

Annuity Fast Facts: Fixed Indexed Annuities

ANNUITY FAST FACTS

A series to create increased awareness of annuities by providing market color, friendly tips, and interesting stats at-a-glance.

A deferred annuity is a long-term tax deferred investment issued by an insurance company and purchased through a qualified professional.

There are four main types:



Less risk
Less reward potential



More risk
More reward potential

FIXED INDEXED ANNUITIES

Fixed indexed annuities can provide a degree of market upside with full protection against market loss.

Did you know?

For more than 5 decades, conservative investors have used fixed annuities that offer more interest than what's typically paid on bank Certificate of Deposits (CDs) while still maintaining a guarantee against loss.

Today, investors have another option. Fixed indexed annuities (FIAs) provide the same principal guarantee as traditional fixed annuities. For investors willing to give up the certainty of returns provided by traditional fixed annuities, FIAs have the potential to return more per year than fixed annuities.

- Unlike fixed annuities though, FIAs offer a return based on the change in price in a reference index, such as the S&P 500. They typically also offer a minimum guaranteed interest rate each year.

Not an alternative to stocks!

While interest earned may be determined by an equity index, FIAs should never be thought of as an alternative to equities. Because the insurance company protects the investor against loss, the investor can only earn interest on a portion of any positive return in the index, regardless of which crediting strategy is used to calculate interest.

Tax fact: keep more to earn more

With a fixed indexed annuity, interest in an investor's contract grows tax-deferred and annual tax savings stay in the account to earn interest, thereby growing savings faster, until funds are withdrawn. Contrast that to a CD, where earned interest is taxable every year.

A powerful feature

In an FIA, interest is calculated based on the return of the index over a specific crediting period (typically one-year long). For any crediting period that the reference index declines, an investor would earn 0% interest, but would not take any losses. More importantly, when a new crediting period starts, investors don't have to wait for the market to recover before they begin to earn interest - returns for each crediting period are calculated based on the index's level at the start of each crediting period.

- For example, if the price of the index falls one crediting period from 4,000 to 3,000, an investor will not earn any interest. For the next crediting period, the index level starts at 3,000, and the investor can earn interest as long as the index level is higher than 3,000 at the end of the crediting period.
- Fixed indexed annuities and structured annuities together accounted for 40% of overall annuity sales in 2021 as investors sought to balance protection and growth.¹

Interesting stat

While traditional fixed annuities have been around longer than FIAs, many investors today are more willing to trade a certain return for an unknown, but potentially higher, return.

Know that FIAs:

- May earn 0% interest in a crediting period if the market declines
- Are not FDIC insured like CDs are. Guarantees under a fixed annuity contract are backed by the issuing insurance company and subject to its claims paying ability
- Are considered a long-term investment, typically carrying penalties (such as a surrender charge) if money is withdrawn during the stated surrender period
- Come with an additional 10% federal tax penalty for withdrawals prior to age 59½

READ ON

Our previous [article on fixed indexed annuities](#) explains how they work and the role they play in an investment portfolio. Find it, along with our complete library of articles and videos on [simon.io/engage](#)

1 Deferred Annuities – [What goes into the buying decision?](#) – Secured Retirement Inst., 2019

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