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Annuity Buyer's Guide (A) Working Group
NAIC

c/o Jennifer Cook, Senior Counsel for Life and Health Policy - JCook@naic.org

Re: 8-3-26 Draft Revised Buyer's Guide

https://content.naic.org/sites/default/files/call_materials/2026.08.03-naic-annuity-buyer-s-guide.docx

Dear Members of the ABGWG:

I am a retiree and annuity contract owner. I depend on annuities for a considerable portion of my retirement income. Due to other demands on my time, I only recently became aware of this project. My first reading of the ABG was the draft Jen sent out on Monday, 8/3. I wish I had been involved earlier, because from my perspective as a consumer, this "guide" is completely off the mark - a glorified glossary rather than a real buyer's guide.

While I understand the need to provide consumer information on the NAIC and state insurance department websites, providing information that protects consumers is more important than reinventing the wheel ("Annuities for Dummies" by Kerry Pechter should be required reading for all annuity consumers). The average consumer and average insurance agent would be much better served with information that is absolutely essential to consider **BEFORE** making such a purchase - a purchase that includes long-tail risks for the buyer.

As I stated on the 8/4 ABGWG call, the current draft of the buyer's guide is like a quick-start guide for a chainsaw that omits all safety and protective gear warnings. After the 8/4 call, I asked ChatGPT to create an annuities buyer's guide. The result (which took less than 5 minutes to generate) follows this comment letter and is a substantial improvement over the 8/3 draft. Most notable is that the 8/3 draft makes no mention of the risks that accompany an annuity purchase (some of which are covered in the AI generated guide).

Here are specific items that need to be added to your guide - I've included both proposed guide language and why it's important to a buyer. I confess to using some AI-generated text to expedite putting this together for you - also, it could use editing for consistency and easier reading. After digesting this, I'm sure that you'll come up with other information that should be included, but at least adding the following information to the ABG will put this back on track as a **real** buyer's guide:

1. How to choose an insurance agent

Guide Language:

How to choose an insurance agent

Choosing an insurance agent helps save time, avoids coverage gaps, and provides a professional advocate during claims. To pick the right agent, evaluate whether they are independent or captive, check their state licenses and credentials, complaint/disciplinary record and ensure they specialize in your specific personal or business needs.

An insurance agent offers:

Expert advice: Agents explain complex policy details and risk management in plain language.

Multiple options: Independent agents shop across several competing insurance carriers to find the product that best meets your needs.

Claims support: An agent acts as your personal helper and advocate when you file a claim.

Tailored coverage: They help to customize policies to fit your needs.

Tips for choosing an insurance agent:

Determine agent type: Decide if you want a *captive agent* (who sells for only one company) or an *independent agent* (who compares multiple companies).

Verify credentials: Confirm the agent holds a valid license through your state insurance department and look for professional designations like CLU or CFP.

Check specialization: Find an agent who specifically focuses on annuities (what you are buying).

Ask the right questions: Inquire how many carriers they represent, how they handle claims processing, and if they charge any extra agency or broker fees.

Read reviews: Check local community feedback, online testimonials, and check with your state regulator's website consumer portal for any formal complaints.

Why this is important: Annuities are complex financial products. Consumers should avoid agents lacking knowledge or experience to provide good advice.

2. How to check an insurance agent's record for violations

Guide Language:

How to check an insurance agent's record for licensing status and violations

To check an insurance agent's record for licensing status and violations:

Get the agent's full legal name, business name, and National Producer Number (NPN) directly from them.

Visit the Department of Insurance website in the state where the agent operates and run a public license and enforcement history search. Review disciplinary actions: Look for active license statuses, authorized lines of insurance, and any formal administrative or enforcement actions, fines, or license revocations listed for the agent. It may be easier to call the Department of Insurance and speak with a consumer service representative to gather this information.

Why this is important: Consumers should avoid agents who are unlicensed or who have violations on their record.

3. How to evaluate the financial strength of an insurer and compare it to other insurers

Guide Language:

How to evaluate the financial strength of an insurer and compare it to other insurers

To evaluate an insurer's financial strength, look at independent credit ratings from major agencies like A.M. Best, Standard & Poor's, Moody's, and Fitch Ratings - each of these rating agencies has a website. Some websites require registration (free) to check insurer ratings. Your insurance agent should be able to help you with this.

Compare their financial strength ratings, cash reserves, debt levels, and company history side by side to see which company is safest.

Use A.M. Best for insurance-specific grades (look for A- or higher). Check Standard & Poor's for claims-paying and financial risk scores. Read Moody's and Fitch Ratings for broader economic health views.

Compare Key Financial Metrics

Surplus to Liabilities Ratio: Check if they hold enough readily liquid assets to pay large waves of unexpected claims.

History: Prefer companies with a long track record (over 50 years) of stable ratings.

Size: Look at the financial size category to ensure they manage large asset pools.

Outlook: Watch for a "negative outlook" warning from any rating agency. To check an insurance agent's record for licensing status and violations:

Counterparty transactions: Look for affiliated/captive reinsurance, offshore non-affiliated reinsurance, and other arrangements with third parties that can reduce the insurer's claims paying ability.

Why this is important: If an insurance company is not financially strong, they may not be able to pay future benefits under your policy.

4. How to check for complaints against an insurer

Guide Language:

How to check for complaints against an insurer

To check for complaints against an insurer:

Visit the National Association of Insurance Commissioners (NAIC) website Consumer Information Source to look up company complaint indexes at https://content.naic.org/cis_consumer_information.htm. Review the complaint index ratio to see if the company has more or fewer complaints than the national median of 1.00. Look at specific complaint reasons like denials, delays, or premium disputes.

Visit the Department of Insurance website in your state and for enforcement actions or licensing penalties and localized complaint ratios.

Why this is important: Consumers should avoid companies with complaints, penalties and enforcement actions.

5. Who owns the insurance company - the policyholders, shareholders via publicly traded stock ownership or shareholders via private equity and why this matters.

Guide Language:

Who owns the insurance company - the policyholders, a fraternal organization, shareholders via publicly traded stock ownership or shareholders via private equity and why this matters.

The ownership structure of an insurance company directly changes how the company handles your money, claims, and profits. Here are the most common types of insurance company ownership:

Policyholder Owners (Mutual Insurance Companies)

The Owners: The customers who buy the insurance policies.

Profits are returned to policyholders as dividends or reduced premiums instead of going to outside investors. Because there are no Wall Street investors demanding short-term returns, mutual companies often focus on long-term financial stability and customer satisfaction. However, they may have less access to quick capital during major disasters.

Shareholder Owners - Publicly Traded Stock (Stock Insurance Companies)

The Owners: Investors who buy shares on stock exchanges (like the NYSE).

The company is legally obligated to maximize value for its shareholders, creating a potential conflict of interest with policyholders. They may aggressively cut costs or deny claims to boost quarterly profits. On the upside, they can raise massive amounts of capital quickly by selling stock, making them highly resilient against massive financial losses.

Shareholders Owners - Private Equity (PE-Owned Companies)

The Owners: Private investment firms and institutional investors.

Private equity investors typically seeks high returns over a short period (usually 3 to 7 years) before selling the company. This can lead to aggressive cost-cutting, increased premiums, and stricter claims processing to artificially boost the company's valuation. While they often modernize tech and efficiency, the focus is heavily skewed toward short-term investor profit rather than customer loyalty.

Fraternal Organization Owners (Fraternal Benefit Societies)

The Owners: A lodge system or non-profit organization bound by a common religious, ethnic, or vocational bond (e.g., Knights of Columbus, Thrivent).

These are legally classified as non-profits. Profits are reinvested into the membership community through charity, scholarships, and social programs. They often feature lower overhead costs and a high level of trust, but membership is restricted to individuals who meet their specific criteria.

Why this is important: An insurance company's ownership may cause the company to focus on the maximizing profits for investors rather than protecting the policy owners.

6. Why regular ongoing monitoring of the insurer's financial strength and the performance of the policy is important

Guide Language:

Why regular ongoing monitoring of the insurer's financial strength and the performance of the policy is important

Regular ongoing monitoring of an annuity is important because annuity guarantees are entirely backed by the insurance company's claims-paying ability, not by the federal government. Because annuities are long-term, often multi-decade contracts, an owner must actively track both the corporate stability of the provider and the underlying asset performance to safeguard their principal, preserve lifetime income streams, and avoid harmful fee structures.

Monitoring Insurer Financial Strength - unlike bank deposits, which are backed by the Federal Deposit Insurance Corporation (FDIC), annuities are regulated strictly at the state level. Ongoing monitoring is critical due to the following risks:

Default & Claims-Paying Risk: If an insurance company suffers financial distress or insolvency, your guaranteed lifetime income and principal could be reduced or lost.

Credit Rating Shifts: Leading independent credit rating agencies like AM Best, S&P Global, Moody's, and Fitch Ratings alter carrier ratings based on macroeconomic shifts, bad corporate investments, or inadequate reserves.

State Guaranty Fund Caps: If an insurer fails, state guaranty associations step in to absorb contracts, but coverage limits vary by state and frequently fall short of your contract's full value.

Proactive Reallocation: Catching an insurer's negative outlook early allows you to execute a tax-free Section 1035 Exchange to a safer, higher-rated carrier before a state regulator freezes company assets.

Monitoring Policy Performance - Annuities are complex financial contracts with moving parts that change over time. Regular performance reviews ensure the policy continues to meet your goals:

Annuity Type	Things to Track	Why It Matters
Variable Annuities	Subaccount fund returns, asset allocation, asset management fees.	High internal fees can quietly erode market gains; underperforming funds require manual rebalancing.
Fixed Indexed Annuities	Participation rates, cap rates, spread charges, index crediting methods.	Insurance companies possess the right to adjust caps and renewal rates annually, potentially stifling growth capacity.
Registered Index-Linked Annuities (RILAs)	Buffer/floor thresholds, renewal cap rates, performance mix strategies, interim value calculations.	Unlike FIAs, you can lose principal. Insurers change renewal caps every term, shifting your upside potential. Exiting mid-term triggers an interim valuation that could slash your credit.
Fixed Deferred Annuities	Renewal interest rates vs. the initial guaranteed rate period.	Once the initial promotional rate period ends, the insurer may drop your yield down to the contract's baseline minimum.

Unmasking Hidden Fees and Strategy Shifts: Ongoing monitoring prevents the policy from suffering "economic drag" caused by unrecognized account transformations.

Fixed annuities can appear inexpensive because there may be no conventional fee shown (expense ratio), since the charges are hidden in the net reported return.

Rising Rider Fees: Optional riders—such as Guaranteed Minimum Income Benefits (GMIB) or long-term care enhancements—charge ongoing percentages that deplete your principal in low-return years.

Surrender Charge Expiration: Policies carry strict surrender charge schedules (e.g., 7 to 10 years) where early withdrawals trigger steep penalties. Monitoring lets you know exactly when the money becomes fully liquid.

Opportunity Cost: If prevailing interest rates rise significantly, a locked-in, low-yield fixed annuity may underperform the broader market, prompting the need to review alternative retirement vehicles.

Crucial Monitoring Risks Unique to RILA's - if you own a RILA, your ongoing tracking must account for these complex features:

The Renewal Cap Trap: Insurers entice buyers with high introductory index caps (e.g., 20% to 25%). At the end of your 1-, 3-, or 6-year strategy term, the company can lower renewal caps drastically, hurting your future growth.

Downside Buffer Shifts: If you choose a "10% buffer," you are responsible for any index losses that exceed 10%. If market volatility spikes, you must monitor whether it is safer to reallocate to a strategy with a stricter "floor".

Interim Value Penalties: If you need to make an emergency withdrawal or execute a Section 1035 Exchange before your specific strategy term matures, the insurer calculates an "interim value". This calculation utilizes a formula based on options pricing that can cause unexpected losses, even if the underlying index is currently up.

Why this is important: If an insurance company is not financially strong, they may not be able to pay future benefits under your policy. If the performance of a policy changes, it may no longer meet your needs.

7. Annuities are not covered by FDIC insurance

Guide Language:

Annuities are not covered by FDIC insurance

Annuities are not protected by the US Government or covered by FDIC Insurance because they are insurance contracts, not bank deposits. Instead, they rely on the financial strength and stability of the issuing company and unfunded state-level protection groups (state guaranty associations). Knowing this helps in evaluating financial safety, insolvency risks, and coverage limits before buying an annuity.

Company Strength: Your primary safety net is the financial health and cash reserves of the insurance company that sells the annuity.

Why this is important: If your insurance company fails, neither the US Government nor FDIC will step in to ensure that your claims are paid.

8. State Guaranty Associations may not restore full policy benefits when an insurer fails and often there are delays in payouts to policy owners.

Guide Language:

State Guaranty Associations may not restore full policy benefits when an insurer fails and often there are delays in payouts to policy owners.

Every state has a State Guaranty Association that acts as a backup if an insurance company fails. Unlike FDIC insurance coverage of bank accounts, State Guaranty Associations are unfunded and designed as limited safety nets when an insurance company fails - they do not fully guarantee all policy owner benefits.

State Guaranty Associations step in only after a court declares the insurance company insolvent. Access to policy cash values is often frozen during lengthy court proceedings. Processing benefit claims through State Guaranty Associations takes much longer than normal processing times with a healthy insurance company. State Guaranty Associations fund payouts through assessments charged to remaining healthy insurance companies. This can cause further delays and losses if there is a massive, multi-company market crash.

Coverage Caps and Limits: Most states limit coverage of annuities to \$250,000 per insurance company, per person. If you plan to invest more than your state's coverage limit cap, you should divide your annuity investment between multiple insurance companies, so that your investment through any single company doesn't exceed the coverage limit.

Excess Losses: When an insurance company fails, policy values exceeding the state-limit are usually lost.

State Guaranty Association additional coverage exclusions:

If the insurance company was not licensed in your state, it is not covered.

Variable annuities are frequently not covered.

Annuities issued by fraternal benefit societies are frequently not covered.

Why this is important: If your insurance company fails, your benefit payments or claims may be delayed, reduced or lost. It is important that no single annuity value exceeds the State Guaranty Coverage limit.

9. The dangers of insurer insolvency and its effect on "guaranteed" policy benefits

Guide Language:

The dangers of insurance company failure and its effect on "guaranteed" annuity benefits

Annuity benefits are considered "guaranteed," but that guarantee is only as strong as the insurance company backing it. When an insurance company fails, even if your policy is transferred to a healthy insurance company, your guaranteed benefits under the original policy and its benefit riders may be reduced or eliminated.

Why this is important: If your insurance company fails, you may not receive the guaranteed benefits you purchased.

10. State regulators grant "permitted practices" that allow insurance companies to avoid requirements that would otherwise protect policyowners.

Guide Language:

State regulators grant "permitted practices" that allow insurance companies to avoid requirements that would otherwise protect policyowners.

Permitted accounting practices are customized regulatory loopholes granted by state insurance commissioners that allow individual insurance companies to side-step standard Statutory Accounting Principles (SAP). While designed to provide flexibility during periods of economic distress, these practices allow insurance companies to hide financial weakness, artificially inflate their reported capital and let the insurance company bypass rules meant to prevent insolvencies and protect policyholders.

Some examples of permitted accounting practices include: overvaluing illiquid assets, delaying the recognition of losses and using shadow reinsurance vehicles. By hiding financial weakness, these practices prevent an insurer from triggering mandatory state regulator intervention. This delays early corrective action and can lead to the unexpected insurance company failure.

States sometimes utilize these permitted accounting practices competitively to attract insurance companies to locate there. This creates a "race to the bottom" that hurts the safety of policy owner.

To see if an insurance company is utilizing a permitted accounting practice, you can contact your state insurance department and request a copy of the company's most recent annual statement. Permitted accounting practices are required to be listed in Note 1 of the insurance company's annual statement. The annual statements are long and complicated documents. Your insurance agent or the consumer service representatives at your state insurance department should be able to help you see if an insurance company has been granted a permitted accounting practice.

Why this is important: If an insurance company has been granted a permitted accounting practice, its true financial strength may be much weaker than that shown on its financial statements or in its credit ratings. This could affect the insurance company's ability to pay benefit claims.

11. When an insurance company fails, the safety of your annuity depends entirely on whether your funds are invested in the insurer's General Account or in a Separate Account.

Guide Language:

When an insurance company fails, the safety of your annuity depends entirely on whether your funds are invested in the insurer's General Account or in a Separate Account.

The distinct structural and legal treatments of these two account types radically alter your risk exposure during an insurance company failure

The General Account is found in Fixed & Indexed Annuities and is also found (called the "Guaranteed Account") in Variable Annuities. The General Account holds the collective assets of the insurance company used to pay everyday operating expenses and general obligations.

When you buy a fixed or fixed-indexed annuity (or choose the Guaranteed Account investment option in a Variable Annuity), your money is pooled into this general portfolio, which is primarily invested in conservative, long-term corporate and government bonds.

Because you do not own specific underlying securities, you are technically a general creditor of the insurance company. If the insurer fails, the General Account assets are subject to the claims of the company's broader creditors.

If the insurance company fails, your primary safety net is your State Guaranty Association. These associations typically guarantee general account annuities up to a coverage limit - usually \$250,000 per company, per person

A Separate Account is a segregated investment structure established by the insurer specifically to fund variable annuity contracts. Your money is invested in "sub-accounts" that operate similarly to mutual funds. Legally, these sub-accounts (except for the guaranteed sub-account) are strictly insulated from the insurer's core corporate holdings. It is important to note that the guaranteed sub-account is treated like the General Account.

By law, Separate Account assets cannot be seized by the insurance company's general creditors during a bankruptcy. Even if the carrier collapses completely, your sub-account investments remain yours. However, you bear 100% of the market risk—if the stock market crashes, your account value drops accordingly. Note that many variable annuities include optional features like Guaranteed Minimum Income Benefits (GMIB) or death benefits. These riders are not protected by the separate account structure. They are backed solely by the financial strength (General Account) of the insurer. If the insurer goes bankrupt, those extra guarantees may be lost or limited due to state guaranty association limits.

Why this is important: If an insurance company fails, contracts invested in Separate Accounts (other than the guaranteed account) have greater protection than those invested in the insurer's general account.

12. Only the company named in your annuity contract document is responsible for paying your benefits.

Guide Language:

Only the company named in your annuity contract document is responsible for paying your benefits.

An annuity is a contract with a single specific insurance company. Only that exact company must pay your money. If your insurer is part of a bigger group, the parent company does not have to pay if your insurer fails. Only the exact company named in your contract owes you obligations. Check the exact name on your contract front page - only the financial strength of this company backs up your policy. You cannot rely on the big brand name of a parent company to support your benefits.

Why this is important: If your insurance company fails and it is part of a bigger group, the other companies in the group are not responsible for paying you.

13. Understanding how offshoring, domicile shopping and counterparty risk affect the safety of your annuity.

Guide Language:

Understanding how offshoring, regulatory arbitrage (domicile shopping) and counterparty risk affect the safety of your annuity.

Offshoring occurs when a US insurance company moves its annuity liabilities or reinsurance to an overseas entity. Insurers often use offshore affiliates to hide the true extent of their financial liabilities. Offshore jurisdictions often allow companies to hold less cash in reserve for paying claims. Overseas entities often have lower reporting standards, making it harder for you to assess their true financial health.

Regulatory arbitrage (domicile shopping) is when an insurance company chooses to register its business (domicile) in a specific state or country to take advantage of looser laws and/or less regulation. Companies look for jurisdictions with friendly tax laws and looser accounting rules. Some domiciles allow insurers to invest their money in riskier, higher-yielding assets like private credit. If a company domiciles in a state with weak oversight, your consumer protections and financial safety are compromised.

Counterparty risk in insurance companies directly impacts a consumer's long-term financial security by altering the structural safety net backing up their policy. When an insurance company issues an annuity, it frequently transfers a portion of its financial obligations and investment risks to other companies (counterparties) to free up capital and boost profitability. These transfers are often done through reinsurance, modified coinsurance and excess of loss contracts.

While this backend corporate structuring is largely invisible to consumers, it introduces counterparty risks—the danger that the other party defaults or fails to fulfill its contractual obligations - which then affects the policyholder. Here's how these arrangements work:

Reinsurance: With standard "asset-intensive" reinsurance, your insurance carrier (your primary insurer) transfers both the policyholder liabilities and the corresponding premium assets directly to the reinsurer's balance sheet. The consumer still holds a contract with the primary insurer, but the money funding their future payouts is managed and held by a separate entity. If that reinsurer faces insolvency due to poor investment decisions (a growing risk with private equity-backed offshore reinsurers), the primary insurer must abruptly take back, or "recapture," those liabilities. If there is a massive recapture event, it can severely deplete the primary insurer's capital reserves. In a worst-case scenario, this triggers a domino effect leading to the primary carrier's bankruptcy, forcing the consumer to rely on state guaranty associations. The risks of reinsurance are increased when the reinsurer is affiliated or wholly owner (captive) with the insurance company.

Modified Coinsurance (Modco): Under a Modified Coinsurance (Modco) agreement, the primary insurer transfers the risk to the reinsurer but legally retains the physical assets and policy reserves on its own balance sheet. On paper, Modco provides a layer of safety for the consumer because their funds do not physically leave the primary insurance company, mitigating immediate asset-default risk, but Modco is frequently used for regulatory and accounting arbitrage. Insurers use it to artificially lower their required Risk-Based Capital (RBC) thresholds, freeing up capital to offer aggressively high crediting rates or caps on Fixed Indexed Annuities to attract customers. However, because the reinsurer often dictates the investment strategy or manages complex, illiquid assets behind the scenes, the consumer's funds may be exposed to riskier, opaque collateralized loans that weaken the insurer's actual financial strength during a market downturn.

Excess of Loss (XoL) Contracts: Excess of Loss (XoL) is a form of reinsurance where the reinsurer agrees to pay losses only for certain reasons and only after they exceed a specific catastrophic threshold (the primary insurer's "retention limit"). You can compare it to narrowly focused cancer insurance - if the illness is not cancer as specified in the policy, no claim is paid.

For annuities, this is often structured to protect against severe "longevity risk" the sudden, systemic risk of policyholders living significantly longer than predicted. XoL contracts act like catastrophic insurance for the insurance company itself, ensuring it won't run out of money if a massive block of lifetime-income annuitants outlives expectations. If a systemic financial adverse event occurs and the XoL reinsurer denies the claim or defaults exactly when the primary insurer hits its retention limit, the primary insurer is left entirely exposed to the unhedged. This severe under-capitalization endangers the primary carrier's ability to pay claims.

Your insurance agent or the consumer service representatives at your state insurance department should be able to help you see if an insurance company uses offshoring, regulatory arbitrage and risky counterparty arrangements.

Why this is important: Offshoring, regulatory arbitrage (domicile shopping) and counterparty risk affect the safety of your annuity. These factors can be difficult to discover and analyze, but they affect the long-term health of your insurance company. Your insurance agent or

The above 13 items jumped out when I reviewed the draft ABG. I can tell you that it took me a while to fully appreciate the risks of my own allocation to annuities, I was ready to set it and forget it - then enjoy the lifetime annuity income while playing outside on the tractor. However, on rainy days when it's too wet to play outside, I often catch up on my personal financial planning reading, which led me down this rabbit hole. As I started to climb the learning curve, I quickly realized that I was taking on too much insurer risk and needed to reduce my allocation to annuities. Fortunately, they were VA's, markets were up and the carriers weren't A-CAP or PHL! Other consumers are not so lucky.

Without the above information, the average insurance agent and the average annuity consumer are operating in the dark with an undeserved sense of self-confidence. Thank you for your consideration of my comments and for the work that you do to protect consumers.

Yours truly,

Peter Gould

Create an annuity buyer's guide that covers all types of annuities, including: single premium immediate annuities, deferred annuities, fixed annuities, fixed indexed annuities, variable annuities and registered index-linked annuities

ChatGPT said:

Absolutely. Below is a **consumer-focused annuity buyer's guide** designed to explain the major annuity categories, how they work, what they cost, what risks they carry, and what questions a buyer should ask before purchasing.

Annuity Buyer's Guide

Understanding Immediate, Deferred, Fixed, Fixed Indexed, Variable, and Registered Index-Linked Annuities

Important: This guide is educational, not personalized financial, tax, or legal advice. Annuity contracts vary substantially by insurer and state. Before purchasing, read the actual contract and disclosures and consider independent professional advice.

Annuities are insurance contracts issued by life insurance companies. They can be used to accumulate money on a tax-deferred basis, create retirement income, or provide guarantees against certain risks. The

trade-off is that annuities can be complex, restrictive, and expensive. F  FINRA+1

1. The Big Picture: How Annuities Are Classified

One reason annuities are confusing is that "**immediate vs. deferred**" and "**fixed vs. variable vs. indexed**" describe different dimensions of the product.

Think of an annuity as having two basic questions:

When do you want income?

Immediate annuity

- Income generally begins within one year of purchase.
- Typically funded with a lump sum.
- Primarily an income-generation product.

Deferred annuity

- Income begins at a later date.
- Can be funded with a lump sum or multiple contributions.
- Primarily used for accumulation, although it can later be converted into income.

How does the money grow?

Fixed

- Insurer provides specified interest guarantees.
- Generally the most predictable accumulation structure.

Fixed indexed

- Interest credits are linked to an external index.

- Provides some protection against market declines, but the buyer generally does not receive the full index return.

Variable

- Money is allocated among investment subaccounts.
- Account value can rise or fall with the investments.
- Investor bears substantial investment risk.

Registered index-linked annuity (RILA)

- Uses index-linked crediting combined with defined downside exposure.
- Often uses a **buffer** or **floor** to determine how much of a market decline the investor absorbs.
- Generally sits between a traditional fixed indexed annuity and a variable annuity in terms of market exposure.

NAIC describes annuities using both the immediate/deferred and fixed/variable/indexed classifications, while FINRA specifically identifies RILAs as a form of indexed annuity with potentially significant

downside exposure. ^{NAIC} N NAIC Content+1

2. Single Premium Immediate Annuities — SPIAs

What is a SPIA?

A **Single Premium Immediate Annuity** converts a lump sum into a stream of income that generally begins shortly after purchase.

For example, someone could give an insurance company \$250,000 and receive monthly income for:

- Their lifetime
- Their lifetime and a spouse's lifetime
- A specified number of years
- Their lifetime with a minimum payment period
- Other contractual combinations

The exact payment depends on factors such as the premium, age, interest rates, payment option, and

whether payments continue after death. ^{FINRA} F FINRA

Best suited for

A SPIA may appeal to someone who wants to:

- Create predictable retirement income
- Cover essential expenses
- Reduce longevity risk
- Supplement Social Security or a pension
- Turn a large lump sum into a paycheck

Major advantage

Longevity protection.

If you choose a lifetime-income option and live much longer than expected, the insurer continues making payments according to the contract.

Major disadvantage

Liquidity and flexibility.

Once you exchange a lump sum for an irrevocable income stream, you generally cannot simply ask for your original premium back.

Critical decision: lifetime vs. period certain

A lifetime-only option may produce a higher payment because payments can stop when the annuitant dies.

Adding a guaranteed period or survivor benefit can provide greater protection for beneficiaries but usually reduces the initial income payment.

Questions to ask

27. Is the income guaranteed for my lifetime?
28. What happens if I die shortly after purchasing?
29. Does my spouse continue receiving income?
30. Is there a minimum payment period?
31. Are payments fixed or inflation-adjusted?
32. What happens to the remaining premium at death?
33. Can I change the payment option later?

3. Deferred Annuities

A **deferred annuity** separates the contract into an accumulation period and potentially a later income period.

You put money into the contract today and defer income until a future date. Contributions may be made

as a lump sum or over time. ^{NAIC} NAIC Content

A deferred annuity can be:

- Fixed
- Fixed indexed
- Variable
- Registered index-linked

Two phases

Accumulation phase

Your money remains in the contract and potentially grows.

Income/withdrawal phase

You may:

- Take withdrawals
- Establish systematic income
- Annuitize the contract
- Use certain guaranteed-income riders, if available

Why people buy deferred annuities

Common objectives include:

- Tax-deferred accumulation
- Retirement income
- Principal or interest guarantees
- Lifetime-income guarantees
- Death benefits
- Managing longevity risk

Important distinction

Buying a deferred annuity does not automatically mean you must annuitize it.

Many deferred annuities allow you to retain the contract and withdraw money instead of converting the entire account into an irrevocable income stream.

4. Fixed Annuities

A **fixed annuity** is generally the simplest accumulation-oriented annuity.

The insurance company credits interest according to the contract and provides a guaranteed minimum

rate or other contractual guarantees.  FINRA+1

There are two broad concepts worth distinguishing:

Traditional fixed annuity

The insurer declares an interest rate for a specified period.

For example:

"3-year guaranteed rate"

At the end of the period, the insurer establishes a new rate subject to the contract's minimum guarantee.

Multi-year guaranteed annuity — MYGA

A MYGA is essentially a fixed annuity with an interest-rate guarantee for a specified multi-year period.

For example:

5-year guaranteed interest rate

The attraction is **rate certainty**.

Potential advantages

- Predictable interest
- Principal protection subject to the insurer's claims-paying ability and contract terms
- Tax deferral
- Generally simpler than indexed or variable annuities
- Can provide predictable retirement income

Potential disadvantages

- Surrender charges
- Limited liquidity
- Interest-rate/reinvestment risk
- Inflation risk
- Insurer credit risk
- Potentially lower long-term growth than market-based investments

The key question

Don't ask only:

"What's the interest rate?"

Also ask:

"What is the guaranteed rate, how long is it guaranteed, and what rate applies afterward?"

NAIC specifically recommends asking about both the initial rate and the renewal rate. ^{NAIC} NAIC Content

5. Fixed Indexed Annuities — FIAs

A **fixed indexed annuity** is a fixed annuity whose interest credits can be linked to the performance of an external market index.

The S&P 500 is a common example, although contracts may use other indexes and strategies. FINRA+1

The fundamental concept

You generally **do not own the index**.

If the S&P 500 rises 15%, that does **not** necessarily mean your annuity earns 15%.

The contract determines how much of the index movement is credited.

Common FIA crediting methods

Point-to-point

The insurer compares the index at two points in time.

Example:

- Starting index: 5,000
- Ending index: 5,500
- Index gain: 10%

If the contract has a 7% cap, the credited interest might be limited to 7%.

Participation rate

Suppose the index gains 10% and the participation rate is 80%.

The credited amount could be:

$$10\% \times 80\% = 8\%$$

before considering other contractual provisions.

Monthly averaging

The contract may calculate index performance using monthly values rather than simply comparing two endpoints.

Cap

A **cap** limits the amount of index-linked interest that can be credited.

Spread or margin

A spread may be subtracted from the index return before determining the credited interest.

For example:

- Index gain: 10%
- Spread: 2%
- Credited gain: 8%

These examples are simplified. Actual contracts can contain multiple strategies and conditions.

FIA downside protection

Many FIAs are designed so that negative index performance does not directly produce a negative interest credit for the indexed strategy, although withdrawals, fees, riders, surrender charges, and other provisions can still reduce the contract value.

The NAIC's current consumer guide describes fixed indexed annuities as a type of fixed annuity and

notes that the interest crediting mechanism is tied to a market index.  NAIC Content

The trade-off

You generally exchange some potential upside for greater downside protection.

You should never evaluate an FIA simply by looking at the index it references.

The important details are:

- Cap
- Participation rate
- Spread
- Crediting method
- Index
- Fixed account rate
- Minimum guarantees
- Withdrawal provisions
- Rider costs
- Surrender schedule

6. Variable Annuities

A **variable annuity** is substantially different from a traditional fixed annuity.

Your money is generally allocated among investment options called **subaccounts**, which can resemble mutual-fund portfolios.

The value of the contract can rise or fall based on investment performance.  FINRA+1

Potential investments

Depending on the contract, subaccounts may invest in:

- U.S. stocks
- International stocks
- Bonds
- Government securities
- Balanced portfolios
- Money-market investments
- Other asset classes

Major advantage

Investment growth potential.

Unlike a traditional fixed annuity, your account can participate directly in market investment performance through the available subaccounts.

Major disadvantage

You bear investment risk.

If the underlying investments fall, your account value can fall.

Variable annuity guarantees

One reason variable annuities can become complicated is that they can include optional guarantees, commonly called **riders**.

Examples include:

Guaranteed minimum withdrawal benefits

May provide a contractual withdrawal amount even if the underlying account declines, subject to the rider's rules.

Guaranteed minimum income benefits

Can provide a formula for determining future income.

Death benefits

May provide beneficiaries with a contractual benefit that differs from the current account value.

Living benefits

May provide guarantees while you're alive.

These guarantees are not free. Riders can add significant expenses, and their formulas and restrictions need to be understood before purchase. FINRA specifically warns investors to examine fees, expenses,

surrender charges and rider costs.  FINRA

7. Registered Index-Linked Annuities — RILAs

RILAs are among the more complicated annuity products.

They are sometimes called **buffer annuities** because the contract may absorb a specified amount of market loss before the investor begins absorbing losses.

Unlike a traditional FIA, a RILA generally does **not** provide complete protection from market losses. FINRA describes RILAs as indexed annuities that can combine upside limits with downside protection

and notes their similarities to options-based structures.  FINRA

How a buffer works

Suppose you select a **10% buffer**.

If the relevant index falls:

- 5% → insurer absorbs the loss
- 10% → insurer absorbs the loss
- 15% → you could absorb approximately 5%
- 25% → you could absorb approximately 15%

That's a simplified illustration; actual contract calculations can differ.

The key concept is:

The buffer does not necessarily protect you from all losses.

It protects you from losses up to the specified buffer, subject to the contract.

How a floor works

A floor establishes the maximum loss you agree to absorb.

For example, with a **10% floor**, you might absorb losses up to 10%, while the insurer absorbs losses beyond that amount, depending on the contract structure.

FINRA explains both buffer and floor structures and emphasizes that investors can still experience

losses. F  FINRA

RILA upside is generally limited

In exchange for some downside protection, the contract typically limits upside through mechanisms such as:

- Caps
- Participation rates
- Other crediting formulas

Therefore, a RILA is **not the same thing as investing directly in an index fund**.

Example

Suppose:

- Index rises 20%
- RILA cap = 10%

Your indexed return could be limited to approximately 10%, depending on the contract.

If the index falls 20% and you have a 10% buffer, you might experience approximately a 10% loss.

Again, these are simplified illustrations—not representations of a particular contract.

8. Comparing the Six Major Categories

Type	Main purpose	Market exposure	Downside protection	Income potential	Complexity
SPIA	Immediate retirement income	Low	High for contractual income	High predictability	Low–Medium
Deferred annuity	Future accumulation/income	Depends on subtype	Depends on subtype	Future income	Medium–High
Fixed annuity	Predictable accumulation	Low	High, subject to contract	Predictable	Low–Medium
Fixed indexed annuity	Accumulation + guarantees	Indirect index exposure	Generally substantial	Moderate/potentially variable	High
Variable annuity	Investment + retirement income	High	Depends on guarantees	Potentially high	High
RILA	Market-linked growth with defined downside exposure	Moderate–High	Partial	Potentially higher than fixed products	Very High

The classifications overlap. For example, a product can be both **deferred and fixed indexed**, or **deferred and variable**.

9. The Most Important Difference: What Happens in a Down Market?

This is one of the best ways to compare annuities.

Fixed

The contract generally protects you from market losses because you're not directly invested in the market.

Primary risk: insurer creditworthiness, inflation, and opportunity cost.

Fixed indexed

The indexed crediting mechanism generally protects against a negative index credit, but the trade-off is limited upside and potentially complicated crediting formulas.

Primary risk: understanding the crediting formula, liquidity restrictions, inflation, and insurer creditworthiness.

Variable

The account value can decline substantially when the underlying investments decline.

Primary risk: investment loss.

RILA

You typically absorb some defined amount of market loss.

Primary risk: misunderstanding the buffer/floor, cap, term, and loss calculation.

10. Annuity Fees and Costs

Don't compare annuities solely by their advertised interest rate or projected return.

Look at the **total economic cost**.

Potential costs include:

Surrender charges

A penalty for withdrawing more than permitted during a surrender period.

Some contracts have surrender schedules lasting many years. FINRA notes that variable annuities can

have surrender periods of eight years or more.  FINRA

Mortality and expense charges

Common with variable annuities.

Administrative fees

Charges for maintaining the contract.

Investment expenses

Variable annuity subaccounts have investment expenses.

Rider fees

Optional guarantees can carry additional charges.

Contract fees

Some contracts charge annual or transactional fees.

Opportunity cost

This isn't a line-item fee, but it's important.

A product that limits your upside may leave you with less wealth than an alternative investment during strong markets.

11. Liquidity: The Question Buyers Often Miss

Before buying an annuity, ask:

"How much of my money can I access each year without penalty?"

Many annuities allow a limited penalty-free withdrawal, but the exact amount varies.

You need to know:

- Free withdrawal percentage
- Surrender period
- Surrender schedule
- Market value adjustment
- Withdrawal charges
- Tax consequences
- Effect of withdrawals on guarantees
- Whether withdrawals reduce future income benefits

A long surrender period can be particularly problematic if you later need the money for medical expenses, a home purchase, emergencies, or other unexpected needs.

12. Tax Treatment

One attraction of annuities is **tax deferral**.

Generally, earnings inside a nonqualified annuity are not taxed each year as they accumulate.

However, tax deferral does **not** mean tax-free.

Withdrawals from a nonqualified annuity generally can cause taxable earnings to be recognized, and withdrawals before age 59½ can potentially trigger an additional federal tax penalty, subject to applicable exceptions.

Qualified annuities held inside retirement accounts have additional rules.

Important point

Putting an annuity inside an IRA does not necessarily create additional tax deferral—the IRA already provides tax advantages.

So if someone recommends an annuity inside an IRA, ask:

"What additional benefit does the annuity provide that justifies its costs and restrictions?"

Tax treatment can depend on the type of account, contract, transaction and individual circumstances.

Consult a tax professional for personal advice.

13. Insurance Company Risk

Annuities are **not bank deposits**.

They aren't guaranteed by the FDIC, and they aren't protected by SIPC in the same manner as securities

accounts.  FINRA

The guarantees in an annuity are obligations of the **issuing insurance company**.

Therefore, evaluate:

- Financial strength

- Claims-paying ability
- Ratings from independent rating agencies
- State insurance regulation
- State guaranty association protections

State guaranty associations can provide protection under certain circumstances, but coverage varies by state and isn't equivalent to FDIC insurance.

14. Riders: Useful, But Read the Fine Print

A rider can potentially solve a legitimate retirement-planning problem.

But don't buy a rider simply because it sounds attractive.

Ask:

- 104. What exactly is guaranteed?
- 105. Is the guarantee based on the **account value** or a separate benefit base?
- 106. What withdrawals are permitted?
- 107. What happens if I withdraw too much?
- 108. What happens if I die?
- 109. Does the benefit increase with age?
- 110. What is the annual cost?
- 111. Can the insurer change the rider?
- 112. What investment restrictions apply?
- 113. When does the guarantee actually become available?

Especially important

A **benefit base is not necessarily cash value**.

A contract might show a \$300,000 "income base" while the amount you could actually surrender or withdraw is considerably lower.

15. Bonuses: Don't Be Distracted by the Headline Number

Some annuities advertise:

"10% BONUS!"

That does not necessarily mean you immediately have 10% more spendable money.

Bonuses can have:

- Vesting schedules
- Withdrawal restrictions
- Higher surrender charges
- Reduced interest rates elsewhere
- Rider requirements
- Recapture provisions
- Other conditions

Always ask:

"What do I actually receive if I surrender the contract after one year, three years, five years, and ten years?"

16. Free-Look Period

Most states provide a period after delivery of a new annuity during which the purchaser can cancel the contract.

The length varies by state and contract, and FINRA notes that it generally ranges from **10 to 30 days**. F



FINRA

Do not treat the free-look period as a substitute for researching the product before purchase.

Use it as a final opportunity to verify:

- Contract terms
- Fees
- Surrender schedule
- Interest rates
- Riders
- Beneficiary provisions
- Income guarantees
- Illustrations
- Suitability

17. The Annuity Illustration Trap

An illustration can be useful—but don't confuse an illustration with a guarantee.

Whenever you receive an illustration, separate the numbers into:

Guaranteed

What does the contract guarantee regardless of market performance?

Non-guaranteed

What depends on:

- Market performance
- Future interest rates
- Future caps
- Participation rates
- Dividend assumptions
- Crediting rates
- Company discretion

Ask the salesperson:

"Show me the guaranteed column first."

Then ask:

"What would I receive if every non-guaranteed assumption were zero or otherwise unfavorable under the contract?"

18. Questions to Ask Before Buying

About the product

- 137. What exact type of annuity is this?
- 138. Is it immediate or deferred?
- 139. Is it fixed, fixed indexed, variable, or RILA?
- 140. What problem is this annuity solving?

About guarantees

- 5. What is guaranteed?
- 6. What isn't guaranteed?
- 7. Who provides the guarantee?
- 8. How long does the guarantee last?

About liquidity

- 9. How long is the surrender period?
- 10. How much can I withdraw without a surrender charge?
- 11. Is there a market value adjustment?
- 12. What happens if I need all of my money unexpectedly?

About costs

- 13. What are all annual fees?
- 14. What are the surrender charges?
- 15. What does each rider cost?
- 16. Are there commissions or other compensation arrangements?
- 17. Are there less-expensive versions of this product?

About indexed products

- 18. What index is used?
- 19. What is the cap?
- 20. What is the participation rate?
- 21. Is there a spread?
- 22. How is interest calculated?
- 23. How often is interest credited?
- 24. What happens when the index loses money?

About RILAs

- 25. What is my buffer or floor?
- 26. How are losses calculated?
- 27. What is my maximum potential loss?
- 28. What is the cap?
- 29. What happens if I withdraw during the term?
- 30. What happens when the term resets?

About variable annuities

31. What are the investment options?
32. What are the investment expenses?
33. What are mortality and expense charges?
34. What riders are included?
35. What does each rider cost?
36. How does a withdrawal affect my guarantees?

About the salesperson

37. How are you compensated?
38. Are you acting as an insurance agent, investment adviser, broker, or some combination?
39. Are you recommending this product over alternatives?
40. What alternatives did you consider?

For securities recommendations involving variable annuities and RILAs, FINRA notes that SEC Regulation Best Interest applies to broker-dealers and associated persons making recommendations to

retail customers. F

FINRA

19. Red Flags

Be especially cautious if someone says:

"You can't lose money."

Ask **exactly** what is protected, for how long, and under what conditions.

"You get stock-market returns without risk."

That's generally an oversimplification. Indexed products usually limit upside, while RILAs can expose you to losses.

"The 10% bonus is free money."

It isn't necessarily free. Read the conditions.

"You can access your money whenever you want."

Ask about surrender charges, free-withdrawal limits, tax consequences and benefit adjustments.

"This is just like an S&P 500 investment."

It isn't. The contract's crediting formula, caps, participation rates, buffers, fees and guarantees matter.

"This is guaranteed by the government."

Annuity guarantees are primarily obligations of the issuing insurer, not FDIC guarantees. F

FINRA

"You need to buy it today."

A legitimate retirement decision generally deserves time for comparison and review.

20. Which Annuity Might Fit Which Objective?

Your primary objective

Immediate lifetime income

Products worth investigating

SPIA

Your primary objective	Products worth investigating
Guaranteed income later in retirement	Deferred income annuity
Predictable interest	Fixed annuity / MYGA
Market-linked interest with substantial downside protection	FIA
Market participation with investment risk	Variable annuity
Market-linked growth with a defined amount of downside protection	RILA
Maximum investment flexibility	Often not an annuity , depending on circumstances
Maximum liquidity	Often not a long-surrender annuity
Guaranteed retirement paycheck	SPIA or qualifying income-benefit annuity

The "best" annuity isn't determined by the highest illustrated return. It depends on what risk you are trying to transfer to the insurance company and what restrictions you're willing to accept.

21. A Simple Decision Framework

Step 1 — Identify the problem

Are you trying to:

A. Create income now?

→ Consider an **SPIA**.

B. Create income later?

→ Consider a **deferred income annuity**.

C. Protect principal and earn predictable interest?

→ Investigate **fixed annuities/MYGAs**.

D. Get some market-linked upside without directly taking index losses?

→ Investigate **fixed indexed annuities**.

E. Invest for market growth while accepting market losses?

→ Investigate **variable annuities**, but compare them carefully with non-annuity investments.

F. Accept some market losses in exchange for potentially greater market participation than a traditional fixed product?

→ Investigate **RILAs**.

22. The "Don't Buy Until You Can Explain It" Test

Before purchasing any annuity, you should be able to explain these six things in plain English:

1. Where does my money go?

Insurance company's general account? Separate account? Index-linked strategy?

2. How can I make money?

Interest rate? Index credit? Investment subaccounts?

3. How can I lose money?

Market losses? Withdrawals? Fees? Inflation? Surrender charges? RILA buffer/floor structure?

4. What is guaranteed?

Be specific.

5. What does it cost?

Include explicit fees **and** economic costs such as surrender restrictions and limited upside.

6. What happens if I change my mind?

Know your free-look period, surrender schedule and withdrawal provisions.

If you can't answer these questions without relying on the salesperson's explanation, you're not ready to buy the contract.

23. Bottom Line

Annuities aren't inherently good or bad. They're **tools for transferring particular financial risks**.

The central trade-off is often:

More guarantees and insurance protection ↔ less liquidity, flexibility, and/or investment upside.

A SPIA can be powerful for converting savings into lifetime income. A fixed annuity can provide predictable accumulation. A fixed indexed annuity can provide index-linked interest with significant protection against negative index credits. A variable annuity can provide market exposure and sophisticated insurance benefits. A RILA can provide market-linked growth with a defined—but incomplete—buffer against losses.

The most important thing is to compare the **actual contract**, not the product's marketing label.

The NAIC currently maintains consumer annuity resources and is actively revising its Annuity Buyer's Guide in 2026; its current consumer materials emphasize comparing contract features and asking

questions before purchasing. ^{NAIC} NAIC Content+1

Recommended resources: NAIC Consumer's Guide to Annuities · FINRA Annuities Investor Guide · SEC Variable Annuities Investor Bulletin

If you'd like, I can also turn this into a **professionally formatted 10–15 page PDF-style buyer's guide**, with a cover page, executive summary, comparison charts, "questions to ask your agent" checklist, glossary, and a one-page **annuity scorecard** buyers can use to compare actual contracts.

You said:

professionally formatted buyers guide please

ChatGPT said:

Absolutely. I've reworked it into a **professional, client-ready buyer's guide** rather than a simple article. I've also updated the regulatory/resource references because the NAIC is actively revising its

THE ANNUITY BUYER'S GUIDE

A Consumer's Guide to Understanding Annuities, Guarantees, Risks, Costs & Retirement Income

2026 Edition

Make an informed decision before you commit your retirement savings.

Annuities can provide valuable guarantees, lifetime income and tax-deferred growth. They can also involve surrender periods, fees, complex crediting formulas, investment risk and restrictions that may not be obvious from a sales presentation.

The goal of this guide is simple:

Understand what you are buying, what you are paying, what is guaranteed, what is not guaranteed, and what happens if your circumstances change.

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1. WHAT IS AN ANNUITY?

An annuity is a contract between you and an insurance company.

Depending on the type of annuity, you may provide the insurance company with a lump sum or a series of payments. In return, the insurance company may provide:

- Interest or investment growth
- Tax-deferred accumulation

- Guaranteed income
- Lifetime income
- Death benefits
- Protection against certain investment or longevity risks

Annuities are not one single type of financial product. They are a broad family of contracts with very different features.

The most important distinction is that an annuity combines an **investment or accumulation component** with **insurance features**.

Why people buy annuities

Common objectives include:

Income

- Create a retirement paycheck
- Generate lifetime income
- Supplement Social Security or a pension
- Reduce the risk of outliving retirement assets

Accumulation

- Defer taxes on investment gains
- Earn guaranteed interest
- Participate in market-linked growth

Protection

- Protect against certain market losses
- Provide contractual death benefits
- Transfer longevity risk to an insurance company

The right question is not:

"Are annuities good?"

The better question is:

"What financial problem am I trying to solve, and is an annuity an efficient way to solve it?"

The NAIC's consumer materials similarly emphasize understanding the differences among annuities and

asking questions before purchasing. N ^{NAIC} NAIC Content+1

2. THE ANNUITY FAMILY TREE

Annuities are easiest to understand when you separate two concepts.

A. WHEN DO YOU WANT YOUR MONEY?

IMMEDIATE

Income generally begins shortly after purchase.

Example:

You give an insurance company \$300,000 and begin receiving monthly lifetime income.

Primary purpose: Income.

DEFERRED

You purchase the annuity now but postpone income or withdrawals until later.

Example:

You invest \$300,000 at age 60 and intend to use the contract for retirement income beginning at age 70.

Primary purposes: Accumulation and future income.

B. HOW DOES THE MONEY GROW?

FIXED

The insurance company provides contractual interest guarantees.

FIXED INDEXED

Interest credits may be linked to an external market index, subject to the contract's crediting method.

VARIABLE

You select investment subaccounts and bear investment-market risk.

REGISTERED INDEX-LINKED

The contract provides market-linked performance with defined downside exposure, often through a buffer or floor.

3. SINGLE PREMIUM IMMEDIATE ANNUITIES

SPIA

A **Single Premium Immediate Annuity**, commonly called a SPIA, converts a lump sum into an income stream that generally begins within a relatively short period after purchase.

Example

You deposit:

\$300,000

The insurer provides:

Monthly income for life

The actual payment depends on factors such as:

- Age
 - Premium
 - Interest-rate environment
 - Payment frequency
 - Single-life or joint-life election
 - Guaranteed-period election
 - Inflation adjustment
 - Other contract provisions
-

What problem does a SPIA solve?

A SPIA primarily addresses **longevity risk**.

Longevity risk is the possibility that you live longer than your assets were designed to last.

For someone who lives well into their 90s or beyond, lifetime income can continue even after the original premium has effectively been paid out through the income stream.

Common SPIA payout choices

Life Only

Income continues for the annuitant's lifetime.

Payments generally stop at death.

Potential advantage: Higher lifetime income.

Potential disadvantage: Less protection for beneficiaries.

Life with Period Certain

Income is guaranteed for life, with a minimum payment period.

Joint and Survivor

Income continues for the lifetimes of two people, usually spouses.

Life with Cash Refund

Depending on the contract, beneficiaries may receive a benefit if the total payments received are less than the premium.

SPIA advantages

- Predictable income
- Lifetime income potential
- Protection against longevity risk
- Simple income structure
- Can supplement Social Security and pensions

SPIA disadvantages

- Limited liquidity
- Generally irrevocable once established
- Inflation can reduce purchasing power
- Beneficiary protection can reduce the initial income
- Payments depend on the financial strength of the insurer

4. DEFERRED ANNUITIES

A deferred annuity is designed primarily for future accumulation and/or future retirement income. It has two basic phases.

ACCUMULATION PHASE

Your money remains in the contract and may earn interest or investment returns.

INCOME PHASE

You may later:

- Take withdrawals
- Establish systematic income
- Exercise contractual income benefits
- Annuitize the contract
- Continue holding the annuity

A deferred annuity can be fixed, fixed indexed, variable or registered index-linked.

Why choose a deferred annuity?

Potential objectives include:

- Retirement accumulation
- Tax deferral
- Future income
- Principal protection
- Market participation
- Death benefits
- Guaranteed living benefits

Important:

Buying a deferred annuity does **not necessarily mean you must annuitize it.**

Many deferred annuities allow you to retain account value and take withdrawals instead.

5. FIXED ANNUITIES

A fixed annuity provides contractual interest guarantees from the insurance company.

The insurer generally credits interest according to terms specified in the contract.

The NAIC notes that fixed deferred annuities have a guaranteed minimum interest rate stated in the

contract, and consumers should ask about both the initial rate and renewal rate. ^{NAIC} NAIC Content

MYGA: MULTI-YEAR GUARANTEED ANNUITY

A MYGA is a fixed annuity with an interest rate guaranteed for a specified period.

For example:

5-year MYGA

The insurer may guarantee a particular interest rate for five years, subject to the contract.

Advantages

- Predictable interest
- Contractual guarantees
- Generally no direct stock-market exposure
- Tax-deferred growth
- Relatively straightforward structure

Risks and limitations

- Surrender charges
 - Limited liquidity
 - Inflation risk
 - Reinvestment risk
 - Insurance-company credit risk
 - Potentially lower long-term growth than equities
-

THE THREE RATE QUESTIONS

Never ask only:

"What is the interest rate?"

Ask:

1. What is the initial rate?
 2. How long is that rate guaranteed?
 3. What is the guaranteed minimum rate after that period?
-

6. FIXED INDEXED ANNUITIES

FIA

A Fixed Indexed Annuity is a fixed annuity whose interest-crediting formula is linked to the performance of an external index.

A common reference index is the S&P 500, but contracts may use other indexes.

Critical concept

You generally do not own the underlying index.

If the S&P 500 rises 15%, that does not automatically mean the annuity earns 15%.

Your interest credit depends on the contract's formula.

HOW FIA INTEREST CAN BE CREDITED

CAP

A cap places a maximum on the interest that can be credited under a particular strategy.

Example:

Index gain: 12%

Cap: 8%

Potential credited gain: 8%

PARTICIPATION RATE

A participation rate determines what percentage of an index gain is used.

Example:

Index gain: 10%

Participation rate: 80%

Potential credited gain:

8%

SPREAD

A spread, sometimes called a margin, is deducted from the index return.

Example:

Index gain: 10%

Spread: 2%

Potential credited gain:

8%

POINT-TO-POINT

The contract compares the index value at two specified points in time.

MONTHLY AVERAGING

The contract uses multiple index measurements rather than simply comparing beginning and ending values.

THE FIA TRADE-OFF

A typical FIA attempts to provide:

Some market-linked upside

in exchange for:

Limited upside and contractual restrictions

Many FIA strategies are designed so that negative index performance does not directly create a negative interest credit for that strategy. However, withdrawals, fees, surrender charges, rider costs and other contract provisions can still reduce value.

7. VARIABLE ANNUITIES

A variable annuity allows you to allocate money among investment options, commonly called **subaccounts**.

Those investments may include:

- Stocks
- Bonds
- Money-market investments
- International investments
- Balanced portfolios
- Other investment strategies

The account value generally rises or falls according to the performance of the investments you select. The SEC emphasizes that investors should examine a variable annuity's investment options, fees,



charges, death benefits and payout provisions before purchasing. S

SEC+1

Advantages

- Market participation
- Tax-deferred growth
- Investment flexibility
- Potential lifetime income
- Potential death benefits
- Optional living-benefit riders

Risks

- Investment losses
- Higher expenses

- Surrender charges
- Rider fees
- Investment-management expenses
- Complex guarantees
- Tax consequences
- Potentially lengthy holding periods

VARIABLE ANNUITY RIDERS

Optional riders may provide benefits such as:

Guaranteed Minimum Withdrawal Benefits

May provide a contractual withdrawal benefit subject to specified rules.

Guaranteed Minimum Income Benefits

May establish a formula for future income.

Enhanced Death Benefits

May provide beneficiaries with a contractual benefit above the current account value in certain circumstances.

Living Benefits

May provide additional guarantees while the owner is alive.

THE BENEFIT-BASE WARNING

One of the most important concepts to understand:

A benefit base is not necessarily the amount of money you can withdraw.

An annuity might show:

Benefit Base: \$400,000

while the actual:

Account Value: \$310,000

The \$400,000 figure may only be used to calculate a future benefit.

Always ask:

"Is this number cash value, surrender value, account value, or merely a benefit calculation?"

8. REGISTERED INDEX-LINKED ANNUITIES

RILA

A Registered Index-Linked Annuity is a market-linked annuity that generally allows investors to participate in index performance while accepting a defined amount of downside risk.

RILAs are sometimes called **buffer annuities**.

They are substantially different from traditional fixed indexed annuities because the buyer may experience actual losses.

THE BUFFER

Suppose a hypothetical contract has a:

10% buffer

If the index declines:

Index Result	Hypothetical Result
+15%	Gain, subject to cap/formula
+5%	Gain, subject to cap/formula
-5%	0% loss
-10%	0% loss
-15%	Approximately -5%
-25%	Approximately -15%

These are simplified illustrations only. Actual RILA calculations depend on the contract.

THE FLOOR

A floor establishes the amount of downside the investor agrees to absorb.

For example:

10% floor

may mean the investor absorbs losses up to 10%, while the insurer absorbs losses beyond that level under the contract's methodology.

RILA TRADE-OFF

A RILA may offer:

More market exposure

than a traditional fixed indexed annuity,

but generally with:

More downside risk.

The investor must understand:

- Index
- Term
- Cap
- Participation rate
- Buffer
- Floor
- Loss calculation
- Reset provisions
- Withdrawal consequences

9. COMPARING THE MAJOR ANNUITY TYPES

Feature	SPIA	Fixed	FIA	Variable	RILA
Immediate income	Yes	Usually no	Usually no	Usually no	Usually no
Deferred accumulation	No	Yes	Yes	Yes	Yes
Direct market investment	No	No	No	Yes	No

Feature	SPIA	Fixed	FIA	Variable	RILA
Index-linked	No	No	Yes	Sometimes	Yes
Principal protection	Contract-dependent	Generally high	Generally high for indexed crediting	No	No
Can lose account value from market decline?	Not generally in same sense	Not directly	Usually not from negative index crediting alone	Yes	Yes
Lifetime income potential	Yes	Yes	Yes	Yes	Yes
Liquidity	Low	Moderate/Low	Moderate/Low	Moderate/Low	Moderate/Low
Complexity	Low	Low/Medium	High	High	Very High

Important: "Principal protection" never means that an investor is protected from every possible loss. Withdrawals, surrender charges, fees, taxes, inflation and insurer credit risk can all affect outcomes.

10. UNDERSTANDING GUARANTEES

The word "**guaranteed**" can be misleading if you don't know exactly what is guaranteed. For every proposed annuity, create two columns:

GUARANTEED	NOT GUARANTEED
Minimum interest rate	Projected interest
Contractual income	Non-guaranteed income
Death benefit	Hypothetical investment growth
Guaranteed withdrawal formula	Future caps
Surrender value	Future participation rates
Contractual benefits	Illustrated returns

Ask:

"Where in the contract does it say this is guaranteed?"

11. UNDERSTANDING FEES & EXPENSES

Annuity costs can appear in several different places.

Surrender Charges

A fee or adjustment that may apply if you withdraw more than permitted during the surrender period.

Mortality & Expense Charges

Common with variable annuities.

Administrative Fees

May cover contract administration.

Investment Expenses

Variable annuity investment options may have their own expenses.

Rider Charges

Optional income, death-benefit or living-benefit riders may have annual charges.

Market Value Adjustments

Certain contracts can increase or decrease the amount received when money is withdrawn, particularly during periods of changing interest rates.

THE TOTAL-COST QUESTION

Ask the salesperson:

"What is the total annual cost of this contract, including every rider, investment expense and contract charge?"

Then ask:

"What would this contract cost if I owned it for 10 years?"

12. LIQUIDITY & SURRENDER CHARGES

Annuities are often designed for long-term ownership.

Before purchasing, identify:

Surrender period

How many years?

Surrender schedule

How much would you pay if you withdrew:

- Year 1
- Year 2
- Year 3
- Year 5
- Year 7
- Year 10

Free withdrawal

How much can you withdraw annually without a surrender charge?

Exceptions

Does the contract provide special access for:

- Required minimum distributions?
- Nursing-home confinement?
- Terminal illness?
- Disability?
- Other circumstances?

Never assume an exception exists. Read the contract.

13. TAXES & RETIREMENT ACCOUNTS

Annuities generally provide tax-deferred treatment of earnings within the contract.

But:

Tax-deferred does not mean tax-free.

Tax treatment depends on whether the annuity is qualified or nonqualified and on the transaction involved.

Potential considerations include:

- Ordinary income taxation
- Early-distribution rules
- Required minimum distributions
- Beneficiary taxation
- 1035 exchanges
- IRA rules
- State taxation

ANNUITIES INSIDE IRAs

If an annuity is placed inside an IRA or another tax-advantaged retirement account, the retirement account already provides tax advantages.

Therefore, ask:

"What additional insurance or contractual benefit am I receiving that justifies using an annuity inside this retirement account?"

The SEC specifically warns that purchasing a variable annuity inside an already tax-advantaged



retirement account does not create an additional tax-deferral benefit. S

SEC

Consult a qualified tax professional before making a transaction with significant tax consequences.

14. INCOME RIDERS & OTHER BENEFITS

A retirement-income rider may provide a contractual method for determining withdrawals or income. However, riders can be complicated.

Before buying one, determine:

What is the benefit base?

What is the actual account value?

What withdrawal amount is guaranteed?

How does age affect the benefit?

What happens after a withdrawal?

Does excess withdrawal reduce the benefit?

What does the rider cost?

Can the insurer modify any rider provisions?

15. UNDERSTANDING ANNUITY ILLUSTRATIONS

An illustration may contain both guaranteed and non-guaranteed values.

Don't focus exclusively on the highest projected number.

Instead, request:

GUARANTEED SCENARIO

What does the contract guarantee?

BASELINE SCENARIO

What assumptions are being used?

UNFAVORABLE SCENARIO

What happens if assumptions are significantly worse than illustrated?

For indexed products, ask how caps, participation rates and spreads have changed historically—but remember that historical rates do not guarantee future rates.

16. EVALUATING THE INSURANCE COMPANY

Annuity guarantees are obligations of the issuing insurance company.

Therefore, evaluate the insurer itself.

Consider:

- Financial strength
- Claims-paying ability
- Independent financial-strength ratings
- Company history
- Product stability
- State insurance regulation

Do not confuse an insurance-company guarantee with an FDIC bank guarantee.

State insurance guaranty associations may provide certain protections subject to state law and limits, but they are not a substitute for evaluating the insurer.

17. QUESTIONS TO ASK BEFORE BUYING ABOUT THE PRODUCT

- ☐ What type of annuity is this?
 - ☐ Is it immediate or deferred?
 - ☐ What problem is it designed to solve?
 - ☐ Why is an annuity appropriate for me?
-

ABOUT GUARANTEES

- ☐ What exactly is guaranteed?
 - ☐ What is not guaranteed?
 - ☐ Who provides the guarantee?
 - ☐ How long does the guarantee last?
 - ☐ Where is each guarantee stated in the contract?
-

ABOUT FEES

- ☐ What are all annual fees?
- ☐ What are the rider fees?
- ☐ What are the investment expenses?

- ☐ What are the surrender charges?
 - ☐ Is there a market value adjustment?
-

ABOUT LIQUIDITY

- ☐ How much can I withdraw each year?
 - ☐ How long is the surrender period?
 - ☐ What happens if I need all of my money?
 - ☐ What happens if I die during the surrender period?
-

ABOUT INDEXED PRODUCTS

- ☐ What index is used?
 - ☐ What is the cap?
 - ☐ What is the participation rate?
 - ☐ Is there a spread?
 - ☐ What crediting method is used?
 - ☐ How often can these terms change?
-

ABOUT RILAs

- ☐ What is the buffer?
 - ☐ What is the floor?
 - ☐ How much could I lose?
 - ☐ How is the loss calculated?
 - ☐ What is the cap?
 - ☐ What happens when the term ends?
-

ABOUT VARIABLE ANNUITIES

- ☐ What are the investment choices?
 - ☐ What are their expenses?
 - ☐ What are the mortality and expense charges?
 - ☐ What riders are included?
 - ☐ What does each rider cost?
 - ☐ What happens to my guarantees if I withdraw money?
-

18. ANNUITY RED FLAGS

RED FLAG #1

"You can't lose money."

Ask exactly what is protected and under what circumstances.

RED FLAG #2

"You get stock-market returns without market risk."

Usually an oversimplification.

RED FLAG #3

"This 10% bonus is free money."

Determine the vesting schedule, surrender restrictions and other conditions.

RED FLAG #4

"Your money is completely liquid."

Ask for the actual surrender schedule.

RED FLAG #5

"The government guarantees this."

Annuity guarantees are generally obligations of the insurance company.

RED FLAG #6

"You have to act today."

A complex retirement product deserves careful review.

RED FLAG #7

The salesperson cannot explain the product without an illustration.

You should be able to understand the basic economics without relying on a sales projection.

19. THE ANNUITY COMPARISON WORKSHEET

Use this worksheet to compare actual contracts.

CONTRACT #1

Insurance Company: _____

Product: _____

Annuity Type: _____

Premium: \$ _____

Surrender Period: _____

Free Withdrawal: _____

Guaranteed Rate/Benefit: _____

Projected/Non-Guaranteed Benefit: _____

Annual Fees: \$ _____

Rider Fees: \$ _____

Index: _____

Cap: _____

Participation Rate: _____

Spread: _____

Buffer/Floor: _____

Income Benefit: _____

Death Benefit: _____

Market Value Adjustment: Yes / No

Beneficiary Provisions: _____

Questions Remaining: _____

20. THE ANNUITY BUYER'S CHECKLIST

Before signing:

I understand...

- ☐ The exact type of annuity
 - ☐ How the contract makes money
 - ☐ How the contract can lose money
 - ☐ Every major fee
 - ☐ The surrender period
 - ☐ My penalty-free withdrawal amount
 - ☐ The tax consequences
 - ☐ The death benefit
 - ☐ The income benefit
 - ☐ The difference between account value and benefit base
 - ☐ Which values are guaranteed
 - ☐ Which values are hypothetical
 - ☐ The insurance company's financial strength
 - ☐ How withdrawals affect guarantees
 - ☐ What happens if I change my mind
-

21. ANNUITY GLOSSARY

Accumulation Phase

The period during which money remains in a deferred annuity before income begins.

Annuitant

The person whose life may determine the duration of lifetime payments.

Annuitization

The process of converting an annuity into a stream of payments under the selected payout option.

Beneficiary

The person or entity designated to receive a death benefit.

Buffer

A specified amount of market loss that a RILA may absorb before the investor experiences losses.

Cap

The maximum interest credit under a particular indexed strategy.

Crediting Method

The formula used to determine interest credited under an indexed annuity.

Deferred Annuity

An annuity in which income is generally postponed until a future date.

Fixed Annuity

An annuity providing contractual interest guarantees.

Fixed Indexed Annuity

A fixed annuity whose interest-crediting formula is linked to an external index.

Floor

A limit defining the amount of downside exposure an investor may accept in certain RILA strategies.

Immediate Annuity

An annuity designed to begin income relatively soon after purchase.

Index

A market benchmark used in determining the interest-crediting formula of an indexed product.

Participation Rate

The percentage of an index return used to calculate a credited return under a particular strategy.

RILA

Registered Index-Linked Annuity.

Rider

An optional contractual feature providing an additional benefit, generally for an additional charge.

SPIA

Single Premium Immediate Annuity.

Spread

An amount deducted from an index return before calculating credited interest.

Surrender Charge

A charge that may apply when money is withdrawn during the surrender period.

Subaccount

An investment option inside a variable annuity.

Surrender Period

The period during which certain withdrawals may trigger surrender charges.

Variable Annuity

An annuity whose account value generally varies based on selected investment options.

22. FINAL DECISION FRAMEWORK

Before purchasing an annuity, answer five questions.

QUESTION 1

What problem am I solving?

Income? Growth? Protection? Longevity? Estate planning?

QUESTION 2

What risk am I transferring to the insurance company?

For example:

- Longevity risk
 - Interest-rate risk
 - Certain market-loss risk
 - Income risk
-

QUESTION 3

What am I giving up?

Potential trade-offs may include:

- Liquidity
- Investment upside
- Flexibility
- Access to capital
- Simplicity

QUESTION 4

What happens if my plans change?

Consider:

- Early withdrawal
- Moving
- Medical expenses
- Long-term care
- Death
- Divorce
- Changing retirement plans
- Needing a large amount of cash

QUESTION 5

Can I explain the contract to someone else?

If you cannot explain:

how it works,

what it costs,

what is guaranteed,

how you can lose money,

and

how you get your money out,

take more time before purchasing.

THE BOTTOM LINE

Annuities are not interchangeable.

A SPIA is primarily an **income solution**.

A fixed annuity is primarily a **guaranteed accumulation solution**.

A fixed indexed annuity is a **market-linked interest-crediting solution with substantial contractual protection against negative index crediting**.

A variable annuity is an **investment product wrapped in an insurance contract**, with the potential for market growth and loss plus optional insurance benefits.

A RILA is a **market-linked insurance product that allows meaningful market participation while requiring the investor to accept defined downside exposure**.

A deferred annuity can be structured around any of several objectives depending on its underlying design.

The best annuity is therefore not necessarily the one with the highest projected return, largest bonus or highest income illustration.

The best product is the one whose guarantees, risks, costs, liquidity and features actually match the problem you are trying to solve.

IMPORTANT DISCLOSURE

This guide is intended for general educational purposes and is not individualized investment, insurance, tax or legal advice.

Annuity contracts vary by insurance company, product, state and contract version. The descriptions and examples in this guide are simplified for educational purposes and should not be interpreted as representations of any specific product or insurer.

Before purchasing an annuity, review the actual contract, disclosures, prospectus where applicable, illustration and applicable state-specific materials.

Consider consulting appropriately licensed insurance, investment, tax and legal professionals regarding your individual circumstances.

For additional consumer information, the National Association of Insurance Commissioners (NAIC) provides annuity resources and buyer's guides. The NAIC is currently reviewing revisions to its

deferred-annuity Buyer's Guide as of 2026. ^{NAIC} NAIC Content+1

For variable annuities, the U.S. Securities and Exchange Commission provides additional investor education regarding contract features, investment options, fees, charges and risks. SSEC+1

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This version is structured to work as a **print/PDF handout, lead-generation guide, or client education booklet**. I can also adapt it into a more polished **branded financial-services brochure style** with a cover, callout boxes, color-coded risk levels, side-by-side product charts, and a two-page tear-out **“Annuity Buyer's Worksheet & Scorecard.”**