

Why Consider a Fixed Indexed Annuity To Secure Your Retirement?

Top 5 Benefits You Need To Know



If you're looking for a reliable way to save for retirement and enjoy a lifetime income stream, a fixed indexed annuity (FIA) might be just what you need. An FIA offers several intrinsic benefits that can help you achieve your financial goals and ensure peace of mind in retirement. From principal protection and tax-deferred growth to guaranteed lifetime income and upside potential, the advantages of an FIA are hard to ignore. Let's explore the top five benefits of FIAs and how they can help you build a secure retirement.

1. Safety and Security

During times of economic volatility or downturns, traditional retirement accounts may incur losses, jeopardizing the financial security of those saving for retirement. For example, the average retirement account decreased by 20% between 2021 and 2022, dwindling from \$135,600 to \$104,000.¹ You can insulate yourself from market ups and downs with an FIA.

Fixed indexed annuities provide peace of mind and protection against market volatility through a guaranteed minimum interest rate and protection of your principal. This means that even if the stock market index used to calculate the FIA's returns experiences negative growth, your money will not be affected.

The insurance company backing the FIA assumes the investment risk, and it uses a portion of your principal to purchase financial instruments, such as bonds, to support the guarantee. As a result, FIAs provide a level of safety and stability that is often sought after by those who want to ensure their retirement savings are protected.

In addition to principal protection, insurance companies are generally subject to more stringent regulatory oversight and capital requirements than other types of financial institutions, reducing the likelihood of insolvency. According to the Federal Deposit Insurance Corporation (FDIC), there were 566 bank failures from 2001 through 2023.² In contrast, insurance company failures (known as insolvencies or liquidations) are relatively rare with only 31 during the same 23-year period, according to the National Organization of Life and Health Guaranty Associations.³

Insurance companies are required by state regulators to set aside reserves to guarantee the annuity's principal, the guaranteed minimum interest rate, and any other guarantees offered by the annuity. The purpose of these reserves is to ensure the financial stability of the insurance company and its ability to fulfill its contractual obligations to annuity holders. This provides a high level of protection in the event market downturns or other unforeseen events impact the insurer's ability to fulfill its obligations.

It's important to select a reputable insurance company that has a strong financial foundation and a history of financial stability. This can be determined, in part, by a company's ratings from an independent rating agency such as AM Best or Standard & Poor's. These ratings provide an assessment of the company's financial strength, stability, and ability to meet its financial obligations. You should choose an insurer with a high rating.

Overall, FIAs offer a high degree of safety and security due to principal protection and the reserve requirements and regulatory oversight that govern them.

2. Tax-Deferred Growth

Earnings in an FIA grow tax-deferred, meaning you don't pay taxes on any interest or gains until you withdraw the money. This allows your earnings to compound over time, leading to potentially higher returns in the long run. For example, if you invest \$100,000 in a tax-deferred account and earn an average of 5% per year for 30 years, your investment would grow to \$432,194. However, if you had to pay taxes on the investment earnings each year at a combined federal and state tax rate of 25%, your investment would grow to only \$301,747 over the same period.

The benefit of tax-deferred growth is that you can potentially save money on taxes by deferring them to a later date when you may be in a lower tax bracket. Additionally, if you're able to maximize your contributions to a tax-deferred FIA, you may build a larger retirement nest egg and increase your chances of achieving your financial goals.

3. Guaranteed Lifetime Income

To cover expenses during retirement, Americans are working longer than ever before. Workers ages 75 and older are the fastest-growing age group in the workforce, more than quadrupling in size since 1964.⁴ FIAs can provide a guaranteed stream of income you can't outlive, ensuring a steady income and financial security in retirement.

Annuities are the only financial vehicle that can guarantee lifetime income. This is achieved through annuitization or the use of an optional rider, known as a Guaranteed Lifetime Withdrawal Benefit (GLWB).

The GLWB rider allows annuity owners to receive a guaranteed stream of lifetime income regardless of how long they live or how the FIA's underlying investments perform. By offering guaranteed lifetime income, FIAs provide a valuable benefit to retirees who want to ensure a secure retirement and the peace of mind of knowing they will have a steady stream of income for the rest of their lives.

4. Upside Potential

The S&P 500® Index, one of the most commonly used indices for FIAs, has a historic annualized average return of around 10.26% since its 1957 inception through the end of 2023.⁵ Who wouldn't want to capitalize on a portion of that growth in an FIA without risking their money to market-related loss? FIAs offer the potential for gains based on the performance of a stock market index, without the downside risk.

A fixed indexed annuity offers upside potential by allowing you to earn returns based on the performance of a stock market index, such as the S&P 500, without being exposed to the full downside risk. Although the annuity's return is linked to the performance of the index, instead of receiving the full return, the annuity's return is capped at a certain percentage or subject to a participation rate. This means that if the index performs well, the annuity holder can earn returns up to the cap or the participation rate, but if the index performs poorly, the annuity's principal is protected. This benefit offers the potential for market-linked gains while also providing downside protection.

Overall, the upside potential of FIAs can be a significant advantage for those looking to grow their retirement savings. However, it's important to understand the risks and limitations of FIAs, including caps on returns and any fees associated with the product.

5. Estate Planning

FIAAs can also be used for estate planning, allowing you to designate beneficiaries who will receive any unused funds upon your death. Some FIAAs even offer an enhanced death benefit rider for an additional cost to maximize an inheritance.

By using an FIAA for estate planning, you can ensure that your loved ones will receive the full surrender value of the annuity, less any applicable taxes, even if you pass away before receiving all of the guaranteed income payments.

This can be particularly beneficial if you have heirs who may be subject to estate taxes or if you want to avoid probate. With an FIAA, you can help ensure that your heirs receive the assets you intend for them and help provide for their financial future.

Whether you're just starting to plan for retirement or looking for ways to supplement your existing retirement income, an FIAA can be a valuable addition to your portfolio. Contact your insurance professional today for personalized guidance and help exploring the different options available to you. Don't wait any longer to secure your retirement.

Fixed indexed annuities may not be suitable for all. To help determine if an annuity meets your unique financial situation and liquidity needs, consult a licensed insurance agent. In addition, please thoroughly review all marketing materials, specimen contracts and riders, buyer's guides, and forms related to the annuity for costs and important details. Insurance agents do not give investment, legal, or tax advice. Annuities held within qualified plans do not provide any additional tax benefits. Withdrawals may be subject to income tax, and a 10% federal income tax penalty may apply to withdrawals taken before age 59½. Additionally, surrender charges and a market value adjustment may apply if you withdraw more than the penalty-free amount in a year. Fixed indexed annuities guarantee a minimum interest rate on all or a percentage of each contribution over the life of your contract, less any withdrawals and/or deductions and early surrender charges. Guarantees are based on the claims-paying ability of the insurer.

Tax deferral is available only to individuals. Under current tax law, tax deferral is a basic feature of qualified plans. Placing qualified funds into an annuity does not provide any additional tax benefit.

1. Daniel de Visé, "Nearly half of baby boomers have no retirement savings," Yahoo Finance, <https://finance.yahoo.com/news/nearly-half-baby-boomers-no-10000906.html>, (May 8, 2023).
2. "Bank Failures in Brief – Summary," FDIC, <https://www.fdic.gov/resources/resolutions/bank-failures/in-brief/index.html>, (accessed June 26, 2024).
3. "Impairments and Insolvencies," National Organization of Life and Health Insurance Guaranty Associations, <https://www.nolhga.com/factsandfigures/main.cfm/location/insolvencies>, (accessed June 26, 2024).
4. Richard Fry and Dana Braga, "The Growth of the Older Workforce," Pew Research Center, <https://www.pewresearch.org/social-trends/2023/12/14/the-growth-of-the-older-workforce/>, (December 14, 2023).
5. J.B. Maverick, "S&P 500 Average Return and Historical Performance," [Investopedia](https://www.investopedia.com), (January 3, 2024).

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