

# ENHANCING THE SECURE RETIREMENT CONVERSATION

## WHO WE ARE

NAFA, the National Association for Fixed Annuities, is the premier trade association dedicated exclusively to fixed annuities. Our primary mission is to promote the awareness and understanding of fixed annuities. Founded in 1998, NAFA's membership represents every aspect of the fixed annuity marketplace and every channel of distribution, including insurance carriers, independent marketing organizations, and independent producers, advisors, brokers and general agents.

## WHAT WE DO

As we work to protect the products and professionals Americans need access to in order to generate guaranteed lifetime income and retire well, we rely on our three foundational pillars to guide us.

### EDUCATE

We educate financial professionals, regulators, legislators, media, and other retirement industry personnel about the value of fixed annuities and how they benefit consumers.

### ADVOCATE

We work with regulators and legislators at the state and federal levels on issues affecting retirement security and promote the use of fixed annuities as part of a holistic retirement savings plan.

### INTEGRATE

We coordinate with member companies and national financial trade organizations to advance initiatives and policies that help Americans plan for and meet their retirement income goals.

## WHY FIXED ANNUITIES MATTER

Fixed annuities play a critical role in helping shape the collective retirement future of our country.

- There is approximately \$1 trillion of in-force fixed annuity premium serving roughly 8 million Americans.
- Middle-class consumers largely comprise the annuity market, with an average fixed annuity valued at \$117,000.
- In 2021, life insurance companies paid \$60 billion in annuity benefit payments to contract holders.
- Research consistently shows that annuity ownership contributes to higher levels of retirement confidence.

For more information, contact Pam Heinrich, NAFA General Counsel & Director of Government Affairs  
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## NAFA Supports Lifetime Income Provisions for SECURE 3.0 Legislation

In 2019 Congress took a significant step forward for retirement savers by passing into law the Setting Every Community Up for Retirement Enhancement (SECURE) Act. Then in 2022 to help recover from the adversities of the Covid pandemic additional savings reform were passed in a SECURE 2.0 package.

NAFA thanks Congress for the bipartisan and bicameral efforts to enact these measures and, we support building upon these successes to continue to help Americans save for retirement by crafting a new SECURE 3.0. Among other provisions, NAFA requests that the following lifetime income policy changes be included:

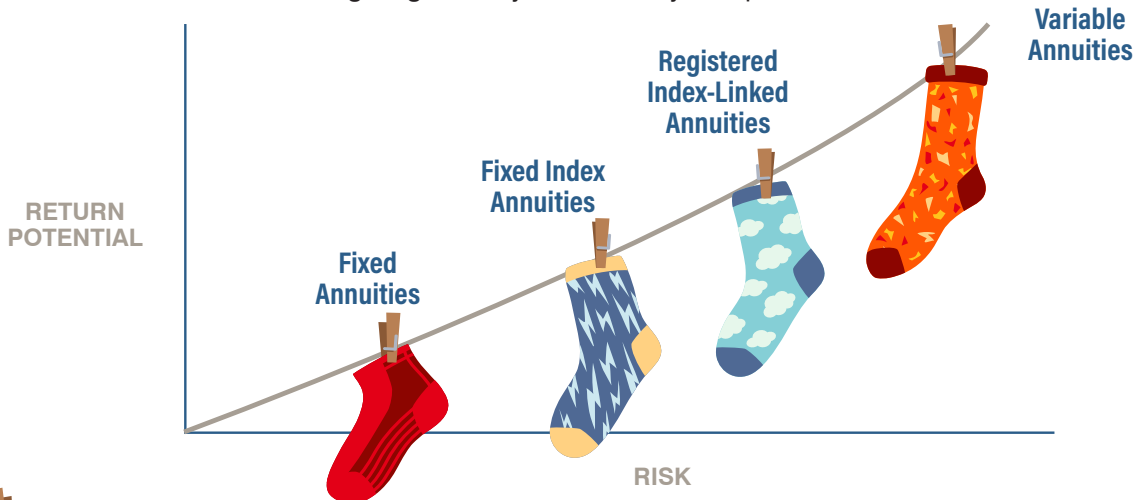
- **Qualified Longevity Annuity Contract (QLAC) Product Expansion-** provide for expanded annuity product choices specifically fixed indexed annuities and variable annuities that provide minimum guarantees. Include language from S. 1770, the Retirement Security and Savings Act last Congress that was introduced by Senators Cardin (D-MD) and Portman (R-OH). QLAC's, allow savers to place a portion of their retirement savings in an annuity that will provide an income stream later in retirement starting as late as age 85.
- **Annuities as a Qualified Default Investment Alternative (QDIA)-** add language contained in H.R. 3942, the Lifetime Income for Employees (LIFE) Act, introduced by Representatives Norcross (D-NJ) and Walberg (R-MI), that would allow annuities to be a default option in employer-provided 401(k) plans. This legislation would address current liquidity rules that prevent employers from offering annuities in their plans. Allowing a portion of an employee's default contribution to be placed into an annuity provides the benefit of protected lifetime income and guaranteed return on investment.

# Annuity Matchmaking

## Finding a fit for your specific financial needs

Preparing for a secure retirement is complicated, particularly as Americans face a growing number of planning risks. Paramount among them are longevity risk and the risk of outliving one's assets. To help combat these challenges, an annuity can provide predictable income you can't outlive. But which annuity is right for you?

Factors to consider include your comfort level with risk and whether you prefer a safety-first or maximum-return approach, among others. Consider the following diagram as you evaluate your options.



**Fixed Annuities:** A fixed annuity is an insurance contract that provides a guaranteed interest rate credited over a specified period of time.

**Match:** A fixed annuity may be right for you if you're looking for growth without market risk.

**Fixed Index Annuities:** A fixed index annuity (FIA) is an insurance contract that allows you to earn interest credits based on the performance of one or more underlying market index(es). Because you are not actually investing in the markets, your principal and any interest credited are protected from loss.

**Match:** A fixed index annuity may be right for you if you're looking for a balance of growth potential and protection.



**Registered Index-Linked Annuities:** A registered index-linked annuity (RILA) is an insurance contract that allows you to partially protect your money from market downturns while earning interest based in part on the performance of an underlying index or indexes.

**Match:** A registered index-linked annuity may be right for you if you're interested in more growth potential than a fixed index annuity but less potential return and less risk than a variable annuity.

**Variable Annuities:** A variable annuity allows you to invest your money in a wide array of subaccounts, which may include stocks, bonds, money market accounts, mutual funds and other investments.

**Match:** A variable annuity may be right for you if you are willing to take on more risk in return for greater accumulation potential.



Wondering how an annuity might fit in your long-term financial plans? Contact a licensed insurance professional for help evaluating annuity solutions and recommending a great match for your unique circumstances.

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# The Fixed Annuity Umbrella

Fixed annuities are a popular choice for individuals preparing for retirement who want a guaranteed interest rate and a stream of income they can't outlive. Yet, there remains confusion about how fixed indexed annuities in particular work. Read on to familiarize yourself with these powerful products.

**Fixed indexed annuities and declared rate (or "set rate") annuities both live under the fixed annuity umbrella.**

## How they're similar

### Fixed indexed and declared rate annuities:

- Are contracts issued by life insurance companies
- Offer accumulation (or "pay-in") benefits, annuity (or "pay-out") benefits and death benefits
- Are regulated by the National Association of Insurance Commissioners (NAIC)
- Must follow the same 1) standard non-forfeiture laws (SNFL), 2) reserving requirements, and 3) disclosure laws

Additionally, all fixed deferred annuities must provide contractually guaranteed annuitization payouts and the promise that premium and prior interest earned will never be affected by any negative performance of the insurance company's investment portfolio or the negative performance of a market index.

## How they're different

The primary difference is how the contractual interest is determined and calculated, but that difference does not affect the predictability of income.

### In a declared rate annuity contract:

- The insurance company determines the interest rate at the time of contract purchase
- That rate may be subject to change, though guarantees that protect the annuity owner against loss due to investment or market risk of his or her premium and interest credited remain<sup>1</sup>
- The guaranteed level of return will always provide a guaranteed level of income that the owner cannot outlive

### In a fixed indexed annuity contract:

- The owner enjoys the same type of contractual guarantees as other fixed annuities
- The determination of the contract value is the higher of either the SNFL value or the accumulation based on the performance of an outside market index (e.g., the S&P 500)
- Owners receive guaranteed minimum SNFL values, but also the additional possibility of earning a somewhat higher interest rate over time

**In other words, fixed indexed annuities offer the same guarantees as traditional fixed products but with more upside potential. As consumers sought protection from ongoing market volatility and continued uncertainty, fixed indexed annuity sales soared to record heights, exceeding \$79.8 billion in 2022<sup>2</sup>!**

<sup>1</sup> A general qualification regarding contractual guarantees that applies to both declared rate fixed annuities and indexed rate fixed annuities is that the contracting insurance company's sales and operational costs necessarily must be recouped and State laws generally allow companies to charge surrender charges and to guarantee only 87½% of premiums paid, but over time interest accumulations assure that the contract's guaranteed minimum value will be at least equal 100% of the principal paid, and surrender charges do not apply after a set period.

<sup>2</sup> Secure Retirement Institute, U.S. Individual Annuity Sales Survey, Fourth Quarter 2022, LIMRA



# REASONS

# TO CONSIDER ANNUITIES NOW!

Given continued uncertainty, consumers are more interested in taking control of their finances and their future than ever before. Fixed annuities can be a valuable tool in the retirement planning toolbox. Here are seven reasons to consider annuities when preparing for your future.

## 1. Preparing for Peak 65

In 2024, the U.S. will have more 65-year-olds than ever before — dubbed “Peak 65” in the retirement industry. For those nearing retirement, your needs will change as you transition from accumulating assets to protecting what you have. **Fixed annuities offer protection from various risks and predictable lifetime income.**

## 2. Protecting Existing Gains

Older individuals who have done well in the equity markets are looking for ways to lock in the gains they have generated. **Moving money from pure equity products into fixed annuities protects their principal, including the gains.** With fixed indexed annuities, you also have the opportunity to earn interest based on the market’s upside.

## 3. Leveraging Tax Deferral

**An intrinsic value of annuity products is the tax-deferred build-up of accumulated interest and product gains.** As legislative talks continue, income tax rates are expected to increase at the federal, state and local level. A desire to utilize tax deferral to help minimize your tax burden can be a valuable part of a holistic plan.

## 4. Managing Risk

Fixed annuities are insurance products, not investments. **As such, they can protect you from a variety of risks: market risk, inflation risk, deflation risk, sequence of returns risk and long-term care risk.** Most importantly,

they can mitigate longevity risk — the potential to outlive one’s savings — by creating a reliable income stream for life.

## 5. Creating a Personal Pension

In 1980, 60 percent of private sector workers relied on income from an employer pension; by contrast, only 4 percent could count on a private employer pension in 2020. **With the uncertainty of traditional forms of retirement income, you’ll need a way to close any income gap in your retirement plan — and annuities can do just that.**

## 6. Avoiding Hidden Fees

Because fixed annuities are insurance products, consumers benefit from a retirement vehicle that has been built to address the associated costs of ownership upfront. **Unless you make early withdrawals, terminate your contract, or choose to pay for an optional rider delivering specific benefits, you will not be charged fees.**

## 7. Capitalizing on Innovation

Today’s products are not your grandfather’s annuities. **Innovations can help provide more reliable accumulation, bigger income payouts and other features like long-term care benefits.** When combined with benefits like tax deferral, defined liquidity and payout guarantees, fixed annuities can address a variety of retirement needs.

**Want to see how annuities fit into your future? Contact a trusted financial professional for solutions customized to your life and goals.**

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## RAZONES

# PARA CONSIDERAR LAS PENSIONES VITALICIAS AHORA

Dada la incertidumbre constante, más que nunca los consumidores están interesados en tomar el control de sus finanzas y de su futuro. Las pensiones vitalicias fijas pueden ser una herramienta valiosa para la planificación del retiro. Las siguientes son siete razones para considerar las pensiones vitalicias al prepararse para su futuro.

### 1. Prepararse para el pico de 65 años

En 2024, EE. UU. tendrá más personas de 65 años que nunca (época apodada “pico de 65 años” en la industria del retiro). Para quienes estén cerca de retirarse, sus necesidades cambiarán a medida que pasen de acumular activos a proteger los que ya tienen. **Las pensiones vitalicias fijas ofrecen protección contra varios riesgos y un ingreso predecible durante toda la vida.**

### 2. Proteger las ganancias actuales

Las personas mayores que han obtenido buenos resultados en los mercados de renta variable buscan la manera de asegurar las ganancias que han generado. **Trasladar el dinero de los productos de renta variable solamente a pensiones vitalicias fijas protege su capital, incluidas las ganancias.** Con las pensiones vitalicias indexadas fijas, también tiene la oportunidad de generar intereses en función de las ventajas del mercado.

### 3. Aprovechar el aplazamiento de impuestos

**Un valor intrínseco de los productos de pensión vitalicia es la acumulación de intereses y ganancias con el aplazamiento de impuestos.** A medida que avanzan las conversaciones legislativas, se espera que las tasas del impuesto sobre la renta aumenten a nivel federal, estatal y local. El deseo de utilizar el aplazamiento de impuestos para ayudar a minimizar su carga fiscal puede ser una parte valiosa de un plan integral.

### 4. Gestionar los riesgos

Las pensiones vitalicias fijas son productos de seguro, no inversiones. **Como tales, pueden protegerlo de una serie de riesgos: riesgo de mercado, riesgo de**

**inflación, riesgo de deflación, riesgo de secuencia de rendimiento y riesgo de atención a largo plazo.** Lo que es más importante, pueden mitigar el riesgo de longevidad (la posibilidad de sobrevivir a los propios ahorros) creando un flujo de ingresos confiable de por vida.

### 5. Evitar comisiones ocultas

En 1980, el 60 por ciento de los trabajadores del sector privado contaban con los ingresos de una pensión del empleador; en cambio, solo el 4 por ciento podía contar con una pensión del empleador privada en 2020. **Ante la incertidumbre de las formas tradicionales de ingresos para el retiro, necesitará una estrategia para cerrar toda brecha de ingresos en su plan de retiro, y las pensiones vitalicias pueden hacer precisamente eso.**

### 6. Evitar comisiones ocultas

Dado que las pensiones vitalicias fijas son productos de seguro, los consumidores se benefician con un instrumento de retiro que ha sido creado para hacer frente a los costos de propiedad asociados por adelantado. **A menos que realice retiros anticipados, rescinda su contrato o elija pagar una cláusula adicional opcional que ofrezca beneficios específicos, no se le cobrarán comisiones.**

### 7. Capitalizar en la innovación

Los productos actuales no son las pensiones vitalicias de su abuelo. **Las innovaciones pueden ayudar a proporcionar una acumulación más confiable, mayores pagos de ingresos y otras características como los beneficios de atención a largo plazo.** Al combinarse con beneficios como el aplazamiento de impuestos, la liquidez definida y las garantías de pago, las pensiones vitalicias fijas pueden satisfacer una variedad de necesidades de retiro.

**¿Quiere comprobar de qué modo las pensiones vitalicias se adaptan a su futuro? Póngase en contacto con un profesional financiero de su confianza para obtener soluciones personalizadas para su vida y sus objetivos.**

# ANNUITY ABCs

**A**

is for **annuity**, which keeps us far from woe

**J**

is for **joint life**, meaning a spouse need not fear

**S**

is for **safety**, from stock market loss

**B**

is for **beneficiary**, where one day the money will go

**K**

is for **knowledge**, annuities are for the wise consumer

**T**

is for **tangible**, annuity dollars are real, not dross

**C**

is for **contract**, the policy the owner files away

**L**

is for **liquidity**, most annuities have it (it's not just a rumor)

**U**

is for **unique**, an annuity's retirement role no can dismiss

**D**

is for **deferral**, delaying the taxes you pay

**M**

is for **money**, annuities let you keep more on your plate

**V**

is for **value** (an annuity brings each owner much bliss)

**E**

is for **exclusion** ratio, or the income that is tax-free

**N**

is for **NAIC**, providing oversight from all fifty states

**W**

is for **withdrawal**, deferred annuities offer access to cash

**F**

is for **fixed**, where safety of principal is key

**O**

is for **obligation**, a promise you'll not be caught unawares

**X**

is the **line we sign** – your signature is right after the dash

**G**

is for **guarantees**, that investments never provide

**P**

is for **principal** (which is protected from bears)

**Y**

is for **yearly**, when annuity interest is credited

**H**

is for the rich **history** which annuities have on their side

**Q**

is for **qualified**, even IRAs may hold an annuity

**Z**

is for **zero**, the odds your annuity will ever be discredited

**I**

is for **interest** accrued every year

**R**

is for **risk** which annuity owners avoid through acuity