to understand all features of an annuity. Because of the potential cost savings to you, it is also important that you discuss potential alternative

products such as mutual funds and life insurance with your First Republic Wealth Manager before purchasing a variable annuity product. All applications are subject to review and approval by a designated registered principal of First Republic.

Because of the complexity of annuities, you should understand the features, risks and costs prior to making a purchase. Numerous factors should be weighed before purchasing an annuity including but not limited to your age, income, financial situation and needs, goals, risk tolerance, time horizon, diversification needs, intended use for the annuity and future liquidity requirements. Because annuities are long-term investments and will often have surrender charges, you should be careful not to invest a large portion of your liquid net worth into annuity contracts.

Learn more about annuities

First Republic is fully committed to helping you understand your annuity investment. To learn more about annuities, please contact your First Republic Wealth Manager. In addition, clients may review the FINRA website at finra.org or the SEC website at sec.gov. Many states also have regulatory bodies that provide information regarding annuities, such as the State of California Department of Insurance.

Please contact your First Republic Wealth Manager if you have questions about investing in an annuity or your existing annuity contract.

Investment Advisory services are provided by First Republic Investment Management, Inc. Trust and Fiduciary services are offered through First Republic Trust Company, a division of First Republic Bank; and First Republic Trust Company of Delaware LLC and First Republic Trust Company of Wyoming LLC, both wholly owned subsidiaries of First Republic Bank. Brokerage services are offered through First Republic Securities Company, LLC, Member FINRA/SIPC. Insurance services are provided through First Republic Securities Company, DBA Grand Eagle Insurance Services, LLC, CA Insurance License #0I13184, and First Republic Investment Management, DBA Eagle Private Insurance Services, CA Insurance License #0K93728.

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