The Annuity Buyer's Guide

25 Questions Answered in Plain English

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I Need Guaranteed Monthly Income

Section 1

1. What is a lifetime income annuity and how does it create a personal pension?

A lifetime income annuity (structured as a fixed indexed annuity with an income rider) transforms your savings into a guaranteed stream of income you cannot outlive. Think of it as building your own pension: you deposit a lump sum, let it grow during a deferral period, and then turn on predictable monthly payments for as long as you live.

2. How is my future income amount determined?

Your income is calculated from an "income base" -- a separate number from your account value. During the deferral period, this income base grows at a guaranteed rollup rate (often 5-8% annually). The longer you wait to turn on income, the larger your monthly payments.

3. When should I turn on my income -- and can I wait?

You choose when to activate income payments. Waiting longer means higher monthly payments because your income base continues to grow. Most people activate between ages 65 and 75, but there is no mandatory start date. Once activated, payments are locked in for life.

I Need Guaranteed Monthly Income

Continued

4. What happens to my income if the market crashes?

Nothing. Once your lifetime income is locked in, market downturns cannot reduce your payments. Even if your account value drops to zero from withdrawals, the insurance company is contractually obligated to continue your income payments for life. This is the core promise of an income annuity.

5. Can I use an income annuity as the foundation for my retirement plan?

Yes. This is called an income floor strategy. You use the annuity to cover your essential monthly expenses like housing, food, healthcare, and insurance. Once those essentials are guaranteed, you can invest the rest of your portfolio more aggressively -- because a bad market year does not threaten your lifestyle.

6. What is the difference between guaranteed and performance-driven income?

Guaranteed income grows at a fixed contractual rate regardless of market performance. Performance-driven income links growth to an index. The guaranteed version is predictable and reliable. The performance version sounds better on paper but rarely delivers as pitched. Always compare the guaranteed numbers.

I Want to Grow My Savings Without Market Risk

Section 2

7. How does a growth annuity let me participate in the market without the risk?

Your money is linked to a market index like the S&P 500 but is not directly invested in the market. When the index rises, you earn interest. When the index falls, your principal and previously credited interest are fully protected. The worst outcome in any period is 0% -- you earn nothing, but you never lose.

8. What returns can I realistically expect?

Over a full market cycle, growth annuities often outpace bond portfolios while carrying none of the downside risk. In 2022, when markets dropped 20%, FIA accounts returned 0% -- no losses. In 2024, some accounts returned 15-25%. The goal is not to beat the S&P. The goal is to grow your savings without the risk of losing them.

9. What are caps, participation rates, and spreads?

These determine your actual returns. A cap is the maximum you can earn in a period. A participation rate is the percentage of index gain you receive. A spread is a fee deducted from credited interest. Always compare these numbers net -- they determine what you actually earn.

I Want to Grow My Savings Without Market Risk

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10. When does a growth annuity make sense vs. staying in the market?

Growth annuities are ideal for people nearing retirement who cannot afford a major loss. If a 30% market drop would change your retirement timeline, a growth annuity protects a portion of your savings while still capturing upside. Many use them as a buffer strategy.

11. What should I look for and avoid in a growth annuity?

Look for: strong carrier ratings, competitive cap and participation rates, stable renewal history, transparent terms. Avoid: excessively low rates, complicated hybrid indexes with no track record, unclear fee structures, poor company ratings. If the product is too complex to explain, that is a red flag.

I Am Worried About Long-Term Care Costs

Section 3

12. What is a long-term care annuity?

A fixed indexed annuity with special riders that multiply your benefit when you need qualified care services -- nursing home, assisted living, or in-home caregiving. Unlike traditional LTC insurance, there are no use-it-or-lose-it premiums. If you never need care, your money continues to grow and passes to your beneficiaries. Nothing is wasted.

13. How does the LTC benefit work when I need care?

Benefits are triggered when you cannot perform Activities of Daily Living such as bathing, dressing, eating, or transferring. Once triggered, the annuity multiplies your payouts (often 2-3x account value) to cover nursing home, assisted living, or in-home caregiving costs.

14. What happens if I never need long-term care?

Your account continues to grow with index-linked interest. You can access 10% annually for non-LTC expenses. When you pass away, the full account value passes to beneficiaries. Every year you do not need the benefit, the LTC base increases. Nothing is wasted.

I Want to Minimize Taxes in Retirement

Section 4

15. What is a Roth conversion and why do people do it?

A Roth conversion moves pre-tax retirement money into an after-tax Roth account. You pay taxes now but all future growth and withdrawals are tax-free. People do this because they believe tax rates will be higher in the future.

16. How does a Roth conversion work inside an annuity?

Some people convert Traditional IRA annuities to Roth to lock in tax-free growth. Others roll money into annuities specifically for Roth conversion because they want the asset protected from market losses during the tax recovery period. In a Roth annuity with an income rider, this means tax-free income for life.

17. What is the tax hit and how do I manage it?

The converted amount is taxable income in the year of conversion. You can do partial conversions over multiple years to stay in lower brackets. Be aware that the income spike may temporarily affect Medicare premiums.

I Want to Minimize Taxes in Retirement

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18. When does a Roth conversion NOT make sense?

It may not be ideal if you expect a much lower tax bracket in retirement, if you lack outside funds to pay the tax bill, or if the income spike would severely impact Medicare premiums or tax credits.

19. What happens to my Roth money when I die?

Funds pass to your beneficiaries tax-free. While they must follow distribution rules, the distributions they receive are completely tax-free. This makes Roth accounts one of the most efficient wealth transfer tools available.

General Annuity Questions

Section 5

20. What types of money can I use to fund an annuity?

After-tax dollars, IRAs, Roth IRAs, SEP IRAs, 403(b) plans, 401(k) plans, or Transfer on Death accounts. Moving money into an annuity is classified as a rollover or transfer and is not a taxable event.

21. How are annuity earnings taxed?

Growth inside a fixed indexed annuity is tax-deferred. You pay no taxes until you take distributions, unless using a Roth. Withdrawals are taxed as ordinary income.

22. Is my annuity FDIC insured?

No. Fixed indexed annuities are backed by the State Guaranty Association, which provides similar protection. Look for carriers with strong financial strength ratings and a solid asset-to-liability ratio. Due diligence on the carrier matters.

General Annuity Questions

Continued

23. What happens to my annuity when I die?

Beneficiaries receive the account value or guaranteed death benefit, whichever is greater. This avoids probate and provides streamlined asset transfer. Some contracts offer enhanced death benefit options.

24. How do I access my money before the surrender period ends?

Most contracts allow 10% penalty-free withdrawal annually. After the surrender period (typically 5-10 years), the account is fully liquid. Taking large sums out during the surrender period may reduce future benefits or incur surrender charges.

25. How do I find a good annuity and spot a bad one?

Look for: strong carrier ratings, transparent terms, competitive rates, and clear guarantees. Avoid: low rates, complicated hybrid indexes, hidden fees, and pressure to sign quickly. Always compare guaranteed values -- not marketing projections.