



## FIA EDUCATION SERIES

NAFA has created this series to promote education on how FIAs work and important factors to consider when buying one.

# ANNUITIES IN RETIREMENT PLANNING

FEBRUARY 2021

## LETTER FROM THE CEO

On behalf of NAFA, the National Association for Fixed Annuities, I would like to introduce you to the latest in the Fixed Indexed Annuity Education Series, designed to help consumers better understand the inner workings of fixed indexed annuity (FIA) products and to develop an awareness of how they might fit into financial and retirement plans. We hope this educational series helps demonstrate how FIAs can provide enhanced returns for consumers, while limiting downside or losses with their guaranteed minimum interest rates, a concept which becomes extremely important when planning for retirement.

Fixed indexed annuities, just like traditional fixed annuities, are insurance products that provide downside protection from loss of principal, with a guaranty that the interest earned on the annuity contract can never go below zero. In a traditional fixed annuity, the interest that the annuity can earn is locked in for a set period defined by the product and generally in annual increments. In an FIA, the return or rate is determined based on an interest crediting formula or method established by the issuing insurance company that is linked to the performance of a market index, such as the S&P 500.

This educational series provides information to help clients understand how FIAs can meet their financial needs and mitigate risks to their savings as well as providing a source of stable retirement income. This report explains how annuities work within a comprehensive financial plan to increase retirement security. All pieces in this series are available at <https://nafa.com/education/consumer-materials/>.

NAFA is the premier trade association exclusively dedicated to fixed annuities. We are committed to providing information and education regarding the value of fixed annuities and their benefits to our members, journalists, and the general public to help Americans plan for a lasting and safe retirement.



**Charles J. DiVencenzo, Jr.**  
President & CEO

*The FIA Education Series  
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of NAFA by CANNEX  
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CANNEX is a leading  
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## HOW ANNUITIES CAN HELP YOUR RETIREMENT PLAN

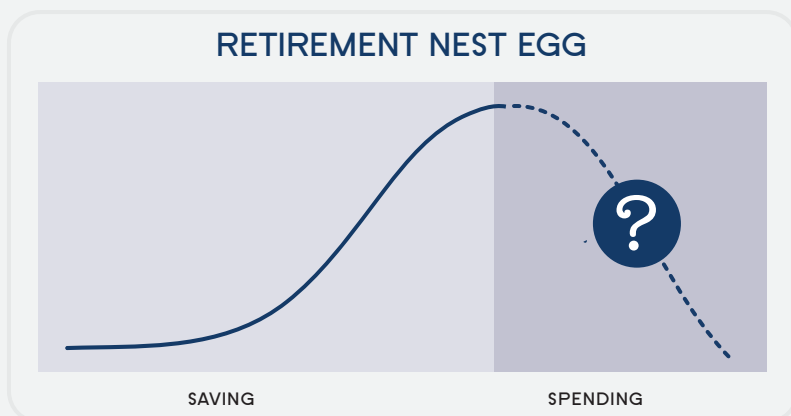
For many people, the focus of retirement planning is to set aside money to build a nest egg for the future. But a true planning process takes in all of the goals and needs of a household to answer important questions. What are my sources of income in retirement? How do I take care of my loved ones when I'm gone? How do I balance risk and safety to meet my goals?

Most people get help from a financial professional to create and manage a plan, but it's important for all investors to understand the basics of the challenges in retirement—and their solutions. Retirement itself is a shift from setting aside some of your paycheck to creating a new one. Whether you retire all at once or continue working part-time, you'll need to decide how to make your savings work for you.

For years, many people have relied on regular withdrawals of money from their savings to supplement Social Security and/or a pension. Fewer retirees have a pension today while they're living even longer, which means squeezing more out of those retirement savings. Taking income from a series of bonds, also known as a bond ladder, is a safe way to generate income. But low interest rates mean low income.

This is why so many financial professionals consider an annuity. Using annuities for retirement planning is very different from a traditional financial planning approach. So it's important to understand how different kinds of annuities can fit into your plan depending on what you need and when. Each kind of annuity offers different features and benefits, so it's important to understand what you need and how an annuity can help you achieve your goals.

We're going to focus on two big reasons that people buy annuities: safe accumulation of interest and reliable income.



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## SAFE ACCUMULATION OF INTEREST

If you're not ready to put an income plan in place, fixed annuities can help grow your savings safely and prepare for income later. A fixed annuity falls in the "fixed income" category because it has a low-risk profile and provides a balance against higher-risk investments. This is especially important the closer you get to retirement, when you'll start using your savings to replace your income.

At that time, it may make sense for you to shift to a strategy that "turns on" the guaranteed income power of the annuity, either within an annuity you already own or by exchanging it for a different annuity. Or it may make sense for you to continue the strategy where the annuity is part of your fixed income holdings, especially if you have other sources of guaranteed income. Either way, a fixed annuity gives you options down the road for safe accumulation of interest or guaranteed lifetime income.



## QUICK GUIDE TO FIXED ANNUITIES FOR SAFE ACCUMULATION OF INTEREST

There are two kinds of fixed annuities that offer safe accumulation of interest.

**Fixed annuity**—great when you want to guarantee that your savings increase and completely avoid the risk of the markets.

**Fixed indexed annuity**—a fixed annuity that gives you the chance of a higher yield, though you may end up with less than if you'd taken a guaranteed rate.

ANNUITY	STATED ANNUAL CREDIT	CREDIT RELATED TO INDEX PERFORMANCE	POSSIBILITY OF 0% CREDIT OVER A PERIOD
Fixed Annuity	✓		
Fixed Indexed Annuity		✓	✓

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## RELIABLE INCOME— FOR A LIFETIME

There are two ways to create a reliable income from annuities in retirement. First, some annuities offer an optional benefit that guarantees income for life. Second, you can convert the contract to a guaranteed income stream, also known as annuitization. You may want income to start right away or you may be looking to start it in the future. Either way, income guarantees can improve your retirement income plan.

## RISKS IN RETIREMENT

There are three big risks that you face when you start using your retirement savings for income. Annuities can help with all of them.

- 1 The risk of outliving your savings.
- 2 The risk of reduced purchasing power in the future.
- 3 The risk of market losses early in retirement that your portfolio may not recover from.

This [excerpt from NAFA Annuity Outlook](#) has more information on these risks and how to address them.

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## BOOSTING YOUR RETIREMENT SUCCESS

There are many unknowns in retirement, but it is still important to make plans that will increase your chance of success. This is where a retirement plan that takes into account your goals and priorities comes in. We don't know how long we are going to live, which makes it impossible to know how long our money will need to last. Even so, there are ways to measure how likely our plan will succeed while taking into consideration the three risks of retirement: market fluctuations, reduced purchasing power, and longevity. Using methods that test your plan through many scenarios, it's possible to look at your risk of running out of money or the average amount of money you'd have left over.

We won't focus on the details of this analysis, but it is helpful to understand how and why annuities can ease your concerns about the three big risks in retirement. If you're interested in exploring this kind of analysis, you can also learn more in this white paper, [Product Allocation for Retirement](#).



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## ANNUITIES AS PART OF THE SOLUTION

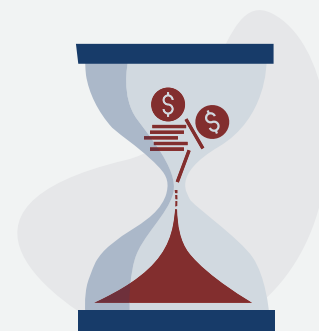
The benefit of guaranteed income from an annuity is just that: you will have a steady check coming in for the rest of your life. This is probably not the entire solution for your retirement planning but it may be a valuable part of it.

Why are income guarantees so important? They establish a floor of income—in addition to Social Security and pensions—that you can't outlive. They also help address each of the three risks in retirement.

### Risk #1

#### Outliving Your Savings

Annuities are unique and valuable because they address the risk of living a long time. The income from your annuity will last as long as you do.



### Risk #2

#### Reduced Purchasing Power in the Future

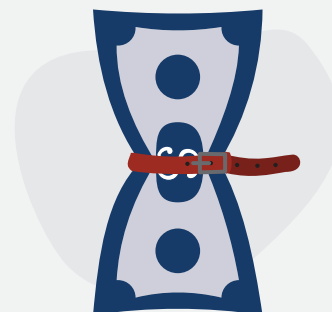
If you have a strong base of guaranteed income, you can invest the rest of your portfolio in ways that have more risk but bring higher returns. This is a great protection against future inflation, since you may need to rely on withdrawals from your portfolio to keep up with rising costs of living over time.



### Risk #3

#### Market Losses Early in Retirement that Your Portfolio May Not Recover From

With income from annuities and other guaranteed sources, you will not need to rely on your savings to pay the bills. If the stock market value goes down, you can give your investments time to recover before you need them in the future. This protects future income and helps grow the money you will leave to heirs.




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## GUARANTEED INCOME IN DIFFERENT FLAVORS

Annuities can be a valuable part of your retirement income plan, addressing three big risks in retirement. When it comes to deciding exactly what kind of annuity and guarantee is right for you, you'll want help from a financial professional who can figure out the strategy that best fits your goals.

There are different types of annuities that provide guaranteed income and you may get guidance on using one or more of these as part of your plan. It's helpful to understand that some annuities provide higher guarantees that remain steady throughout your life while others offer guarantees with the possibility of increases over time. Generally speaking, a greater potential for increase comes with a lower guarantee.

There are also other valuable features of the annuity that may make a particular contract work for you, such as additional benefits for long-term care or life insurance that does not require underwriting. You'll need to discuss these details with your financial professional.

Annuities can be a powerful tool to help you retire with the assurance that your income will last a lifetime. When you're putting together a comprehensive financial plan, they give you the freedom to increase the growth potential of the rest of your savings and meet the risks of retirement with confidence. 

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