RAYMOND JAMES

Understanding fixed annuities

If you're seeking consistent, guaranteed returns and reduced risk, fixed annuities could help you reach your objectives.

There are different types of annuities to fit varying risk tolerances. So whether you're saving for retirement, nearing retirement or living in retirement, choosing the right annuities could help you reach your financial objectives.

Ideal for more risk-averse investors, a *fixed annuity* typically guarantees no loss of principal or earned interest. This differs from a *variable annuity*, which offers earnings that fluctuate with the performance of specific investment funds. While variable annuities have the potential to provide higher returns, they differ from fixed products because the policy owner bears the investment risk and potential loss of principal.

Fixed annuities also guarantee to pay a specified interest rate based on the current environment. This rate is guaranteed for a period of one or more years, known as the rate period, and subsequent renewal rates are guaranteed to stay above a specified minimum rate.

SUITABILITY

While a variety of investors may benefit from fixed annuities, they are especially well-suited for investors who are:

- Risk averse
- Nearing retirement and unable to recover from a potential market loss
- Seeking an alternative to certificates of deposit (CDs), money markets and bond funds with potentially better and more consistent yields
- Interested in a predictable rate of return, particularly in retirement
- Seeking to convert assets into pension-like lifetime income

ADDITIONAL BENEFITS

In addition to principal protection, fixed annuities have many distinct benefits that could make them attractive additions to a retirement portfolio.

With a guaranteed interest rate, fixed annuities can be a source of predictable and protected cash flow for retirees and pre-retirees, with potentially higher yields than other lower-risk vehicles such as certificates of deposit or bonds.

Because distributions are optional, fixed deferred annuities can also be used as a vehicle for steady, protected growth with compounded interest.

If an annuity investor needs additional income, the annuity value can be "annuitized," which means the investor will receive regular payments for life or for a chosen period of time. Also, many annuities feature a death benefit that pays the account value to beneficiaries, at which point withdrawal penalties are waived.

During the rate period, you are typically provided with partial liquidity of your account up to 10% with no penalties.

Fixed annuities have no explicit fees – you keep what you earn – though most have early withdrawal penalties that decline over your initial rate period. By the end of your chosen rate period, the penalty no longer applies.

FLEXIBILITY

Once the initial rate period comes to an end, a fixed annuity investor has several options.

The issuer will typically offer you a new annual rate and, if you like the proposed rate, you can keep the annuity. You may also withdraw any amount of money you need from the annuity or even cash out entirely. Because all annuities offer tax-deferred growth, you would pay taxes on any gains withdrawn. If you don't find the proposed rate enticing, you can move to a different annuity through a tax-free exchange without having to make a taxable withdrawal.

Let's talk about whether a fixed annuity could enhance your financial plan.

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