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Financial Planning

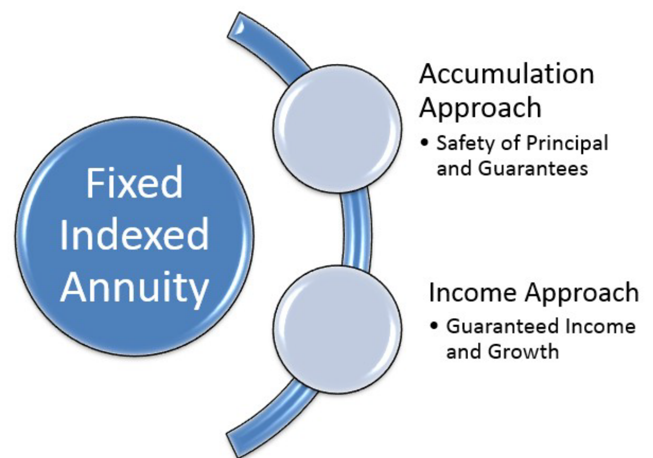
# Fixed-Indexed Annuities

## Growth and Safety for Your Retirement

For many retirees, the difference between a more secure future and a more uncertain one is the success of their retirement income strategies. Fixed indexed annuities (FIAs) can offer individuals principal protection, a death benefit for beneficiaries, and in some cases a guaranteed lifetime income stream. In addition, because annuities are tax-deferred, interest will compound without current tax. The tax-deferred aspect of these products will allow your money to grow faster because you don't pay taxes on the interest earned until it is distributed to you.

### Fixed Index Annuity Approaches

With fixed indexed annuities, individuals might consider two different approaches to the product. With an income approach, for an additional fee, a policy owner can select a guaranteed lifetime income benefit rider to supplement retirement income. With an accumulation approach the focus is on safety of principal and guarantees and seeking an alternative to a fixed investment in hopes of earning more in a strong market. With either approach, the policy owner has several investment options from which to choose.




### Accumulation Approach

With the accumulation approach, the policy owner is looking for tax-deferred growth that could potentially grow more than other fixed investments, with downside protection.

Most contracts offer a fixed rate option that will pay a rate guaranteed by the insurance company for a specified period of time. When that time passes, the interest rate can be adjusted but will not be reduced below a minimum rate established by the company.

What makes a fixed indexed annuity different than a fixed rate annuity is that the policy owner has the option to allocate funds to indexed based accounts that will pay interest based on the change in the price of a market index. If the selected index has positive growth for the time period selected, the annuity will credit returns subject to an interest rate cap or spread. This means returns will be less than the return of the specified index. If the index is

negative for the period, most contracts offer an interest rate floor of 0%, so the contract will not lose value (as long as it is not surrendered prior to the end of the surrender charge period).

Each contract is different and offers a variety of crediting methods which can be a bit complicated. Policyholders and their advisors should take great care to be sure the crediting methods are understood prior to purchase.

## Income Approach

With the income approach, the values are invested the same as in the accumulation approach, but an additional fee is charged to purchase an optional Guaranteed Lifetime Withdrawal Benefit (GLWB). These riders are structured differently between companies, but often the riders include a separately tracked “income value” that is separate from the policy’s account value. This income rider is not actual cash that can be withdrawan from the contract, but rather the value that is used to calculate lifetime income for one or two lives. Some riders offer a guaranteed interest rate growth of the rider to guarantee a rate of return of the income value for a certain number of years.

Policy owners should always be clear that the income value is not “real” money, and the guaranteed growth of this value has nothing to do with the return of the policy’s account value.

## How a GLWB it works:

For example, a fixed indexed annuity offering a rider with an 8% (simple interest) GLWB feature might work as follows: *(Note: this example is hypothetical and does not pertain to any specific investment)*

- Initial Premium Payment at age 55: $100,000
- Income Value at age 65: $180,000
- Simple interest at 8% for 10 years
- 5% Annual Lifetime Withdrawal at age 65: $9000 ($180,000 x 5%)

***All withdrawals reduce the account value and death benefit of the annuity.***

## Access to the Funds

If you withdraw money from a fixed indexed annuity within a certain period after a purchase payment (typically within five to eight years, but sometimes longer), the insurance company usually will assess a withdrawal charge, which may also be called a contingent deferred sales charge. Typically, contracts will allow you to withdraw 10% of your account value without paying a withdrawal charge. Also, any withdrawals prior to age 59 1/2 (an age set by law) may be subject to additional fees and penalties. ■

Guarantees are backed by the claims paying ability of the insurance company. A fixed indexed annuity is intended for retirement or other long- term needs. It is intended for a person who has sufficient cash or other liquid assets for living expenses and other unexpected emergencies.

A fixed indexed annuity is not a registered security or stock market investment and does not directly participate in any stock or equity investments, or index. Income taxes are due upon withdrawal and if withdrawn before age 59½, an additional 10% federal tax may apply. withdrawals and surrenders may be subject to surrender charges and a Market Value Adjustment. Loss of principal is possible in a fixed indexed annuity if the contract is surrendered before the end of the surrender term.