FAQs

Frequently Asked Questions

FOR FIAs

What is a fixed indexed annuity?

What are the benefits of a Fixed Indexed Annuity (FIA)?

PROTECTION & SAFETY

With FIAs, retirees no longer have to choose between investment safety and growth.

In 2008, people lost an unprecedented amount of retirement savings because of stock market volatility. However, those with fixed indexed annuities experienced no losses due to market downturns. Since then, there has been a growing interest in FIAs from retirement savers who are uncomfortable with the volatility that comes with traditional investing.

Many investment advisors think that FIAs more closely approximate bonds or other fixed rate products, except with the potential for gains during up markets. With FIAs, gains are credited systematically based on your specific contract.

An FIA is backed by the strength of the insurance company that underwrites the policy.

TAX-DEFERRED GROWTH

FIAs offer 100% tax-deferred growth. And you are not taxed on interest earnings while your money stays in the annuity. Once you do start receiving payouts, just like a 401(k) or traditional IRA, they're taxed as ordinary income based on your income tax rate at the time, and similarly, if taken before age 59-1/2, an additional 10% federal tax may apply.

However, unlike 401(k)s or traditional or Roth IRAs, FIAs offer guarantees and protection against market downturns based on the strength of the underlying insurance company.

INTEREST AND ACCUMULATION POTENTIAL

If you're a retiree or pre-retiree uncomfortable with volatility and risk, you may have moved money into savings or money market accounts. If so, you've experienced the historically low interest rates being paid on these accounts. FIAs have become a popular alternative by offering the potential for greater growth and compound interest based on market performance, without exposing your savings to market risk.

WHO SHOULD CONSIDER AN FIA?

People who are retired or getting ready to enter retirement are the ideal candidates to consider fixed indexed annuities as part of their financial portfolio.

Today's longer life expectancies increase the need for sustainable, reliable income in retirement. The average 65-year-old couple today has a 52% chance that at least one spouse will reach the age of 95, based on the Annuity 2012 Generational Mortality Table. FIAs offer guarantees that make them very attractive to retirees who do not want to outlive their income.

What exactly is an FIA?

A fixed indexed annuity (FIA) is a contract between you and an insurance carrier that provides income guarantees. While FIAs don't directly invest in the stock market, they have the potential to help people protect assets in the form of a principal guarantee, plus offering potential growth based on the performance of a specified index, such as the S&P 500®.

It is important to remember that your money is not actually invested in the stock market, which is why the principal you put into the policy is not affected by market downturns. The stock, bond or commodity index serves as a benchmark only, and the policy pays interest based on a formula related to index performance.

1

SURRENDER PERIOD

FIA policies will charge fees for the first five to 10 years if you cancel the policy. This is called the "surrender period." After the surrender period, there are no charges to withdraw a portion or all of your funds.

2

SPREAD

Some annuities determine interest by a spread. For instance, if an FIA has a 4% spread and the index increases 10%, the contract is credited 6% interest.

3

PARTICIPATION RATE

With some FIAs a specific percentage is given relative to an index's performance. For instance, if the participation rate was 75% and the market rose by 10%, the contract would receive 7.5% in indexed interest. This is generally applied after caps and before a spread.

4

FLOORS AND CAPS

Some FIA contracts offer a specified, minimum amount your policy will be worth, regardless of index performance, called a "floor." Other contracts may include a "cap," or maximum amount of growth, regardless of how well the index on which the contract is based performs. Uncapped policies are also available, offering you unlimited potential growth.

5

PAYOUTS

In general, there are two ways to receive income payments from an FIA—annuitization payments or income withdrawals. There are different tax ramifications for each option, so it is important to get tax advice from your accountant or qualified tax professional before choosing a payout method. You may extend the amount of income you receive through the purchase of an optional income rider to the FIA.

How does an FIA accrue interest?

Because FIAs don't directly participate in any stock or equity investment, an FIA's value will not be affected by negative markets, sometimes called "downside protection." On the other hand, if the index has a positive return for the year, the FIA policy is credited with interest—sometimes called "upside potential."

Each FIA policy has a formula for the way interest is calculated and credited that falls into four basic categories:

Annual reset

- Which adjusts the policy floor based on measures the change in the market index over a one-year period.

Point-to-point / term

- Which is similar to the annual reset, but the period is usually five to seven years.

Annual high-water mark with look back

- Which uses the highest anniversary value to determine the gain.

Monthly averaging

- Which measures the index performance once a month on a specified day, and then at the end of each year, the insurance company adds them up and divides by 12.

WHAT ARE SOME OTHER OPTIONS AVAILABLE WITH FIAs?

Through optional riders, fixed indexed annuities offer features which can be added to FIA policies for additional fees, allowing customization based on individual need. For instance, one popular rider with retirees is the lifetime income option, meaning the annuity will keep paying you a certain amount of income throughout your lifetime, regardless of how long you live.

Other riders include a guaranteed death benefit for beneficiaries, long-term-care coverage, future cost-of-living or inflation adjustments, joint or spousal survivorship, and surrender charges waived for disability, unemployment or terminal illness.

Each policy is different, and insurance companies offer varying stipulations and coverages as they compete and improve their policies and riders based on consumer demand.

What are the trends with FIAs?

Annuities are continuously evolving, and the features and benefits of an FIA today are much different than they were even a few years ago as insurance companies continue to innovate.

FIAs have attracted the attention of thousands of people seeking a balance between risk and reward. Fixed indexed annuity sales in the U.S. were a record $53 billion in 2015, an increase of 13 percent over 2014 according to Wink's Sales & Market Report.

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