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FIXED INDEXED ANNUITIES

BAACKE
INSURANCE & FINANCIAL SERVICES

Could a fixed indexed annuity be right for your retirement strategy? It's possible, depending on your specific needs and goals.

WHAT IS A FIXED INDEXED ANNUITY?

A fixed indexed annuity is a long-term, tax-deferred savings vehicle that offers protection against market loss and the opportunity for upside growth. Fixed indexed annuities are offered by insurance companies through insurance and financial professionals.

WHAT ARE SOME OF THE BENEFITS OF A FIXED-INDEXED ANNUITY?

- **Tax-deferred growth.** Interest in a fixed indexed annuity is *tax deferred*. This means you don't pay taxes on any interest as long as the money stays inside the annuity. You do pay taxes when you take the interest out of the annuity. Tax-deferred growth could help you accumulate assets at a faster rate than you would in a taxable vehicle.

- **Downside protection.** Most fixed indexed annuities offer *principal protection*, which means you can't lose principal due to market losses. Even if your index has a down year, your annuity balance won't go down. You may not earn interest that year, but you won't lose money due to the decrease in the index value.

- **Upside potential.** Fixed indexed annuities are linked to an external market index, like the S&P 500. You have the opportunity to earn interest in a specified time period based on how the index performs. If the index performs poorly, you may earn less or no interest, but you won't lose money. If the index performs well, you may earn more interest.

HOW DO YOU EARN INTEREST IN A FIXED INDEXED ANNUITY?

As the name suggests, a fixed indexed annuity is tied to an external market index. Examples of market indexes include:

- **S&P 500.**
- **Dow Jones Industrial Average.**
- **NASDAQ Composite.**
- **Russell 2000.**

Your interest is based on the return of your specific index over a designated period of time. Periods of time vary by contract. For example, it could be a calendar year, or it could be 12-month periods from the time you open the contract.

Assume your index has a good year and performs well over the designated period of time. You would likely receive more interest than you would if the index performed poorly.

WHAT HAPPENS IF THE INDEX DECLINES OVER THE DESIGNATED PERIOD?

It's possible that the index your contract is tied to could go down in value over the period that is used to calculate your interest. All fixed indexed annuities have a minimum guaranteed value, which means your annuity value cannot go down below that minimum guaranteed value and, in addition, the accumulated value does not go down due to declines in market losses in the index the annuity is tied to. In that given period, you would simply earn zero interest.

IS YOUR INTEREST CAPPED IN A FIXED INDEXED ANNUITY?

Your downside exposure is limited in a fixed indexed annuity, but there usually are also limits on the upside you can capture in any given period. These rules vary by annuity, but they're often implemented through either caps or participation rates.

INTEREST CAPS

An interest cap is just what it sounds like — a limit on the amount of interest you receive in a given period. Assume your contract has a 6% interest rate cap on the amount of interest you receive over every 12-month period.

That means you receive interest equal to the index's increase up to a limit of 6%, but no index performance is negative. So your interest each year will be between 0% and 6%. Here's how it would look for different levels of performance:

12-Month Index Performance	Interest Received
-3%	0%
4%	4%
6%	6%
10%	6%

PARTICIPATION RATES

A participation rate is the portion of the market performance that is credited to your annuity value as interest.

Assume your contract has an 80% participation rate. That means that your interest will be equal to 80% of the index performance. Here's how that would look for various levels of performance over a designated period:

12-Month Index Performance	Interest Received
-3%	0%
4%	3.2%
6%	4.8%
10%	8%

FIXED INDEXED ANNUITY CONSIDERATIONS

Fixed indexed annuities can be effective vehicles to minimize volatility and achieve tax-deferred growth. However, they're not for everyone. Here are a few things to consider with a fixed indexed annuity:

- **LIQUIDITY.** Fixed indexed annuities are not liquid. Most have multi-year surrender schedules, which means you'll pay a penalty if you surrender the contract or take an excess withdrawal during that period. If you are going to use a fixed indexed annuity, you should have plenty of other liquid assets on-hand in case of emergency.

- **TAXABLE DISTRIBUTIONS.** Growth in fixed indexed annuities is tax-deferred. However, in most cases, distributions from fixed indexed annuities are taxed as ordinary income. If you plan on using the annuity for income in retirement, be sure to have a strategy in place to minimize your tax bill and take into consideration penalties that may incur if you take distributions before age 59 1/2.

- **LIMITED UPSIDE.** Fixed indexed annuities can be effective vehicles for those who are willing to accept limited upside in exchange for minimal downside risk. However, they may not be appropriate for those who have a high risk tolerance and wish to accept greater risk in the pursuit of higher returns.

Think a fixed indexed annuity could be right for your retirement strategy?
Let's talk about it. Contact us today and let's start the conversation.

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