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Study Chapter

Fixed Annuities

Now that we have examined basic [contract](#) terminology that applies to all annuity contracts, we will turn our attention to examining each of the four main types of annuity contracts one by one. Each of these contracts has a unique [application](#) in retirement accumulation and distribution planning, and as we progress through our study of these contracts, you will see both great commonality and great contrast in their features. We will begin with fixed annuities which were the first of all annuities, and remain a foundation product for many retirement plans.

A. Timeline

Fixed annuities have long had a reputation for financial security. In fact, their power for providing payment for life goes back for more than two thousand years. First sold in ancient Rome under the name *annua*, they worked fundamentally as they do today. A Roman annuity buyer made a lump-sum payment, and in return received a [contract](#) that promised a fixed payment every year for his natural life. Eventually they were modified to provide payments for a specified period, or a term. As you can see, the same fundamental principles apply to today's fixed annuities.

The use of annuities continued in Europe through the Dark Ages, Middle Ages and more recent times. The idea traveled to America, where the first evidence of their use was as early as 1759, when the first known American annuity producers began as the Corporation for the Relief of Poor and Distressed Presbyterian Ministers and Distressed Widows and Children of Ministers. The company provided fixed annuity payouts for the survivors of deceased ministers.

The annuity concept was relatively slow to catch on, but all the while, their sale continued. During the Great Depression, the ideas of stability, asset safety and security were strongly promoted, as President Franklin D. Roosevelt, urged Americans to "save for a rainy day." The annuity emerged as a savings tool well suited for that time, especially as banks began to collapse at a catastrophic rate. One Depression era story significantly helped in promoting the fixed annuity concept. Supposedly, at the suggestion of his business mentor, baseball legend Babe Ruth survived the stock market crash of 1929 by putting all of his savings in annuities. The insurance companies came through on their promise and Babe Ruth lived well.

Annuities in the late 1930s and early 1940s were comparatively simple, offering a fixed return during accumulation periods, and guaranteed safety and return on principal. The addition of tax-deferral and compound accumulation made them all the more attractive. Even with few of the features available today, the fundamental fixed annuity constant of lifetime income or payments over a set number of years gained momentum.

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continue to attract the simplest alternative option amidst annuity and index annuity products.

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Because of their safety and the guarantees they offer, the sales of fixed annuities strengthen at times when the stock market becomes volatile or when equity markets are in turmoil. It seems that financial crisis promotes risk aversion. So, the recent market turmoil of 2008-2009, and the resulting “flight to safety” drove record sales of fixed annuities for many companies, and near record results for the industry overall.

Then came the increasing demand for the safety of U.S. Treasury securities. As more and more dollars poured into Treasuries, interest rates continued to fall. Traditional fixed product rates lost their relative competitiveness and sales in 2010 began to shrink, falling a total of 31% from their 2009 results.

Historically low Treasury rates continued to present a challenging interest rate environment for fixed annuities in 2011. However, when compared to other conservative choices like CDs and money market funds, the features of tax deferred growth and guarantees continue to drive fixed annuity sales. *Who is buying them?* Mostly people age 50 and above. This aging U.S. population is also likely to drive future sales of fixed annuities. People that are nearing or living in retirement tend to allocate assets much more conservatively than when they were young.

The segment to watch for fixed annuity sales is Gen Y, also known as the Millennials. This demographic group, born anywhere between 1980 and 2000, has a fairly strong aversion to risk. They lost faith in the financial markets and became highly conservative in response to the financial crisis of 2008. When surveyed, many of this group claim to have become market skeptics, and prefer to steer clear of equity market investments.

Stay tuned for new developments in the fixed annuity market. Their guarantees will continue to play a significant role in retirement planning as long as people are risk averse, and desire stability and retirement security, as they have for the past 2,000 years.

B. The Basics of Fixed Annuities

Fixed annuities have been a mainstay in the retirement planning industry for decades. Their underlying premise of safety of principal, stability of payments, and guaranteed growth have made them an important component of many retirement plans. Quite simply, a fixed annuity is a contract with an insurance company in which purchasers invest purchase payments to receive a fixed rate of return that is guaranteed by the insurer. Fixed annuities are usually purchased by conservative individuals or groups who are concerned about accumulating savings for retirement. As stated previously, persons that buy fixed annuities are usually age 50 and above.

A fixed annuity can be purchased with a single payment or a series of deposits. The money that is accumulated in the annuity is guaranteed to earn the contract’s guaranteed fixed rate of return throughout the annuity’s accumulation phase. The purchase payments that are made to fixed annuity contracts are invested in the insurance company’s general account. To deliver on the promised interest guarantees,

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available in the market today, the purchase payments grow at the fixed interest rate that is guaranteed by the insurer. The funds grow **tax-deferred** until the annuity owner decides to receive payment from the annuity. The tax savings from the tax deferral allow for accumulation of savings at a faster rate than taxable investments earning similar rates of return. The annuity has the potential for faster growth because interest is earned on

- The **principal amount** that is contributed;
- The interest that is credited on the account; and
- The money that would otherwise have been used to pay the taxes owed.

1. Fixed Annuities Compared to Certificates of Deposit (CDs)

A fixed annuity can be thought of as an insurance company's version of a CD. Both are primarily viewed as savings vehicles, and they serve conservative individuals or groups who wish to ensure growth of their principal but have no tolerance for principal risk. However, they differ in several fundamental areas that are noted below:

Financial Backing. Because CDs are typically issued by banks, they are covered by the FDIC deposit insurance. Fixed annuities are issued by insurance companies, and it is their financial strength that stands behind the interest payments that are made during the accumulation period, and potentially, the income payments that are made during the payout period after the term of the annuity ends. In the rare event of insurance company default, state guaranty associations protect annuity account values with coverage that ranges from \$100,000 to \$300,000, or more in some states.

Interest Rates. Except in rare circumstances, fixed annuities offer higher interest rates than CDs. There have been exceptions in recent times of historic low interest rates, especially when depository institutions like banks and credit unions run CD specials to attract deposits.

Taxation. Tax deferral is certainly one of the most important benefits of deferred annuities compared to CDs. CD interest income is taxed annually (unless held within a qualified retirement plan such as an IRA); while a deferred annuity balance earns interest on a tax deferred basis, even if funded with nonqualified money. This means that no income tax is paid until the money is withdrawn. This benefit is really magnified over time, so it is to the advantage of a fixed annuity owner to opt for a longer accumulation period term to take advantage of the account's potential growth. Reinvesting money that would otherwise be taxed makes a large difference if left to grow for 10, 20 or 30 years. Slowly but surely, because of the benefit of tax deferral, money contributed to fixed annuities can outperform not only CDs, but also other fixed income alternatives like Treasuries and high quality corporate bonds.

Early Withdrawals. CDs typically do not permit withdrawals without penalty until the end of their term. If early withdrawals are necessary, substantial interest penalties apply. Most fixed annuities today permit withdrawals of a specified amount of interest or a percentage of premium each year without penalty. However, if the withdrawal is made prior to the age of 59½, the IRS 10% penalty applies.

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lifetime income option and other payout options available through the insurance company. CDs do not offer structured payout options. They are an accumulation vehicle, while annuities both accumulate and distribute income with guarantees that are unavailable through other savings alternatives.

Investment Alternatives

PRODUCT	ADVANTAGES	DISADVANTAGES
Annuities	- Contract guarantees - Lifetime income option - Tax-deferred growth - Death benefits	- Higher contract fees & commissions Surrender charges - Lack of liquidity - Withdrawals prior to age 59 and a half taxed at 10%
Money Market	- No risk to principal - Complete liquidity (no withdrawal limits or penalties) - Flexibility to invest	- Lower interest rates - No tax-deferred growth - No payout/income options - No death benefit
CDs	- FDIC backing - No risk to principal	- Lower interest rates - Taxed annually - Penalties for early withdrawal - Limited liquidity - No death benefit
Savings Accounts	- FDIC backing - No risk to principal - Complete liquidity - Flexibility to invest	- Lower interest rates - Earnings taxed annually - No death benefit
Mutual Funds	- High growth potential - Risk selection - conservative to aggressive	- Income fully taxable - High front-end load sales charges - Higher market risk - No death benefit
Stocks, Bonds, Commodities, Options	- High growth potential - Dividends - Participation (voting rights)	- Product complexity - Higher market risk - Values fluctuate with risk to principal - Sensitive to changes in interest rates - Dividends and capital gains are taxable - Taxed at fair market value upon death - Limited liquidity

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Promissory Note ① Practice Question

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		Default consequences difficult to enforce
Real Estate Investment Trust (REIT)	• High growth potential • High dividend payout ratios • Special tax treatment • Liquidity	• Sensitive to fluctuations in interest rates and the real estate market • Dividend payouts and capital gains are taxable
Viatical Settlements	• High growth potential	• Mortality risk difficult to predict • Unknown rate of return • Limited liquidity • Investment return is taxable

2. Fixed Annuities Compared to Money Market Accounts

Money market accounts are also conservative savings alternatives chosen by investors who do not have tolerance for principal risk. Like their CD counterparts they offer FDIC insurance protection. They differ, however, substantially in these two areas:

- **Complete liquidity:** money market accounts have no withdrawal limits or penalty fees. There may be limits on the number of times each month that a withdrawal can be made, and minimum withdrawal amounts may apply.
- **Greater flexibility:** Investments can be made into money market accounts with any frequency. The accounts are open until the owner closes the account; there is no [expiration](#) or term.

The tradeoffs for the flexibility and liquidity of money market accounts, as compared to features available in fixed annuities are listed below:

- Lower interest rates;
- No tax deferred growth; and
- No option for guaranteed lifetime income and other forms of payout.

Like CDs, money market accounts, and certain other fixed income investments, fixed annuities fully protect against loss of principal. *Unlike* CDs and money market accounts, fixed annuities typically offer higher rates and tax deferral. This does not remove every risk possibility for a fixed annuity investment, but it does eliminate some of the more important concerns of retirees.

3. Types of Fixed Annuities

When choosing to invest in fixed annuities, an investor can select between CD-type annuities or a book value annuities. Their features are contrasted below.

Multi-year Guarantee or CD-Type Annuities

A “CD-type” annuity is a term used to describe a fixed annuity that offers an interest rate guarantee for the same length of time as its surrender charge period. *For example*, an annuity with a stated interest rate guaranteed for 5 years that has a schedule of surrender charges ending after 5 years is a CD-type annuity. This term

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guarantee” annuities. These annuities offer a guaranteed interest rate for the first year of the **contract** only, and then a rate for the subsequent years that can vary based on current market rates. The first year rate is usually called the base rate of the annuity, and the subsequent year rates are called renewal rates. To help attract investors to this type of contract, and also to offset the risk of the change to the rates in subsequent year, an attractive and highly competitive bonus interest rate is typically paid in the first year of the contract. *For example*, a 5-year banded rate annuity might offer a rate of 5% the first year, and then a renewal rate that is a minimum of 2% from years 2-5.

When considering a recommendation of a single year guarantee annuity, it makes good financial sense to check on the issuer’s history of renewal rates, to see whether the insurer has a history of raising, lowering, or maintaining the base interest rates of its single-year guarantee contracts after the first year.

GRA and MVA Fixed Annuities

A second classification of fixed annuities is either Guaranteed Return Annuities (GRA) or Market Value Adjustment annuities (MVA). This important classification differentiates the way an insurer treats early **contract** withdrawals or surrenders. The GRA guarantees that at full surrender or early termination of the contract, the annuitant will never receive less than 100% of the purchase payment. In other words, no penalties or interest rate fluctuations can impact principal when a contract is surrendered. A synonymous common industry term for a GRA annuity is a “book value” annuity.

The type of fixed annuity in which there is no guarantee of full return of principal at the time of surrender is called the Market Value Adjustment annuity (MVA). When an MVA provision applies, the insurer can adjust the contract value for interest rate movement at the time of a premature withdrawal that exceeds any free amount. In this way, it returns some of the interest rate risk to the annuity contract owner. The adjustment calculation equation is specified within the annuity contract. The way the adjustment is calculated can vary substantially between contracts.

MVA adjustments usually seem counter-intuitive when first considered, because when interest rates go up, a negative adjustment, or additional charge applies to offset the bond’s loss in value. When interest rates go down, the contract value receives a positive adjustment from the insurer.

Although MVA contracts may sound like something to avoid because of the possible charge, some financial advisors suggest only MVA contracts. The reason for this is that the MVA option enables the insurer to take on less risk. With less risk to plan for, the insurer can afford to pay slightly higher interest rates to outstanding contract values.

C. Fixed Annuity Contract Features

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85. Typically, fixed annuities are generally used by older individuals who are already living in retirement to earn a conservative return on funds that are not needed to support retirement lifestyle.



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by older individuals who are already living in retirement to earn a conservative return on funds that are not needed to support retirement lifestyle.

Term. The fixed annuity term is the time period over which guaranteed interest will be credited to the contract. Terms are generally from 3 to 10 years, with 5 to 7 year terms most common. Usually, the longer the term, the higher the guaranteed rates paid. Insurance companies may offer a renewal option at the end of the term. This feature allows a window of time, usually 30 days, to choose another contract term with new guaranteed rates, withdraw the funds without penalty, or choose an option for income payouts.

Bail-out Provisions. Some fixed annuities come with a protection against major interest rate fluctuations that allows the [contract](#) owner the right to cash out of the annuity contract, penalty-free.

A couple of *examples*: The provision may state that if the insurance company drops the interest rate by more than 1% of the original guaranteed rate, the owner can request the full contract value without surrender charge. If a fixed annuity with a five-year term guaranteed a rate of 5% for the first year and dropped the rate to 3% the following year, the bail-out provision would apply. This option protects the right of the annuity owner to keep the funds invested as competitively as possible. Keep in mind that there is a cost for a bail-out provision. Often commissions paid for the sale of these annuities are lower than those paid for annuities without a bail-out provision.

The bail-out provision is closely related to a return of premium option (ROP). The ROP feature also allows the contract owner to cancel the contract prior to the end of the term and for full return of purchase payments.

Interest Rate Crediting Methods - Portfolio and New Money Rates. With the *Portfolio Rate*, all annuity premium deposits enter a single portfolio, and the total return establishes the interest rate for all contractholders in that particular annuity block. The *New Money Rate* method places annuity premium deposits into a "bucket" during a discrete interest rate cycle. Cycles may change frequently so there may be a large number of buckets. Each is separately evaluated to establish the renewal rate, taking into [consideration](#) cash flows, underlying investments, market value, and other factors.

Minimum Purchase Amounts. This also varies by contract, but most insurers offer contracts with a minimum purchase of \$5,000-\$10,000.

Maximum Purchase Amounts. Companies may state a maximum purchase payment of \$1-\$5 million, but often require home office permission before applications for contracts of more than \$1 million are accepted. For any multi-million dollar investment, financial advisors should consider recommending diversification between companies. Although the risk of financial failure by insurance companies may be slight based on historical performance, it is a sound practice to divide large purchases among different high quality annuities.

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less than 100% of the purchase payments to the named beneficiary, but this may vary. Some companies waive surrender charges on distribution at death. Although the beneficiary's payment may be subject to taxation, these death benefit payments avoid the costs and delays of probate. If death occurs after annuitization has started, the benefit that is paid is dependent on the payout option chosen.

Payout Options. Numerous flexible annuity income payment options are available for owners to choose from when and if annuitization is chosen. An important part of determining suitability in the sales process is to determine the payout option that best fits the needs of the annuitant. The options that an insurer makes available for annuitization are often the same options that are available for annuitization of other annuity contracts that insurer issues, and include single and joint, life and installment options, with or without beneficiary protection and possible inflation adjustments.

Minimum Guarantee. At issue and upon any renewal, purchasers of fixed annuity contracts are guaranteed a minimum rate of return for the full term. This guaranteed rate is most important for banded or single year guarantee contracts. While a substantially higher rate may be paid in the first year of a contract, the following years' rates can be no less than the minimum guarantee. The contract's minimum guarantee may be subject to certain state law variations, but in general the range is 1.0% to 3.0%.

Surrender Charges. The surrender period is typically equal to the term of the annuity. It often ranges from 5-7 years. Contracts with longer surrender charge periods may offer the potential for higher returns, but this is not always true.

Liquidity Options and Free Withdrawals. Most fixed annuity contracts offer some form of liquidity option. Common liquidity provisions include a 10% free withdrawal or a withdrawal of contract earnings. Some contracts permit more than one withdrawal per year, as long as the withdrawals do not exceed the overall withdrawal maximum.

Many contracts offer "*crisis waivers*" on withdrawal charges in certain situation such as death, confinement in a nursing home, or terminal illness. Some annuity contracts allow the contract holder to take a loan from the annuity, much like a life insurance policy loan. Interest is charged and there are caps on the amount that may be borrowed. The eligibility qualifications for these provisions differ from contract to contract.

Market Value Adjustment. We have discussed the market value adjustment feature which may impact contract value when excess withdrawals are taken prior to the end of the surrender charge period. It may be important to clarify whether the MVA applies to early withdrawals for hardships, such as nursing home confinement, natural disaster and terminal illness, and or death.

Premium Bonuses. Some fixed annuity issuers offer premium bonuses to boost the potential earnings of the contract. Usually bonuses are a percentage of the initial purchase amount, and may or may not apply on subsequent purchase payments. Contracts that offer premium bonuses may have lower renewal rates than other contracts. In addition, if contracts with bonus payments are surrendered in the early

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changing consumer needs, several features that are appearing more frequently on fixed annuity contracts are those that have become popular on other annuity contracts, particularly variable annuities.

Guaranteed Lifetime Withdrawal Benefits (GLWBs): These riders have played a large part in driving interest in variable annuity contracts over the years. For an annual charge, they can guarantee that a certain benefit is paid for life, and may allow for step-ups in other benefits. They ensure that income cannot be outlived, without loss of control over the index annuity's accumulation value.

Long-Term Care/Confinement Benefits: Many insurers are thought to be considering an introduction of these combination contracts. Although a number are available today, the sales of these contracts have been insignificant. With concern for the potential cost of long-term care, these riders or built-in long-term care policy features usually result in a more cost-effective solution than a standalone long-term care policy. If long-term care is needed, the costs are first deducted from the contract's accumulation value, and then covered with insurance based on a multiple of the contract's value. A main attraction is that if the long-term care benefits are not used, the accumulation value remains as an asset.

Split Annuity: A split annuity combines a fixed period immediate annuity and a single premium deferred annuity. This retirement strategy is used to create an immediate monthly income stream for a guaranteed period of time (via the immediate annuity) and the restoration of original principal (via the deferred annuity).

Two-Tier Annuity: Most annuities guarantee a specific rate of interest regardless of whether the annuity is withdrawn as a lump sum at the end of the contract or whether the payments are annuitized. With a two-tier annuity, a higher rate of interest is applied if the payout is annuitized; however, a much lower rate of interest will apply to lump-sum payouts. In fact, if money is taken out of a two-tier annuity in a different way than specified in the annuity agreement, the contract penalties could even result in a negative rate of return.

D. Fixed Annuities and Suitable Sales

Particularly after recent years of market turbulence, fixed annuities have regained respect as a proven component for secure and stable retirement savings. For those who truly believe that "slow and steady wins the race," a fixed annuity can fill the bill. With so many fixed annuity alternatives to choose from, it is important that personal objectives and preferences are carefully considered along with the overall financial situation of the buyer, and that a fair and balanced overview of the product's advantages and disadvantages are clearly presented.

The following list of questions helps focus on important points of [consideration](#) in the fixed annuity purchase process:

- What are the interest guarantees and for how long do they apply? Are there any bonus provisions?
- What charges, if any, are deducted from the purchase payments?
- What charges, if any, are deducted from the [contract](#) value on an ongoing basis?

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1. Application

Meet Bob and Ellen. Throughout their working years, Bob, age 60, and Ellen, age 59, have tried diligently to set aside savings for their retirement. Each year they tried to maximize contributions to their respective savings plans: Ellen's 403(b) as a teacher, and Bob's 401(k) as a production supervisor for a manufacturing company. Because Bob is suffering from some health [conditions](#), he has decided to take advantage of an early retirement package that his company is offering. In addition to the severance money of \$100,000 included with the plan, he has another \$300,000 in 401(k) savings that will be distributed upon his termination.

Bob and Ellen have become more risk averse over the years, and want to take no chances with this \$400,000 of retirement savings. Bob is worried about needing the money for unforeseen expenses, and thinks they should just invest the entire lump sum in a money market account so that it is there when they need it. Ellen isn't so sure, and after talking to a financial advisor, proposes an alternate plan. The financial advisor agrees that an emergency fund is absolutely essential in their plan, and that they should set aside about 6 months' worth of their monthly expenses in the money market fund that Bob had chosen. However, he feels they should consider a fixed annuity for at least a portion of the lump sum, and recommends, that they invest at least \$200,000 in a 5-year multi-year guarantee (MYG) fixed annuity. He explains that the 401(k) funds can be transferred directly to the annuity so that the tax deferred growth can continue without interruption. He explains that the annuity has a 10% annual withdrawal feature, and also can be accessed free of withdrawal charges in the event of nursing confinement or terminal illness, both of which have been a concern of Bob's. The financial advisor also reminds Bob and Ellen that the interest rate is substantially more than the money market or even a CD will pay.

After learning more about fixed annuities, and completing their own research, Bob and Ellen agree that the MYG fixed annuity [contract](#) meets their needs for part of Bob's retirement distribution. They really appreciate the guaranteed rate of interest it will pay for the next 5 years, and like the idea that they don't have to worry about market volatility. They feel the 10% withdrawal option is important, and reasonable, and that it fits well overall into their vision of managing their financial future in retirement. The 5-year term of the annuity aligns well with Ellen's plan to consider retirement at about that time. They also will consider the guaranteed lifetime income opportunities that the annuity can provide down the road, as the idea of a worry-free retirement income paycheck fits nicely in their retirement income plan.

2. Seven Advantages of Fixed Annuities

1) **Safety of principal.** For the financially conservative who want no financial risk to the principal of their investment, fixed annuity contracts are hard to beat. Their minimum guaranteed requirements ensure that investors will receive their principal plus the accumulated interest at the end of the annuity term.

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3) **Tax-deferred growth.** Growth that is uninterrupted by taxation is a strong attraction for fixed annuities. As people save for longer periods of retirement and increasing life expenses, the maximization of retirement savings is increasingly important. Tax-deferred growth, especially over a lengthy period of time, can make a remarkable difference.

4) **Stability and protection from market volatility.** Some people don't respond well to market volatility – particularly where their hard earned savings are concerned. The recent market turbulence has driven many people out of the market, simply because they cannot tolerate the drastic ups and downs. Fixed annuities deliver steady and consistent growth, regardless of market and economic volatility that impacts other investment alternatives.

5) **The option of guaranteed income for life.** This annuity differentiator is one of the most unique and valuable provisions that annuities provide. At the end of their terms, annuity owners can choose from a wide variety of payout options that can be tailored to their retirement needs. With longevity concerns at top of mind for most retirees and persons approaching retirement, the security and peace of mind provided by a retirement income paycheck that is guaranteed for life cannot be underestimated.

6) **Penalty-free withdrawals.** Although not designed as liquid savings vehicles, annuity contracts today allow reasonable withdrawals to accommodate uncertainties in life. Most permit a withdrawal of up to 10% of the contract's value each year that is free of surrender charges. There are also many contracts that permit free access to accumulated funds when hardships occur. The restriction on the withdrawal can be a benefit: it helps people from dipping into their long-term savings for less important spending.

7) **Assets avoid probate.** Fixed annuity contract owners can plan to deliver a valuable legacy to their beneficiaries without the expense or delay often associated with other bequests made through their will(s). Death benefits from insurance contracts that are paid directly to a named [beneficiary](#) are not subject to the probate process.

3. Seven Disadvantages of Fixed Annuities

1) **Lack of liquidity.** Although there are limited withdrawal provisions, fixed annuities are not designed as a ready source of cash for emergency needs. Surrender charges and possible market value adjustments can amount to a large penalty if funds are withdrawn. A fixed annuity investment is probably not a good idea for persons who do not have any other investments or savings accounts that supply liquidity for emergencies.

2) **Low interest rates.** When compared to other available products in the market place, the returns offered by fixed annuities are comparatively low. Although tax deferral helps to accelerate growth, the lower rates that fixed annuities pay may not be appealing when compared with other alternatives.

3) **Surrender charges.** Long periods of high surrender charges are commonly identified as disadvantages of annuity contracts. In addition to the impact of a

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earnings are fully taxable as ordinary income, and if funded fully with qualified purchase payments, both principal and earnings are fully taxed as ordinary income.

5) Inflation impact. A challenge with any fixed income product is its ability to keep pace with the rate of inflation. Even if inflation averages only 2-3% per year, the relatively low interest rates paid by fixed annuities make it challenging to keep up. The erosion of purchasing power can be a substantial retirement planning challenge as retirees plan for retirements that can be 20-30 years or more in length.

6) Too many charges and fees. With surrender charges, possible market value adjustments, commissions to financial representatives, mortality risk fees, and miscellaneous contract charges and administrative fees, fixed annuity returns are subject to a substantial haircut. It can also be challenging for annuity owners to understand the impact of the charges on the contracts.

- Under what circumstances do the charges apply?
- How are they calculated?
- What is the impact of these charges on annuity return?
- How do mortality credits apply to my contract?

The fee structure and contract charges can overwhelm many persons looking for ways to save for retirement.

7) Locking in low rates. With interest rates at record lows, making a decision to lock money away for multiple years may not be to an investor's advantage. Although tax deferral and interest compounding help offset the low rates, they don't make up for the time during which a higher rate of return is lost.

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