



# The Fixed Annuity Umbrella

Fixed annuities are a popular choice for individuals preparing for retirement who want a guaranteed interest rate and a stream of income they can't outlive. Yet, there remains confusion about how fixed indexed annuities in particular work. Read on to familiarize yourself with these powerful products.

**Fixed indexed annuities and declared rate (or "set rate") annuities both live under the fixed annuity umbrella.**

## How they're similar

### Fixed indexed and declared rate annuities:

- Are contracts issued by life insurance companies
- Offer accumulation (or "pay-in") benefits, annuity (or "pay-out") benefits and death benefits
- Are regulated by the National Association of Insurance Commissioners (NAIC)
- Must follow the same 1) standard non-forfeiture laws (SNFL), 2) reserving requirements, and 3) disclosure laws

Additionally, all fixed deferred annuities must provide contractually guaranteed annuitization payouts and the promise that premium and prior interest earned will never be affected by any negative performance of the insurance company's investment portfolio or the negative performance of a market index.

## How they're different

The primary difference is how the contractual interest is determined and calculated, but that difference does not affect the predictability of income.

### In a declared rate annuity contract:

- The insurance company determines the interest rate at the time of contract purchase
- That rate may be subject to change, though guarantees that protect the annuity owner against loss due to investment or market risk of his or her premium and interest credited remain<sup>1</sup>
- The guaranteed level of return will always provide a guaranteed level of income that the owner cannot outlive

### In a fixed indexed annuity contract:

- The owner enjoys the same type of contractual guarantees as other fixed annuities
- The determination of the contract value is the higher of either the SNFL value or the accumulation based on the performance of an outside market index (e.g., the S&P 500)
- Owners receive guaranteed minimum SNFL values, but also the additional possibility of earning a somewhat higher interest rate over time

**In other words, fixed indexed annuities offer the same guarantees as traditional fixed products but with more upside potential. As consumers sought protection from ongoing market volatility and continued uncertainty, fixed indexed annuity sales soared to record heights, exceeding \$79.8 billion in 2022<sup>2</sup>!**

<sup>1</sup> A general qualification regarding contractual guarantees that applies to both declared rate fixed annuities and indexed rate fixed annuities is that the contracting insurance company's sales and operational costs necessarily must be recouped and State laws generally allow companies to charge surrender charges and to guarantee only 87½% of premiums paid, but over time interest accumulations assure that the contract's guaranteed minimum value will be at least equal 100% of the principal paid, and surrender charges do not apply after a set period.

<sup>2</sup> Secure Retirement Institute, U.S. Individual Annuity Sales Survey, Fourth Quarter 2022, LIMRA