



INDEXED ANNUITY
LEADERSHIP COUNCIL



RELIANCE
INSURANCE & ADVISORY

Fixed Indexed Annuities 101

Experience freedom. Enjoy a retirement complete with guaranteed lifetime income, market downside protection, and minimal risk.

We answer all your questions inside.



What is a fixed indexed annuity? How does it work?

A fixed indexed annuity, or FIA, is a retirement product that provides you guaranteed income during your retirement.

FIA's are sold by insurance companies. When you purchase an FIA, either in a single lump sum or in multiple payments over time, the insurance company invests that money and credits interest to your annuity. Unlike a 401(k), however, the insurance company absorbs the risk of market downturns, guaranteeing that you will receive – at minimum – the principal amount you paid at purchase. In other words, the value of your money will never decline due to market loss for as long as it is in the FIA; but it does have the opportunity to increase, depending on the performance of the index it is linked to.

What is the difference between FIA's and variable annuities?

FIA's guarantee a minimum fixed rate of return, regardless of market volatility, whereas the rate of return for variable annuities depends on the performance of the linked stock, bond, or money market investment. With FIA's, the insurance company assumes the risk, protecting the principal from market volatility for the annuity holder. With a variable annuity, this is not the case; the consumer assumes the risk.

I have a strong 401(k) or similar account. Why would I need an annuity?

A strong 401(k) is undoubtedly a key component of one's retirement plan, but diversifying your portfolio to balance risk and growth is a wise move. FIA's are a smart way to minimize risk for retirees because you won't lose money during a market downturn. As long as the contract funds are not withdrawn through the surrender period, the principal is guaranteed by the insurance provider.

What are the benefits and downsides of FIA's?

The key benefit of an FIA is that it offers growth potential with principal protection from market loss. Unless you surrender your contract early, you cannot lose money. Your principal is guaranteed even if the linked index drops. Another benefit is that, as with a 401(k), any growth is tax-deferred.

It's also worth noting that if withdrawn before retirement age or the full length of the contract, FIA's are subject to surrender charges. FIA returns are also often capped, meaning that there is a limit to how much the annuity holder can gain in a year, even when the index performs very well. But remember, even if the index goes down, the FIA doesn't lose value.

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Is lifetime income really guaranteed?

Yes, as long as you hold the annuity for the full term of the contract. Liquidating annuities before the contract ends will result in a surrender fee, which varies by provider. Before purchasing an annuity, speak to the insurance provider to find out the exact terms of these fees, and evaluate your comfort level with the terms of the contract.

Are FIAs safe to purchase?

FIAs are safe to purchase for anyone who is comfortable with the structure of the product. A risk to an FIA is if the insurance company becomes insolvent and cannot pay its claims, but in this highly unlikely scenario, state-run insurance guaranty associations could cover a portion of the annuity. Still, it is recommended that anyone interested in an FIA, or any insurance product, consider the financial strength rating and historical performance of the insurance company from which they intend to purchase.

“Once interest is credited to an annuity, it is locked, and is not subject to market volatility.”

If my FIA balance grows one year, can I lose those gains the next?

Once interest is credited to an annuity, it is locked, and is not subject to market volatility. The timeline for when gains are locked in depends on the crediting strategy. For most FIAs, gains are locked in at the end of each year. If, for example, an FIA purchased in the amount of \$100,000 were to earn 3% in its first year, the insurance company would consider \$103,000 to be the new “floor,” guaranteeing this amount through the following year. The same process occurs annually through the end of the FIA contract.



Is an FIA right for me?

Before determining if an FIA is right for your portfolio, make sure you understand the specific product features, and if the benefits align with your goals.

An FIA may be right for you if you...

- have a retirement plan in place, but want to reduce the risk in your portfolio
- want a steady stream of retirement income during retirement
- want growth potential, coupled with principal protection from market loss
- seek a guaranteed minimum rate of return that never varies, regardless of market swings

An FIA may not be right for you if you...

- are very comfortable with risk and fluctuations in your portfolio balance
- have already incorporated into your portfolio other financial products that protect against market volatility
- anticipate you may need to cash in your annuity before the full term of the contract or before you reach retirement age

Some websites warn me against FIAs – why?

Not all annuities are created equally – and not all information about annuities is complete or factual. It is best to get your information from reputable sources. Always work with a licensed professional to review your financial needs to see if a FIA is right for you. FIAs are safe to purchase as long as you are comfortable with the structure of the product. Because market risk is absorbed by the insurance company, the only way to lose your principal balance is to withdraw the full amount of your annuity before the contract ends.

Can I make an early withdrawal if I need to?¹

Yes, you can make a partial withdrawal from your FIA as needed before the contract concludes. Most annuities have a penalty free withdrawal amount, although the exact percentage allowed varies based on the provider. Many annuities have various liquidity features. Be sure to understand these options before purchasing an annuity. While partial withdrawals within the allowed limits are not subject to surrender charges, the IRS may charge a 10% tax if these withdrawals occur before age 59 1/2. A full cash out from the FIA before the contract is complete, however, will result in a surrender charge from the insurance company as well as an IRS penalty.

“While an early partial withdrawal is allowed within your FIA, the exact percentage allowed varies based on the provider. Be sure to understand these options before purchasing an annuity.”

¹The Coronavirus Aid, Relief and Economic Security Act, or the CARES Act, waives the annual Required Minimum Distributions on certain tax-qualified annuities and retirement accounts for calendar year 2020 and may impact withdrawals for FIAs. Speak with your financial professional for the latest.



What happens when I die? Can my spouse continue to collect income?

As with other insurance policies, you are able to designate a beneficiary(ies) to your FIA contract. The balance of your FIA contract will be distributed to your beneficiary(ies) in accordance with the terms of your specific contract and IRS guidelines.

What about inflation?

Although FIAs guarantee lifetime income, inflation has the power to diminish the purchasing power of that income. It is therefore recommended that purchasers work with a financial professional who can help them understand their target income for retirement, and how to build a balanced portfolio with enough growth potential to account for inflation.

I read about performance caps. What does that mean?

FIAs typically include a cap on the amount an FIA will credit in a given year. In some other cases, FIAs do not have a cap, but in these instances, the insurance company may reduce the interest credited by a fixed percentage of the annual returns.

Should I purchase directly from an insurance company or go through a financial professional?

Working with a financial professional who is licensed to sell FIAs is advised. This person will be able to help you determine your risk appetite and identify the FIA that best fits your individual needs.

If I want to learn more or purchase an FIA, where do I begin?

Individuals interested in learning more or purchasing an FIA should speak first to their financial professional.



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