



FIA EDUCATION SERIES

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

NAVIGATING THE CHOICE OF FIXED INDEXED ANNUITIES

JANUARY 2025

LETTER FROM THE CEO

As the CEO of NAFA, the National Association for Fixed Annuities, I am pleased to introduce the latest in the Fixed Indexed Annuity Education Series. The Series is 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. NAFA's goal for this educational series is to help demonstrate how FIAs can provide enhanced returns for consumers while limiting downside, or losses. As previous pieces in this Series have illustrated, fixed indexed annuities are insurance products that provide downside protection from loss of principal, with a guarantee that the interest earned on the annuity contract can never go below zero. 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. It is also important to understand the risks and rewards of various products when planning for your financial future. In this piece we illustrate how you and your financial professional should evaluate FIAs as well as the insurance companies that create, manage, and administer them over the life of the product. 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 public to help Americans plan for a lasting and safe retirement.



Charles J. DiVencenzo, Jr.
President & CEO

The Index Education Series is produced on behalf of NAFA by The Index Standard[®].

**THE INDEX
STANDARD** 

ABOUT THE INDEX STANDARD[®]

The Index Standard[®] provides actionable insights and an unbiased perspective. We do this by providing ratings and performance forecasts for indices and index-linked products, along with model allocations for FIAs based on forecast annuity credits. Our solutions and research broaden the understanding of complex indices and we support critical investment decisions with precise facts, clarity, and comparisons.

INTRODUCTION

Over the last few decades, people preparing for retirement have drawn on the wisdom of American economist Harry Markowitz, implemented through the idea of modern portfolio theory, and enjoyed the benefits of diversification to enhance the growth of their assets. With declining savings levels and the reduced availability of private sector pensions over the same time frame, retirees today need to turn their attention to more than just optimal portfolio allocation. Nowadays, retirees and financial professionals supporting them need to lean into products offering more than just accumulation and, more importantly, look into addressing the need for protected accumulation, guaranteed income, as well as long-term care. A category of products that grew in popularity to address these issues are deferred annuities. Deferred annuities have become the Swiss army knife of retirement planning in academic as well as practitioners' circles.

Over more than a decade of lower interest rate environment, one deferred annuity that stood out in popularity has been the fixed indexed annuity, or FIA for short.

As advisors and their clients seek to secure a financial future and particularly as they move toward retirement, the decision to allocate a portion of a client's nest egg to fixed indexed annuities demands careful consideration. These insurance products, often tied to market indices, offer a unique blend of growth potential and downside protection, among other benefits. To make an informed choice, it is crucial to weigh various factors that influence the performance and reliability of these savings- and income-generating vehicles.

CARRIER CONSIDERATIONS

One of the first considerations when selecting a fixed indexed annuity is the insurance carrier issuing it, in particular its financial strength. Ratings provided by agencies such as S&P, Moody's, and AM Best are good starting points, but more customized or aggregated scores, such as COMDEX or due diligence reports from industry observers, offer deeper insights into the financial stability of the insurance carrier. Opting for a carrier with a high rating ought to reduce the risk of default, providing peace of mind for investors. Beyond financial metrics, evaluating the carrier's service characteristics and business practices is equally important. A carrier with a reputation for stellar customer service and professional business conduct can significantly enhance the overall in-force annuity experience. Lastly, understanding how a carrier manages and communicates renewal rates is crucial for both advisors and policyholders. Transparent practices in this regard enable everyone involved to make informed decisions about the future allocations and performance of the indexed annuities they choose for their portfolios.



INDEX LINEUP CONSIDERATIONS

The quality of the indices associated with an FIA is a pivotal factor influencing its performance. Advisors and policyholders should carefully assess the diversity and robustness of the index lineup offered. A well-rounded selection of indices not only provides opportunities for attractive returns, but also helps mitigate risks associated with the volatility of specific markets that can be reflected in poor interest crediting experiences. In general, diversification is a fundamental principle of sound investing, but in the context of indexed annuities it involves ensuring that the product offers a range of indices to diversify the exposure. Such diversified indexed election can help cushion the impact of market fluctuations. Beyond index diversification, one should explore different crediting strategies within the indexed annuity, as their varied structures can provide adaptability to changing market conditions and add a layer of resilience to the overall annuity allocation strategy.



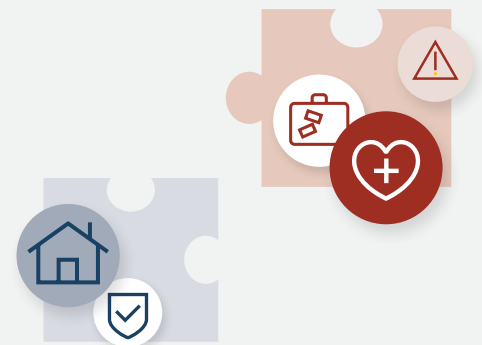
PERFORMANCE CONSIDERATIONS

Understanding the return potential of a fixed indexed annuity is key to the planning process, its inclusion in the portfolio, and optimal allocation of premium to the many options available inside the annuity. Potential returns from index-linked crediting strategies, or what The Index Standard calls “net forecast credits”, are a key component of the fixed indexed annuity allocation decision-making process. Net forecast credits allow investors to evaluate different crediting strategy options, considering their risk and return characteristics. Choosing an option that aligns with individual risk tolerance and financial goals is essential. In addition, comparing net forecast credits with the fixed-rate options available in the annuity package provides a valuable perspective that helps policyholders weigh the merits of each option compared to their “riskless” counterpart and make decisions in line with their financial objectives. Furthermore, examining the history of an annuity in maintaining promised rates is crucial. A transparent and consistent track record of rate renewals for existing policyholders is a factor that is highly desirable for investors and contributes to the predictability of credited interest and down-the-line implications for the retirement portfolio.



OTHER BENEFITS

In addition to their tax-deferred and principal-protected growth characteristics, fixed indexed annuities offer a plethora of choices when it comes to income-generating and other life-event-contingent benefits. These come in the form of guaranteed lifetime income payouts, with or without options giving the potential to increase in the future. Increases could be driven by a guarantee, a deferral period, or tied to a target growth rate of an index. Some benefits would serve as a bridge or enablement for optimal decision making regarding claiming Social Security or making other important decisions when it comes to leaving a legacy. All in all, careful consideration of the options and selection of the appropriate type of benefits, considering the overall financial plan, are paramount.



CONCLUSION

Choosing the right fixed indexed annuity requires a comprehensive independent evaluation of carrier reliability, index quality and diversification, and benefit options, as well as performance attributes. By considering the carrier's financial strength, service practices, and transparency in renewal rates, investors can establish a solid foundation for a secure investment.

Diversifying across both the selected indices and crediting strategies within the annuity is essential for optimizing returns while managing risks effectively. Additionally, understanding the nuances of potential interest credits, comparing them to fixed-rate options, and evaluating the likelihood of rate renewal stability contribute to making well-informed decisions aligned with individual financial goals.

As the retirees and their advising teams navigate the landscape of indexed annuities, a thorough understanding of these factors empowers them to make choices that align with their unique financial objectives. Independent, diligent research, and careful consideration of a variety of key aspects of an indexed annuity will undoubtedly lead to a more informed and confident annuity purchasing decision. 