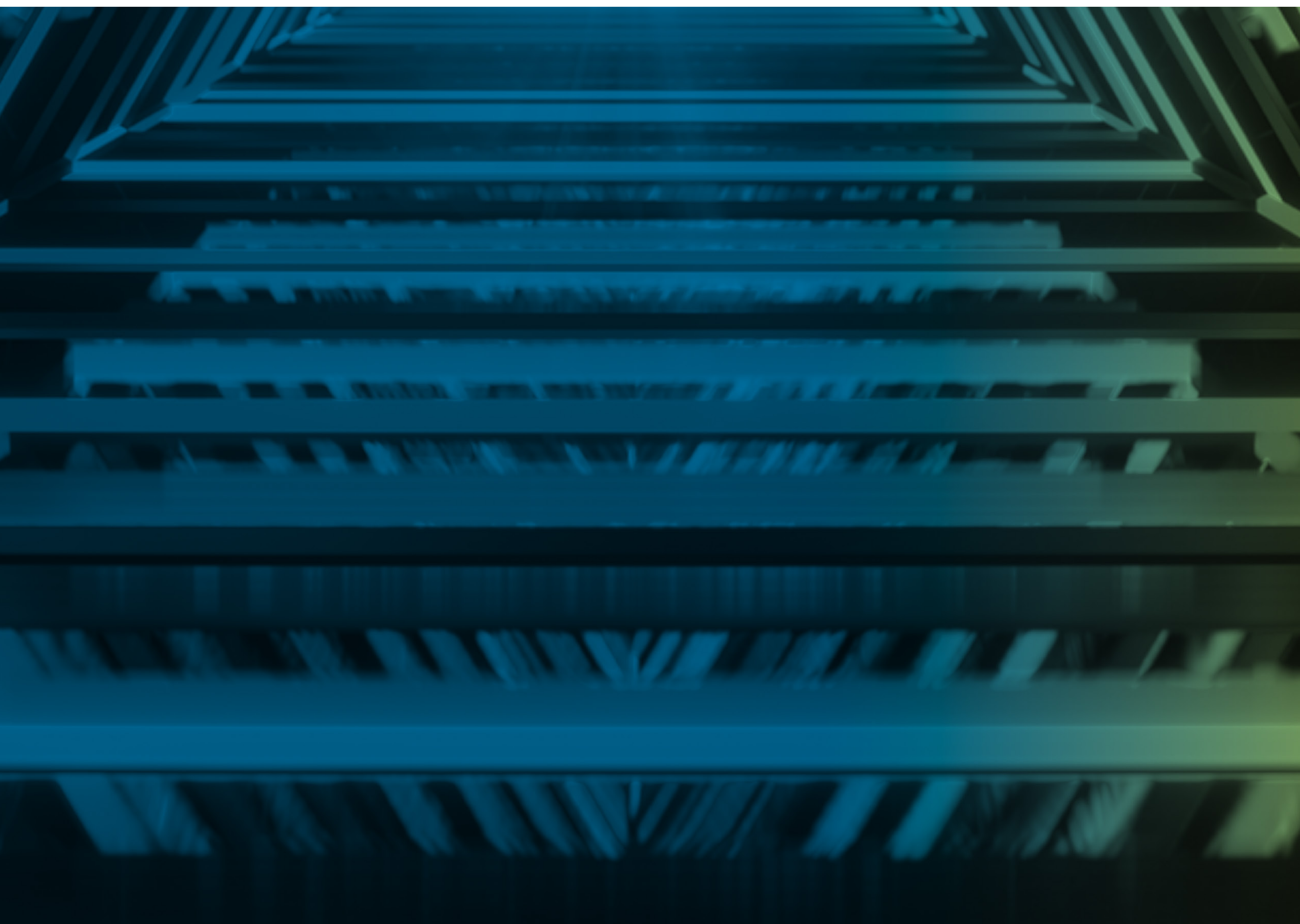
Annuity Fast Facts: Fixed Indexed Annuities

August 2023

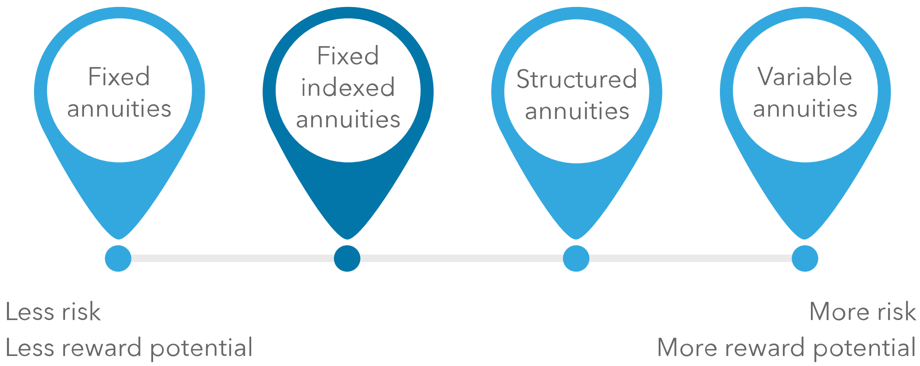


Annuity fast facts

This profile of fixed indexed annuities is one in a series created to increase awareness of annuities by providing market color, friendly tips, and interesting stats at a glance.

A deferred annuity is a long-term, tax-deferred investment issued by an insurance company and purchased through a qualified professional.

There are four main types:



Fixed indexed annuities

Fixed indexed annuities can provide a degree of market upside with full protection against market loss.

Did you know?

For more than five decades, conservative investors have used fixed annuities that offer more interest than what's typically paid on bank Certificate of Deposits (CDs) while still maintaining a guarantee against loss.

Today, investors have another option. Fixed indexed annuities (FIAs) provide the same principal guarantee as traditional fixed annuities. For investors willing to give up the certainty of returns provided by traditional fixed annuities, FIAs have the potential to return more per year than fixed annuities.

Unlike fixed annuities though, FIAs offer a return based on the change in price in a reference index, such as the S&P 500. They typically also offer a minimum guaranteed interest rate each year.

Not an alternative to stocks!

While interest earned may be determined by an equity index, FIAs should never be thought of as an alternative to equities. Because the insurance company protects the investor against loss, the investor can only earn interest on a portion of any positive return in the index, regardless of which crediting strategy is used to calculate interest.

A powerful feature

In an FIA, interest is calculated based on the return of the index over a specific crediting period (typically one-year long). For any crediting period that the reference index declines, an investor would earn 0% interest, but would not take any losses. More importantly, when a new crediting period starts, investors don't have to wait for the market to recover before they begin to earn interest—returns for each crediting period are calculated based on the index's level at the start of each crediting period.

Interesting stat

While traditional fixed annuities have been around longer than FIAs, many investors today are more willing to trade a certain return for an unknown but potentially higher return.

Know that FIAs:

- May earn 0% interest in a crediting period if the market declines.
- Are not FDIC insured like CDs are. Guarantees under a fixed indexed annuity contract are backed by the issuing insurance company and subject to its claims paying ability.
- Are considered a long-term investment, typically carrying penalties (such as a surrender charge) if money is withdrawn during the stated surrender period.
- Come with an additional 10% federal tax penalty for withdrawals prior to age 59½.

Tax fact: Keep more to earn more

With a fixed indexed annuity, interest in an investor's contract grows tax-deferred and annual tax savings stay in the account to earn interest, thereby growing savings faster, until funds are withdrawn. Contrast that to a CD, where earned interest is taxable every year.

For example, if the price of the index falls one crediting period from 4,000 to 3,000, an investor will not earn any interest. For the next crediting period, the index level starts at 3,000, and the investor can earn interest as long as the index level is higher than 3,000 at the end of the crediting period.

Fixed indexed annuities and structured annuities together accounted for nearly 40% of overall annuity sales the first half of 2023 as investors sought to balance protection and growth.[1]

ENDNOTES

1. Record-High Sales of Registered Index-Linked and Fixed Indexed Annuities Drive Overall Sales Growth in the Second Quarter 2023, LIMRA, July 25, 2023.

iCapital®

60 East 42nd Street, 26th Floor
New York, NY 10165
212.994.7400

www.icapital.com

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