

9 Things You Should Know about Fixed Index Annuities

As you're nearing retirement or perhaps in the midst of retirement, deciding what to do with the nest egg that you've built can be stressful. One option that guarantees an income stream for life is a fixed index annuity (FIA). Simply put, FIAs are an insurance product that are designed to protect the nest egg that you've spent most of your life building. Fixed index annuities are a tax-deferred, long-term financial tool designed for growth and safety. And while that in itself is great, let's take a look at some of the other benefits that FIAs provide, based on Patrick Kelly's *Stress-Free Retirement*.

1. FIAs provide tax deferral

Interest that is credited within an annuity is not reportable to the IRS. Rather than being taxed when it is credited, it is instead taxed when it is withdrawn. Therefore receiving the credited interest does not subject your Social Security benefits to double taxation. So not only will the money in an annuity grow faster, but it could also potentially save you hundreds, if not thousands, of dollars in excessive taxation.

2. FIAs provide insurance for your nest egg

As previously stated, fixed index annuities, at their core, are insurance products. Previous generations of annuities focused primarily on ensuring a retiree did not outlive their income. While that is still true of annuities today, there are now additional features that only benefit retirees even more. Not only will annuities guarantee an income stream for the remainder of your life, but fixed index annuities also protect your money from loss. Which leads us to number 3:

3. FIAs provide upside potential with no downside market risk

Although this can be explained in far more detail, for today, we'll keep it simple. With a fixed index annuity, you are able to participate in a portion of the market index's linked gains during positive years, but sustain none of the losses during negative periods. This allows the nest egg that you've worked hard to build to continue to grow without being subjected to extreme market volatility.

4. FIAs generally charge no annual management fee

Fixed index annuities, in their most basic form, generally do not charge any annual management fees or expenses to the owner. There is no annual 1% or 2% drawdown of a client's total account. Of course, individuals selling FIAs do make commission, however that is paid in a one-time, lump-sum commission and is not an ongoing percentage of your total portfolio value. Additionally, the agent's commission also does not get subtracted from the amount that you put into your annuity. Instead, it is paid directly to the agent from the insurance company's general funds or profits. In short, the money paid to the agent is not coming out of your account.

5. FIAs may pay an initial deposit bonus

So, not having to pay the agent directly out of your account is great, but FIAs actually get better. Many fixed index annuities actually pay you a bonus on the initial purchase amount. This means you'll start your fixed index annuity journey with more money than you originally started with.

6. FIAs offer penalty-free withdrawals

After your fixed index annuity has been in force for 12 months, you are then allowed to make penalty free withdrawals. While the amount you're allowed to withdraw varies

from company to company, it's most commonly an annual 10% withdrawal provision. This offers you more liquidity without having to pay additional fees.

7. FIAs can provide guaranteed lifetime income

One of the greatest advantages to a fixed income annuity is also one that is most commonly misunderstood. In its simplest form, an FIA is an accumulation vehicle to build your nest egg. For individuals whose highest priority is having an annual income, FIAs are a fantastic option. They allow you to turn an entire pot of money into a lifetime stream of income – one you will not outlive. However, this feature is not mandatory. So, an individual with different priorities does not have to use the income feature of a fixed index annuity.

8. Most FIAs lock in credited interest

There are many wonderful features of fixed index annuities but this is what really gives FIAs their appeal: the Reset Provision. This provision not only protects your original investment from any market losses, but it also protects all interest that is credited to your account as well. So even during negative market years, your account will not lose any value. Basically, the only way the amount of your annuity is going to decrease is if you withdraw the money yourself or if you surrender the money early and pay a penalty.

9. FIAs can offer avoidance of probate

Because an annuity is technically an insurance contract with listed beneficiaries, it generally pays the benefit owed to the beneficiary very quickly, without having to struggle through the probate. This allows heirs and other beneficiaries to receive the money within days or weeks as opposed to months or years.

Fixed index annuities are, of course, more extensive than these nine characteristics. For more information on fixed index annuities and to discover if they're a good fit for you, reach out to our office and we will send you a copy of *Stress-Free Retirement* and get you started with an FIA representative.