



Variable annuities: A versatile tool in the modern retirement toolbox

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Introduction: Why VAs belong in today's retirement planning toolkit

- For clients who want to grow their assets while addressing the risks that come with retirement, **variable annuities (VAs) can be a valuable addition to the planning toolbox.**
- Many financial professionals use VAs not only for **guaranteed* income**, but to help **manage market volatility, offer greater tax flexibility, and support legacy planning.**
- After all, retirement planning today is about more than simply accumulating assets. Investors need tools that can support their progress and help them plan for the standard of living they've worked hard to achieve—especially when there's less time to recover from setbacks.
- VAs offer features that support these needs, including access to a **wide range of investment options, tax-deferred** growth, and the ability to tailor strategies over time** through optional riders available for an additional fee.

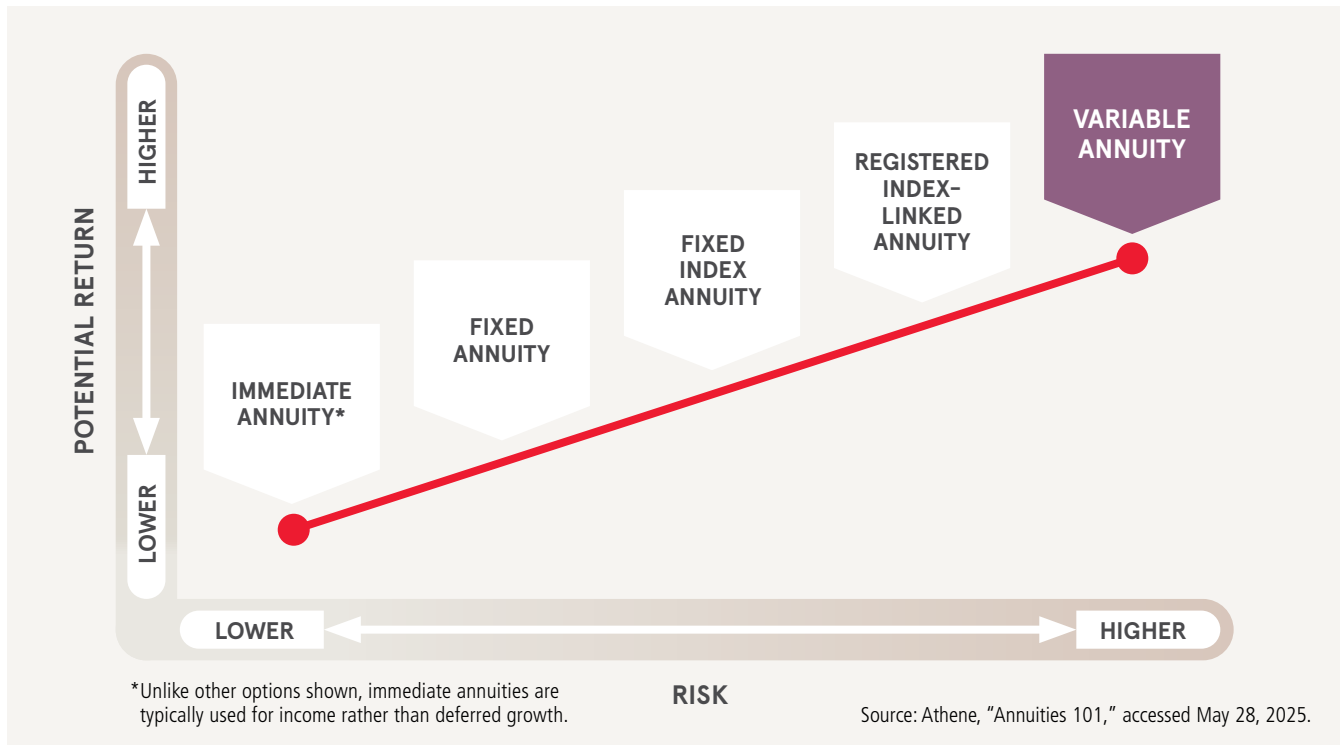
What is an annuity?

Annuities are long-term, tax-deferred vehicles designed for retirement and are insurance contracts. Variable annuities and registered index-linked annuities involve investment risks and may lose value. Earnings are taxable as ordinary income when distributed. Individuals may be subject to a 10% additional tax for withdrawals before age 59½ unless an exception to the tax is met. Add-on benefits are available for an extra charge in addition to the ongoing fees and expenses of the variable annuity and are subject to conditions and limitations. There is no guarantee that a variable annuity with an add-on benefit will provide sufficient supplemental retirement income.

* Guarantees are backed by the claims-paying ability of the issuing insurance company.

** Tax deferral offers no additional value if an IRA or a qualified plan, such as a 401(k), is used to fund an annuity and may be found at a lower cost in other investment products. It also may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

COMPARING ANNUITY RISK AND RETURN POTENTIAL



Variable annuities: Balancing risk and reward

Here's how variable annuities differ from other types of annuities—and what to consider when evaluating their role in a retirement plan.

- **Market exposure:** Unlike fixed index annuities (FIAs) and registered index-linked annuities (RILAs), variable annuities allow contract owners to **invest directly in market assets**, outside the insurer's general account.¹
- **Investment risk:** Contract holders bear full investment risk unless they choose to convert assets into a guaranteed income stream through annuitization or an income benefit rider.²
- **Structure:** VAs are often compared to mutual funds because they offer investment features such as subaccounts that provide market-based exposure. Performance depends on each subaccount, which invests in a specific underlying mutual fund or portfolio of mutual funds.³
- **Planning factors:** Portfolio selection may be influenced by available investment options, fees, and tax treatment. VAs offer **greater growth potential** than other annuity types, but also **higher downside risk**, with values that fluctuate based on investment performance.

¹ FINRA, Investment Products Annuities, accessed January 5, 2026.

² Smartasset, "Who Assumes the Risk With a Variable Annuity," October 13, 2023.

³ FINRA, Investment Products Annuities, accessed January 5, 2026.

KEY BENEFITS AND FEATURES OF VAs

SEPARATE ACCOUNTS AND CREDITOR PROTECTION	Owners directly own and can manage investments held in separate accounts , protected from the insurer’s creditors.
BROAD INVESTMENT CHOICES	Investment-only VAs (IOVAs) , offer access to diverse assets, including real estate, commodities, and alternatives ⁴ —often appealing to high-net-worth investors seeking tax-efficient management.
NO CONTRIBUTION LIMITS	Unlike 401(k)s, nonqualified VAs have no IRS contribution limits . ⁵ Insurer approval may be required for contributions over \$1 million.
TAX DEFERRAL ADVANTAGES	Gains grow tax-deferred and are taxed as ordinary income upon withdrawal , potentially making VAs valuable for tax-inefficient investments , such as actively managed funds with frequent turnover. Withdrawals must come from gains before principal, and beneficiaries owe taxes on inherited gains.
NO GUARANTEED PROTECTIONS	Unlike RILAs or FIAs, standard variable annuities typically do not offer defined terms or built-in features designed to limit losses or manage downside risk .
INSURANCE RIDERS	Optional riders available for an additional fee can add guaranteed lifetime withdrawal benefits (GLWBs) or death benefits to preserve a minimum inheritance value.

GUARANTEED LIFETIME INCOME RIDERS

Many deferred annuities, including VAs, offer the option to convert the contract value into monthly income through annuitization. While this provides lifetime income, it also **permanently locks up assets**⁶—leading many retirees to seek alternatives.

Converting to income or purchasing immediate annuities can mean giving up control of the initial investment in exchange for guaranteed lifetime income.

To offer greater flexibility, insurers developed the **guaranteed lifetime withdrawal benefit (GLWB)**, which provides lifetime income with the option for **intermittent lump-sum withdrawals**. It’s available for an additional fee on many VAs, FIAs, and fixed-rate annuities.

Some insurers also offer **contingent deferred annuities (CDAs)**, which provide GLWB-style lifetime income features in a standalone structure rather than within a variable annuity.

⁴ Brighthouse Financial, “A Guide to Investment Options within a Variable Annuity,” May 2, 2018.

⁵ Western & Southern Financial Group, “6 Annuity Benefits to Consider,” November 11, 2024.

⁶ Rebecca Lake, Smartasset, “Annuitization vs. Lifetime Withdrawals for Annuities,” January 19, 2023.

⁷ Ashley Kilroy, Smartasset, “What Is a Contingent Deferred Annuity (CDA)?” October 8, 2025.

HYPOTHETICAL EXAMPLE: CALCULATING MONTHLY INCOME WITH A GLWB[†]

SCENARIO: A 65-year-old couple invests \$500,000 in a VA with a balanced portfolio (60% stocks / 40% bonds) and adds a GLWB rider with a 1.5% annual fee.

At age 70:

- The couple **activates the GLWB**.
- Their **contract value is still \$500,000**.
- Their **guaranteed lifetime income** is calculated at 6% of that amount:

➔ $\$500,000 \times 6\% = \$30,000/\text{year for life}$

If the market drops and the contract value declines to \$450,000 by age 70:

- The **higher \$500,000 value** is still used for income calculation (thanks to GLWB lock-in).

➔ $\text{Still } \$30,000/\text{year for life}$

At age 72:

- They take an **additional \$50,000 withdrawal**, beyond the allowed GLWB amount.
- What happens? The insurer applies a **proportional reduction** to the guaranteed income base.

➔ $\text{New base} = \$450,000$

➔ $6\% \text{ of } \$450,000 = \$27,000/\text{year for life}$



✓ Summary takeaways:

- GLWBs can protect income **even if the market drops**, as long as the value is locked in at activation.
- **Exceeding the allowable withdrawal** can reduce future guaranteed income.
- This structure provides **predictable income** with **some flexibility** for lump-sum needs.

[†] This hypothetical example is for illustrative purposes only. It is not intended to predict or project specific investment results or income amounts.

As retirement income expert Moshe Milevsky explains, a GLWB functions like a **long-dated put option** on the annuity’s investment value—providing downside protection if markets fall. Contract holders can use the higher of the account value or a guaranteed floor to determine income.⁸

When a variable annuity contract contains both after-tax principal and tax-deferred gains, the GLWB rider can also help **unwind taxable gains over time**.

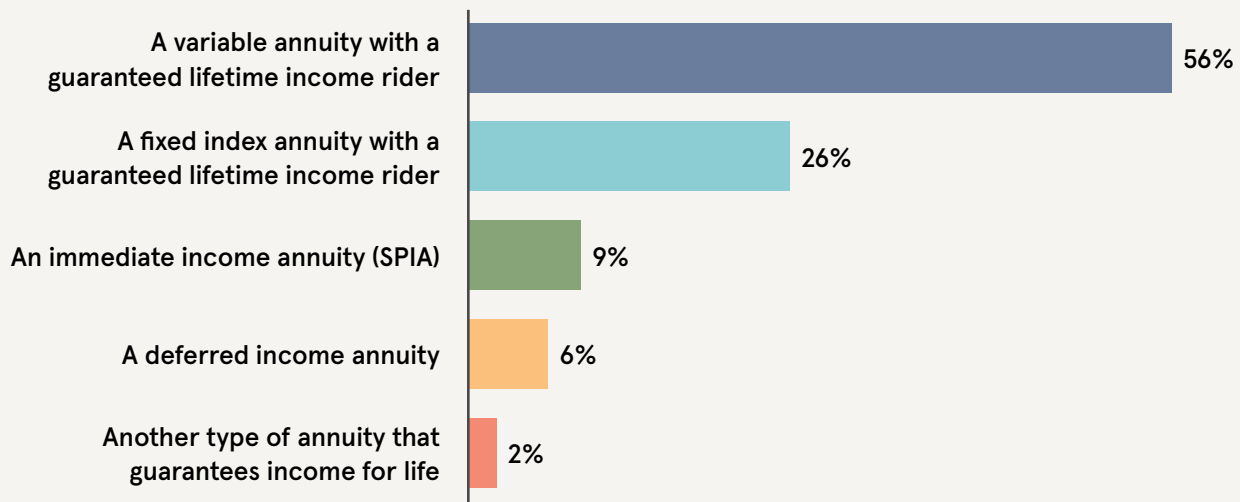
According to DPL Financial Partners, this creates an opportunity to **spread income distributions** and potentially **reduce the overall tax impact**.⁹

Variable annuities also can support **tax-aware strategies** such as harvesting losses and **maximizing tax-deferred growth**. As the market rebounds, the recovered account value—along with any deferred gains—can be used to generate **tax-efficient income** through a living benefit.¹⁰

While variable annuities are typically linked to investment growth, income-focused riders like the GLWB can provide added income and principal protection. This may help explain why nearly three in five financial professionals surveyed by Jackson recommend a VA with an income rider when suggesting annuities that provide guaranteed lifetime income.

The finding comes from Jackson’s research on longevity risk, conducted in partnership with the Center for Retirement Research at Boston College as part of our Security in Retirement Series.

Types of guaranteed lifetime income annuities financial professionals recommend most[†]



* Among those who recommend such annuities to their clients who are retired or within five years of retirement.

[†] Jackson’s study on addressing longevity risk, conducted in partnership with Greenwald & Associates and the Center for Retirement Research at Boston College, surveyed 400 financial professionals with three or more years of experience at a firm with at least 75 clients and \$30 million in assets under management. Surveys were conducted online from June 12 to July 7, 2023.

⁸ Moshe Milevsky and V. Kyrychenko, SSRN, “Portfolio Choice With Puts: Evidence from Variable Annuities,” November 27, 2007.

⁹ DPL Financial Partners, “Using Annuities in Today’s Market,” January 30, 2023.

¹⁰ Ibid.

DIFFERENT PRIORITIES, DIFFERENT TOOLS

Variable annuities with GLWBs can help clients secure predictable retirement income and help reduce exposure to market risk. But they're just one way to **manage the risks that can derail retirement plans—including sequence-of-returns risk and tax drag.**

For clients who want continued **investment flexibility, cost transparency, and tax-deferred growth, investment-only variable annuities (IOVAs)** may offer another valuable option. These products are designed for long-term accumulation and income access without income guarantees, allowing clients to **prioritize investment flexibility and tax efficiency.**¹¹

IOVAs: TRANSPARENT, COST EFFECTIVE AND INVESTMENT-FOCUSED

IOVAs simplify the annuity structure by removing income riders and embedded insurance charges, allowing clients to focus on **investment growth and minimizing tax exposure.**¹² They may be especially useful when clients:

- Own **actively managed or high-turnover investments**
- Want to **defer taxes** on earnings **without sacrificing access**
- Prefer a **streamlined approach** to long-term asset growth and income planning

IOVAs are often positioned as offering greater flexibility and transparency and available at a lower cost than traditional variable annuities.¹³ The result: more money stays invested and working for the client.

IOVAs also offer access to a wide range of investment options—including **actively managed funds** and **alternative asset classes** such as real estate, commodities and hedge fund offerings¹⁴—which can support personalized allocation approaches.

IOVAs FOR TAX-SMART RETIREMENT PLANNING

For higher-net-worth clients, IOVAs can be a flexible tool for **retirement income planning, asset location, and tax deferral.** The structure allows continued access to **professionally managed portfolios** while deferring gains until they're withdrawn—providing important flexibility as clients navigate **changing income needs and market cycles.**

“For investors who want the tax advantages of an annuity without the high fees or restrictive features, an investment-only variable annuity (IOVA) offers a compelling alternative.”

—Smartasset¹⁵

¹¹ Smartasset, “What Is an Investment-Only Variable Annuity (IOVA)?” September 26, 2023.

¹² Ibid.

¹³ Arturo Conde, Smartasset, “What Is an Investment-Only Variable Annuity (IOVA)?” October 8, 2025.

¹⁴ Robert Bloink and William H. Byrnes, Think Advisor, “Are IOVAs the Future of Variable Annuities,” April 24, 2017.

¹⁵ Arturo Conde, Smartasset, “What Is an Investment-Only Variable Annuity (IOVA)?” October 8, 2025.

Because they shield investment gains from annual taxation, IOVAs can help **avoid tax drag**, especially for clients holding **REITs, commodities, or actively managed mutual funds** in taxable accounts.¹⁶

Some IOVA subaccounts also offer **managed volatility strategies** designed to adjust allocations during periods of market stress. While outcomes aren't guaranteed, these strategies may help clients **sustain withdrawals during volatile or declining markets**.¹⁷



IOVA FEATURES AT A GLANCE

Cost efficiency	Why it matters
• Little to no mortality and expense risk fees	Helps reduce overall client costs
• Flat monthly contract fee	Transparent pricing with no hidden charges
• Modest annual policy fee	Lowers ongoing costs
• No rider fees or embedded add-ons*	Keeps focus on investment growth
Flexibility and control	
• Flexible distribution options	Choose how and when to access assets
• No insurance underwriting	Approval with fewer restrictions
• Tax-free exchanges and transfers	Maintain tax deferral during repositioning
• 1035 tax-free policy exchange	Enables efficient movement between contracts
Investment access	
• Open architecture	Broad access to managers and strategies, including alternatives
Legacy planning	
• Inherited non-qualified annuity stretch option	Helps beneficiaries manage distributions
• Beneficiary protections	Supports wealth preservation and transfer goals

* Add-on benefits are available for an additional charge.

Source: Rick Roche, Advisor Perspectives, "Investment-Only Variable Annuity – A 'Back-to-the-Future' Variable Annuity Vehicle," February 28, 2022.

¹⁶ K. Orian Williams, Investments & Wealth Monitor, "The Case for Using Advisory Variable Annuities with High Earning and High-Net-Worth Clients," September-October 2023.

¹⁷ Roche, Rick, "Investment-Only Variable Annuity – A 'Back-to-the-Future' Variable Annuity Vehicle," Advisor Perspectives, February 28, 2022.

TOOLBOX PROFILE: HOW VAs CAN HELP MANAGE MAJOR RETIREMENT RISKS

RISK TYPE	HOW VARIABLE ANNUITIES MAY HELP
Longevity and income risk (outliving savings or insufficient income)	Customizable to offer lifetime income benefits , helping retirees avoid the possibility of outliving their savings.
Market risk (investment volatility and losses)	Many VAs provide optional riders like GLWBs that help manage market downturns while preserving growth potential .
Tax risk (tax-efficient growth and withdrawals)	Tax-deferred growth means earnings aren't taxed until withdrawn, helping enhance long-term compounding.
Sequence-of-returns risk (market losses early in retirement)	VAs can offer guaranteed income through annuitization or optional riders, which may help support income stability during market downturns.
Inflation risk (rising prices erode purchasing power over time)	VAs can support inflation protection through market-linked growth and optional cost of living adjustment (COLA) riders that adjust income over time.
RISK TYPE	HOW IOVAs MAY HELP
Tax risk (tax-efficient growth and withdrawals)	Enable tax-deferred growth without immediate tax consequences, supporting tax efficiency for high-net-worth investors.
Market risk (investment volatility and losses)	IOVAs offer open-architecture investment options and broad asset manager access to support diversified risk management .
Sequence-of-returns risk (market losses early in retirement)	By deferring withdrawals and using tax-free fund transfers , investors may seek to better manage distributions during periods of market stress.
Inflation risk (rising prices erode purchasing power over time)	IOVAs help address inflation risk through market-driven growth and investment choices with the potential to outpace rising costs .

WHEN TO CONSIDER A VA: COMMON RETIREMENT SCENARIOS

Having explored the features of variable annuities, here are several retirement use cases where they could serve as a valuable tool:

- 1. Clients concerned about outliving their assets**—VAs with lifetime income riders—GLWBs—can help ensure income continues even if the account balance is depleted.
- 2. Tax-deferred growth for high earners**—Investors who have maxed out their 401(k) and IRA contributions may use nonqualified VAs to defer taxes on investment gains.
- 3. Market participation with income security**—Unlike direct market investments, VAs can offer optional features for an additional fee that are designed to help manage the effects of market downturns, which may appeal to more risk-averse retirees.
- 4. Legacy planning**—Most VAs include basic death benefits as a standard feature—often with optional enhanced versions for an additional cost—that can help guarantee a minimum payout to beneficiaries regardless of market conditions.
- 5. Managing sequence-of-returns risk**—For retirees withdrawing funds, VAs can help stabilize income by locking in guarantees and reducing the impact of market volatility.

Putting the tools to work: Supporting better retirement outcomes with variable annuities

- Retirement brings new challenges, and managing risks effectively can instill confidence and security during this exciting next life chapter.
- In this phase of life, products that combine investments with insurance may offer better results than relying on investments alone.
- Variable annuities provide market growth potential, tax advantages, and optional income protection—making them a useful tool for managing key retirement risks.
- They can help address longevity risk, sequence-of-returns risk, and other common planning concerns.
- For financial professionals with RIAs, no-commission VAs and IOVAs are now more accessible, helping align these tools with fee-based planning approaches.
- While not a fit for every client, excluding annuities entirely may overlook an important part of a well-rounded retirement strategy.
- For financial professionals, familiarity with VAs and IOVAs can inform conversations around growth, security, and income flexibility.
- Choosing the right tools depends on each client's goals, risk tolerance, and financial picture.
- When used strategically, annuities can help build more resilient retirement plans and support better outcomes in an uncertain future.

To learn how variable annuities can help address retirement risks and support holistic retirement planning, financial professionals should connect with their Jackson representative.

RIAs and wealth managers should call 800/711-7397 and financial professionals on insurance platforms should dial 800/711-7305.



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