

# Benefits of Fixed Indexed Annuities (FIAs)

An insurance product with an investment element

## Fixed Indexed Annuities (FIAs) continue to grow in popularity.

Annuity sales smashed through barriers in the fourth quarter of 2023, setting records along the way. In fact, for the last two years, annuity sales have exceeded records originally set in the Great Recession of 2008. Indexed annuity sales for the fourth quarter of 2023 were \$27.9 billion, up 19.8% when compared to the previous quarter, and up 29.1% when compared with the same period last year. "Indexed annuities have now sold over a trillion dollars since their introduction in 1995," said Sheryl Moore, CEO of Wink, Inc.



### 1 Transform savings into income.

When you purchase an annuity, you are exchanging a lump sum of money for an agreed upon income stream. Fixed annuities are appealing to retirees because they transform savings into a predictable income.

### 2 Growth potential.

While FIAs don't directly invest in the stock market, they offer potential interest account growth based, in part, on the performance of a specified index, such as the S&P 500®. If the index has a positive return within the crediting period, the FIA policy may be credited with interest. Note that the interest credited can be limited by factors such as a cap, spread, and/or participation rate. Discuss any limitations prior to making a final decision.

### 3 Protection of principal.

Although an external index may affect credited interest, the contract does not directly participate in any equity or fixed income investments. This means you cannot lose principal due to market declines. It is important to understand that FIAs are long-term products, which means there are

holding periods during which surrender charges may apply. On withdrawals in excess of the free withdrawal amount, a market value adjustment (MVA) may also apply during the surrender charge period.

### 4 Income guarantee.

Annuities are designed to pay you a monthly income either immediately or in the future. FIAs are a type of deferred annuity. All annuities allow you to have guaranteed income through annuitization. Policyholders may choose not to annuitize, since it means they will no longer have access to the contract value. Some FIAs have policy riders, known as income riders, that also allow for guaranteed income, but without requiring annuitization, as well as the option of adding a spouse. Since about one out of every four 65-year-olds today will live past age 90, and one out of 10 will live past age 95, according to the Social Security Administration, FIAs with guaranteed lifetime income riders are attractive to retirees who are worried about outliving their savings but still want the option to access the contract value (if any is available).

## 5 Tax-deferred growth.

FIA's offer 100% tax-deferred growth. You're not taxed on interest earnings while your money stays in the annuity. If you take a withdrawal or begin receiving payments, just like a 401(k) or traditional IRA, they are taxed as ordinary income based on your income tax rate at the time. Similarly, if payments begin before age 59-1/2, an additional 10% federal tax may apply.

## 6 Bond-like replacement.

Many investment advisors believe FIA's closely approximate bonds and other fixed-rate products, such as savings accounts or CDs. Historically-low interest rates being paid on those accounts have contributed to FIA's becoming a popular alternative, especially with their potential for greater growth and compound interest based on market performance, avoiding actual exposure to market risk.

## 7 More options.

Annuity policies continue to grow and evolve. Many FIA's offer add-on riders for different needs. These include, for example, a rider that can help address inflation concerns or one that can be used to provide a pool of funds for qualified long-term care needs. Each policy is different, and insurance companies offer varying coverage as they compete and improve their policies and riders based on consumer demand.

# Common Misconceptions

### If you die early, you will lose your policy.

FIA's are insurance products that have changed and evolved, and many now allow spousal survivorship, as well as allowing you to name a beneficiary to receive a death benefit. Death benefits are available to named beneficiaries prior to annuitization. Benefits available once income has begun will depend upon the payout option chosen and may be limited.

### You'll lose access to your cash with no real guarantee you'll see the benefit.

Financial professionals may offer FIA's as part of a complete, balanced strategy. With dramatic longevity increases in the last decades, the lifetime income rider is an important option to consider because it provides an alternative to annuitization. Additionally, some policies waive surrender charges for disability, unemployment or terminal illness.

### There are high commissions and fees.

Sales commissions on FIA's are paid by the insurance company offering the policy. FIA's are typically sold for commissions based on a few factors, including the surrender period. Some are sold on a fee-based model through institutional channels. Depending on your objectives, your financial advisor will provide you with the fees and commission costs for FIA's, compared with other annuity and retirement income strategies you may be considering. Growing numbers of investment professionals consider FIA's to be a safe alternative or complement to bonds and other fixed-income securities within investors' portfolios, when appropriate. While no financial product is 100% guaranteed, many financial professionals and their clients do see the value that a guaranteed income can bring to someone's plan for retirement.

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