

# ANNUITIES GUIDE



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## 1. What Are Deferred Annuities?

A fixed deferred annuity is a financial product designed to grow your money safely and provide future income, typically during retirement. In exchange for a lump sum or ongoing payments, your funds grow tax-deferred during the accumulation phase. Unlike immediate annuities, fixed deferred annuities delay income until a later date. Many start income around age 70, but some contracts let you defer until age 90 or beyond—helping reduce the risk of outliving your money. Types include traditional fixed, fixed indexed, and MYGAs. With principal protection, tax advantages, and flexible payouts, they're ideal for conservative, long-term planners.

There are several types of **annuities**, tailored to different **financial objectives**.

Annuities have a long history that dates back to ancient Rome, where citizens invested in “annua” for regular annual income, particularly for retired soldiers.

In the 17th century, they gained popularity in Europe as governments used them to raise funds during wartime. By the 20th century, life insurance companies began offering modern annuities for personal financial security.

Today, annuities are more sophisticated, featuring market participation, inflation protection, and customizable income options for retirement.

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## 2. Types of Annuities

Various annuity types are designed to meet different financial goals. Below, we focus on Fixed Annuities, MYGAs, and Fixed Index Annuities.

**This guide will break down the main types, focusing on Fixed Annuities, MYGAs, and Fixed Index Annuities (FIAs), to help you determine which product best aligns with your retirement goals.**

**A Fixed Annuity** provides a guaranteed interest rate on your contributions for a specific period, offering stability and predictability. A fixed annuity might be an excellent choice if you want a low-risk option to protect your principal and ensure steady, reliable growth. Unlike market-linked products, your earnings are not affected by market fluctuations, so you know exactly how much your annuity will grow year after year. Features: **Guaranteed Interest Rate, Principal Protection, Predictable Payouts**

**A Fixed Index Annuity (FIA)** combines the benefits of a fixed annuity with the potential for higher returns tied to the performance of a stock market index (such as the S&P 500). While you are not directly investing in the stock market, the index's performance determines part of your annuity's growth. The appeal of FIAs is that they offer market-linked growth potential with downside protection, meaning your principal is protected even in a declining market. Features: **Market-Linked Growth Principal Protection Guaranteed Minimum Return:**

**A Multi-Year Guaranteed Annuity (MYGA)** is a fixed annuity that guarantees an interest rate for a specific number of years, typically 3 to 10 years. MYGAs offer higher returns than savings accounts or traditional fixed annuities with shorter terms, making them a solid choice for individuals looking for stable, tax-deferred growth without market risk. Features: **Higher Fixed Rates, Tax-Deferred Growth, Locked-in Rate:**





# 1. Fixed Annuities

## Principal Protection:

With a fixed annuity, your initial investment—also known as your principal—is protected. This means you cannot lose your money, making fixed annuities an appealing option for conservative investors who are more concerned about safeguarding their funds than chasing higher market-driven returns.

## Guaranteed Interest Rates:

One of the key features of a fixed annuity is the guaranteed interest rate. When you purchase a fixed annuity, the insurance company guarantees a specific return for a designated time frame. This feature eliminates uncertainty about your investment's growth and makes it easier to plan for retirement.



## Fixed Payment Schedules:

When you enter the distribution phase of your fixed annuity, you receive payments at regular intervals (monthly, quarterly, annually) according to the terms of your contract. These payments are predictable, allowing for consistent income during retirement.

## Tax-Deferred Growth:

Like many annuities, a fixed annuity grows on a tax-deferred basis. You don't pay taxes on your earnings until you begin withdrawing funds, which can be advantageous if you expect to be in a lower tax bracket during retirement.

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# Pro's Fixed Annuities



**Low risk: Protect your principal while earning steady returns.**

**PRO**

**PRO**

**Predictable income stream: Know exactly what your payments will be.**

**Simple structure: Easy to understand and manage.**

**PRO**

**A Fixed Annuity provides a guaranteed interest rate on your contributions for a specific period, offering stability and predictability.** If you want a low-risk option to protect your principal and ensure steady, reliable growth, a fixed annuity might be an excellent choice. Unlike market-linked products, your earnings are not affected by market fluctuations, **so you know exactly how much your annuity will grow year after year.**

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# Con's Fixed Annuities



**Limited growth potential: While your principal is safe, the returns are lower than riskier investments like equities.**

**CON**

**CON**

**Early withdrawal penalties: Withdrawing funds before the term ends may incur surrender charges.**



## 2. Fixed Index Annuities

### **Growth Potential Linked to an Index:**

The most compelling feature of a Fixed Index Annuity is the ability to earn interest based on the performance of a stock market index. If the index performs well, you'll enjoy a portion of those gains (subject to caps and participation rates). However, unlike direct stock market investments, your principal is protected if the index performs poorly.

### **Tax-Deferred Growth:**

Like other annuities, FIAs benefit from tax-deferred growth, which allows you to reinvest your earnings without having to pay taxes until you start making withdrawals.

### **Guaranteed Minimum Return:**

In addition to index-linked growth, FIAs often come with a guaranteed minimum return. This ensures that even if the market performs poorly, you will still earn a small amount of interest, preventing your investment from stagnating.



### **Principal Protection:**

Even though your interest earnings depend on market performance, your principal is never at risk with an FIA. In a down market, you won't lose any of your initial investment, making it an attractive option for people nearing retirement who want growth potential without risking their savings.

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# Pro's Fixed Index Annuities



**Offers growth potential linked to a market index while protecting your principal from market downturns.**

**PRO**

**PRO**

**Annual withdrawal charge schedule with partial access at no charge, unlike most CDs**

**Can be an attractive option for those seeking moderate growth with less risk than stocks.**

**PRO**

**A Fixed Index Annuity (FIA) combines the benefits of a fixed annuity with the potential for higher returns** tied to the performance of a stock market index (such as the S&P 500). While you are not directly investing in the stock market, the index's performance determines part of your annuity's growth. The appeal of this is that they offer market-linked growth potential with downside protection, meaning **your principal is protected even in a declining market.**



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# Con's Fixed Index Annuities



**There are usually caps on the amount of interest you can earn, limiting the upside in a strong market.**

**CON**

**CON**

**FIA's can be more complex than fixed annuities, with terms that might be difficult to fully understand for some.**

**Early withdrawals may incur surrender charges.**

**CON**

### **3. MYGAs** **(Multi-Year** **Guaranteed Annuities)**

#### **Guaranteed Interest Rate for Multiple Years:**

MYGAs provide a guaranteed interest rate that remains consistent over a set period, which could range from 3 to 10 years. During this time, your annuity grows at a predictable rate, offering more substantial returns than many short-term savings vehicles like CDs (Certificates of Deposit) or money market accounts.

#### **Higher Interest Rates:**

MYGAs often offer higher rates than both regular fixed annuities and bank savings products. This makes them ideal for people who want to earn more on their money without taking on market risk. However, the trade-off is that your funds are locked in for the duration of the guarantee period, and early withdrawals can lead to penalties.



#### **Tax-Deferred Growth During Accumulation:**

Like other annuities, MYGAs benefit from tax-deferred growth. This means you won't owe taxes on your interest earnings until you start withdrawing funds, which can be beneficial if you plan to withdraw when you're in a lower tax bracket during retirement.

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# Pro's Multi-Year Guaranteed Annuities



**Locked-in interest rates for several years provide stable, predictable growth.**

**PRO**

**PRO**

**MYGAs typically offer better returns than savings accounts, CDs, and short-term fixed annuities.**

**Tax-deferred growth allows your earnings to compound over time without immediate tax implications.**

**PRO**

**A Multi-Year Guaranteed Annuity (MYGA) is a type of fixed annuity that guarantees an interest rate for a specific number of years, typically ranging from 3 to 10 years. MYGAs offer higher returns than savings accounts or traditional fixed annuities with shorter terms, making them a solid choice for individuals looking for stable, tax-deferred growth without market risk.**

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# Con's Multi-Year Guaranteed Annuities



**Early withdrawal penalties can be substantial, particularly if you need to access your money before the term ends.**

**CON**

**CON**

**Interest rates may still be lower than more aggressive, market-based investments over the long term.**





# HOW ANNUITIES Can Improve Your RETIREMENT

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# 3. How Deferred Annuities Work

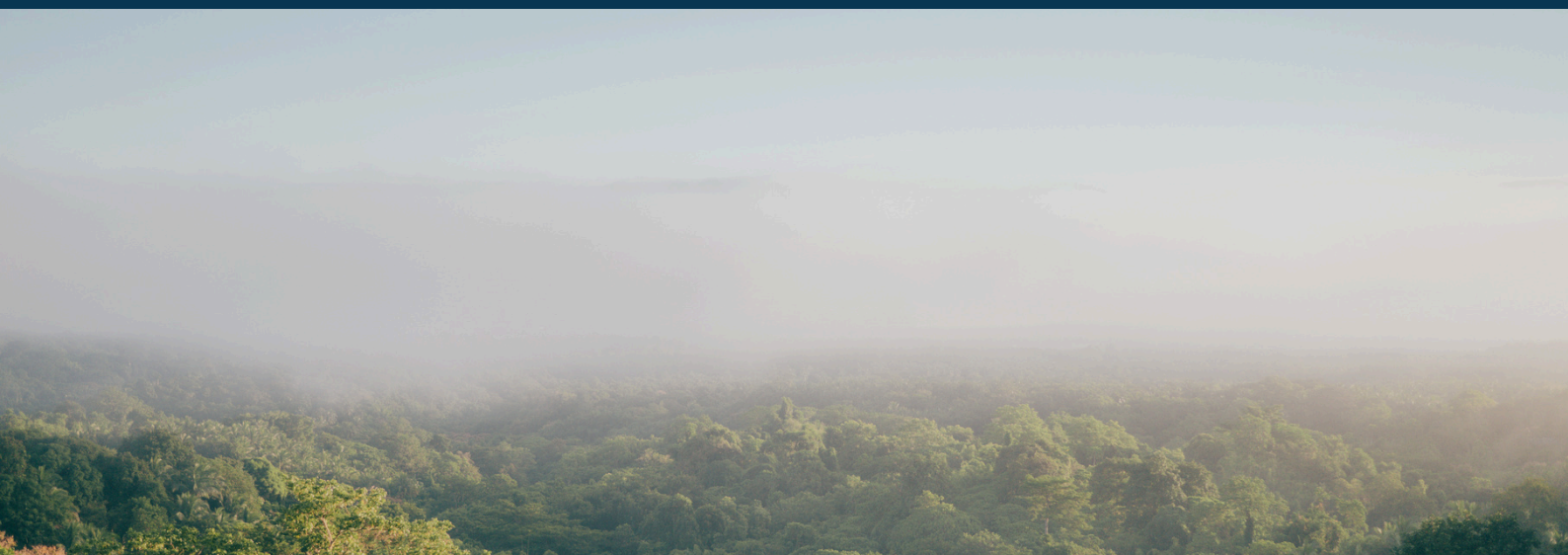
**Annuities operate in two distinct phases: the accumulation and distribution phases.**

## **ACCUMULATION PHASE:**

**Accumulation Phase:** During the accumulation phase, you invest funds into your annuity either through a lump sum or periodic contributions. This is the stage where your money grows—either at a fixed rate, through market index performance, or another method depending on the type of annuity. The key benefit here is tax-deferred growth, which means that you don't have to pay taxes on your earnings until you begin withdrawing money.

## **DISTRIBUTION PHASE:**

**Distribution Phase:** In the distribution phase, you begin receiving regular payments from your annuity. These payments can be structured in various ways depending on your needs. You might opt for lifetime income, where you receive a monthly or annual payment for the rest of your life, or choose a set period for the payouts (e.g., 10 or 20 years). Some annuities also offer joint life options, ensuring that both you and your spouse receive income for the rest of your lives.



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## 4. Benefits of Annuities



### **GUARANTEED INCOME**

Annuities provide reliable income, ensuring you won't outlive your savings.



### **TAX DEFERRAL**

Earnings grow tax-deferred, allowing for compounded growth.



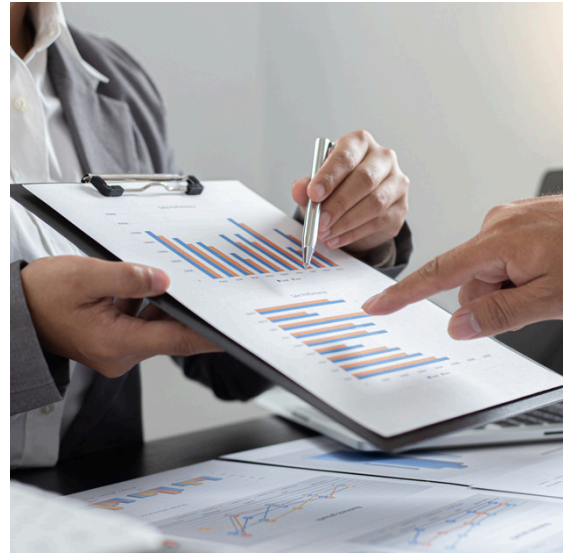
### **PROTECTION AGAINST MARKET RISK**

Certain annuities protect your principal from market downturns.



### **DEATH BENEFIT OPTIONS**

Some annuities provide death benefits, transferring remaining funds to your beneficiaries.



#### **Inflation Protection**

Optional riders can adjust payouts to keep pace with inflation.



#### **No Contribution Limits**

Unlike 401(k)s or IRAs, annuities have no annual contribution limits.



#### **Flexibility in Investment Types**

Different types of annuities cater to various financial goals:

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## 5. Understanding Fees and Charges

### **Surrender Charges**

**A one-time, declining schedule of charges that may apply if you take out more than your penalty-free withdrawal amount in the early years of your annuity contract.**

### **Rider Fees**

**Rider charges are optional costs for optional benefits that you can add to an annuity to enhance your contract.**

### **Index Buy-Up Fees**

**Index Buy-Up Charges are optional charges you can choose to pay inside certain fixed indexed annuities (FIAs) in exchange for higher growth potential.**

## 6. Annuities vs. Other Retirement Savings Options

Annuities offer guaranteed income, unlike 401(k)s or IRAs, which are subject to market risk. Compared to bonds, annuities can offer higher security and consistent payouts.

<b><u>Feature</u></b>	<b><u>Annuities</u></b>	<b><u>401(k)s/IRAs</u></b>	<b><u>Bonds</u></b>
<b>Income Guarantee</b>	Yes, offers guaranteed income streams	No, subject to market performance	No, depends on issuer's creditworthiness
<b>Market Risk</b>	None (for fixed annuities)	Yes, tied to market fluctuations	Moderate, affected by interest rates
<b>Tax Advantages</b>	Tax-deferred growth	Tax-deferred (traditional) or tax-free (Roth)	Interest income is taxable annually
<b>Liquidity</b>	Temporarily Limited; charges for early withdrawal	Low before age 59.5, early withdrawals may face penalties and taxes	Moderate, depends on bond maturity and secondary market
<b>Rate of Return</b>	Fixed or varying, depending on the annuity type	Market-dependent	Fixed, but generally lower than market returns
<b>Longevity Risk Protection</b>	Yes, income can last a lifetime	No, may deplete funds	No, limited to bond term and payout
<b>Customizable Payouts</b>	Yes, options include lifetime, period certain, or joint payouts	No, withdrawals depend on account balance	No, fixed interest payments
<b>Inflation Protection</b>	Optional (via riders)	No direct protection, but can invest in inflation-adjusted assets	Limited, inflation erodes value
<b>Fees</b>	Can range depending on product and carrier	Generally low, varies by provider	Low, typically no ongoing fees
<b>Estate Planning Benefits</b>	Protected from probate and creditors	Yes, remaining balance passes to heirs	Limited, depends on bond terms





## 7. Who Should Consider Annuities?

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**FOR THOSE  
SEEKING**

Guaranteed  
Retirement Income

LIVING LONGER?

**RETIREES CONCERNED ABOUT  
OUTLIVING THEIR SAVINGS:  
ANNUITIES OFFER PEACE OF MIND BY  
ENSURING THAT INCOME CONTINUES,  
EVEN IF OTHER RETIREMENT  
ACCOUNTS, LIKE 401(K)S OR IRAS,  
ARE DEPLETED.**

NO PENSION

**THOSE WITHOUT A PENSION: IF YOU  
DON'T HAVE A TRADITIONAL PENSION  
PLAN, AN ANNUITY CAN FUNCTION  
AS A SUBSTITUTE BY CREATING A  
PREDICTABLE INCOME STREAM.**

PREDICTABLE INCOME

**ANYONE WANTING PREDICTABLE  
CASH FLOW: FIXED ANNUITIES, IN  
PARTICULAR, PROVIDE STABLE  
PAYOUTS UNAFFECTED BY MARKET  
CONDITIONS, MAKING BUDGETING  
IN RETIREMENT EASIER.**



**FOR THOSE  
WITH**

Low Risk  
Tolerance

NO MARKET RISK

**NO MARKET RISK (WITH FIXED ANNUITIES): UNLIKE STOCKS OR MUTUAL FUNDS, FIXED ANNUITIES AREN'T IMPACTED BY MARKET DOWNTURNS, PROVIDING A SECURE OPTION FOR PRESERVING WEALTH.**

SAFETY

**SECURITY OF PRINCIPAL: ANNUITIES PROTECT YOUR INITIAL INVESTMENT, ENSURING YOUR MONEY GROWS OR REMAINS INTACT BASED ON THE TERMS OF THE CONTRACT.**

STABILITY

**PEACE OF MIND: KNOWING YOUR RETIREMENT INCOME IS NOT TIED TO UNPREDICTABLE MARKETS CAN REDUCE FINANCIAL STRESS, PARTICULARLY IN UNCERTAIN ECONOMIC TIMES.**



**FOR THOSE  
SEEKING**

**Tax-Deferred  
Growth**

MINIMIZE TAXES

**HIGH-INCOME EARNERS  
LOOKING TO MINIMIZE TAXES  
NOW: IF YOU'VE MAXED OUT  
CONTRIBUTIONS TO TAX-  
ADVANTAGED ACCOUNTS LIKE  
IRAS OR 401(K)S, ANNUITIES  
PROVIDE AN ADDITIONAL TAX-  
DEFERRED OPTION.**

COMPOUNDS FASTER

**INDIVIDUALS IN THEIR PEAK  
EARNING YEARS: TAX-DEFERRED  
GROWTH ENSURES YOUR MONEY  
COMPOUNDS FASTER, AS YOU  
WON'T PAY TAXES ON GAINS  
UNTIL YOU BEGIN WITHDRAWALS.**

TAX RATE

**THOSE PLANNING FOR A LOWER  
TAX BRACKET IN RETIREMENT:  
DEFERRING TAXES UNTIL LATER  
MAY ALLOW YOU TO PAY A LOWER  
TAX RATE ON DISTRIBUTIONS  
WHEN YOUR INCOME DECREASES  
IN RETIREMENT.**





# Does everyone benefit from **Annuities?**

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# NOT FOR EVERYONE

While annuities can be a great tool, they may not be the best fit for everyone. For example:



- **People seeking high-growth potential:** Variable annuities can offer some growth, but fees may limit returns compared to direct market investments.
- **Those needing immediate liquidity:** Annuities often come with surrender charges if you withdraw funds early, making them less ideal for those who need access to their money.



# 9. How to shop

## for Annuities

Annuities are all about protecting the lifestyle you've worked so hard to create and the legacy you intend to leave behind. However, let's be honest: most people don't know the first thing about choosing the right annuity contract. Fortunately, you've come to the right place. At Policy Engineer, we leverage cutting-edge technology and decades of annuity experience to help individuals like you find the best fit for your needs.



1

### **Visit [policyengineer.com/retirement/](https://policyengineer.com/retirement/)**

To get a Simple Annuity Comparison for Your Retirement

2

### **Choose what's most important to you**

Lifetime income, accumulation for retirement, or leaving a legacy

3

### **Get instant, Personalized rates**

These are quotes from all the top carriers



**SHOP ANNUITIES**



# INSURANCE COMPANIES: TRUSTWORTHY STEWARDS OF YOUR MONEY

Insurance companies are heavily regulated, ensuring they maintain sufficient reserves to meet their obligations. Many insurers have strong financial ratings from agencies like A.M. Best and Moody's. Their long history of reliability and prudent financial management makes them ideal partners in managing long-term income products like annuities.

visit [www.policyengineer.com](http://www.policyengineer.com) for simple annuity shopping



**MEET WITH US**

# FAQ

## CAN I WITHDRAW MONEY FROM AN ANNUITY?

Yes, but withdrawals before age 59½ are typically subject to a 10% IRS penalty and taxes on earnings. Many annuities also have surrender charges for withdrawals within a specific time frame. Most annuities allow partial penalty-free withdrawals.



## ARE ANNUITIES A GOOD INVESTMENT?

They are ideal for individuals seeking:

- Lifetime income.
- Protection from market volatility.
- Tax-deferred growth.
- Whether they are a good choice depends on your financial goals, risk tolerance, and retirement plan.



## CAN ANNUITIES PROTECT AGAINST INFLATION?

Yes, some annuities offer optional inflation riders that adjust payouts over time to keep up with rising costs. However, these riders often come at an additional cost.



## HOW ARE ANNUITIES DIFFERENT FROM OTHER RETIREMENT ACCOUNTS LIKE 401(K)S OR IRAS?

While 401(k)s and IRAs are primarily savings and investment vehicles, annuities are designed to provide guaranteed income in retirement. Additionally:

- Annuities have no contribution limits.
- They protect against market risk (for fixed and indexed annuities).
- They can offer lifetime income, which traditional accounts do not guarantee.



# Get In Touch

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**Free ANNUITY REVIEW**



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