

Understanding annuities

A shorter guide to income, growth, access and trade-offs | Updated October 2026



Build a retirement paycheck that fits your life.

An annuity is a contract with an insurance company. It can help you save for retirement or turn part of your savings into income. The right choice depends on the job you need it to do.

The key idea: Plan for dependable income, accessible savings and long-term growth together. An annuity may fill one part of that plan.

Your quick reading map

- 2 | Compare the main types
- 3 | Calculate your monthly income gap
- 4 | Balance inflation, liquidity and laddering
- 5 | Understand guarantees, costs and taxes
- 6 | Use the checklist before you buy

Choose the right type

Start with the purpose. Then compare the contract details. [1, 2, 3]

Type	How it works	Main trade-off
Fixed / MYGA	Insurer-set interest. A MYGA locks a rate for a stated number of years.	Limited access; renewal rates can change after the guarantee period.
Fixed indexed (FIA)	Interest follows an index formula. A negative index term generally credits 0%.	Caps, participation rates or spreads limit earnings; charges can reduce value.
Registered index-linked (RILA)	Index-linked gains and losses with a buffer or other loss limit.	You can lose principal. Early exits may have additional adjustments.
Variable	Value follows investment subaccounts you select.	Market losses and contract, fund and optional benefit fees.
Income annuity	An immediate or deferred income contract pays on a chosen schedule.	Access to principal is usually limited or unavailable after purchase.

Timing and product type are separate

Immediate generally means income begins within a year. Deferred means income or withdrawals start later. Lifetime income must be part of the selected payout option or benefit.

FIA is different from RILA. Both use indexes, but a RILA can pass market losses to you. Neither is the same as owning an index fund.

Find your income gap

Use consistent after-tax monthly amounts for this worksheet.



1. Separate needs from wants

Needs: housing, food, utilities, transportation, insurance, healthcare and required debt payments.

Wants: travel, hobbies, entertainment, gifts and optional purchases.

2. Subtract dependable income

Essential monthly expenses **minus** Social Security, pension and other dependable net income **equals** your monthly income gap.

Illustrative monthly budget	Amount
Essential expenses	\$4,500
Social Security and pension (net)	\$3,300
Income gap to address	\$1,200

This example identifies an income need; it is not an annuity quote. The premium needed depends on age, start date, insurer and payout choices.

3. Test the plan: What changes if a spouse dies, healthcare costs rise or you need a large withdrawal? Leave room for emergencies before committing money.

Make the pieces work together

Income, accessible savings and growth serve different needs.

Keep money available

Set aside accessible funds for emergencies and known near-term spending. Match the reserve to your household needs before choosing a long surrender period.

Plan for rising costs

At an illustrative 3% annual inflation rate, a \$4,000 monthly budget becomes about \$5,376 in 10 years and \$7,224 in 20 years. This is a planning example, not an inflation forecast.

Social Security has cost-of-living adjustments under its formula. A level annuity payment does not automatically increase with inflation. [4]

Consider laddering carefully

A ladder staggers annuity purchases, maturity dates or income start dates. It can spread timing decisions or add income later. It does not guarantee that future income will match inflation.

Compare the total premium, income at each start date, access restrictions and survivor benefits. Buying later leaves future pricing uncertain; buying now commits funds earlier.

Give growth a realistic role

A diversified investment allocation may support future spending and legacy goals, but losses are possible. Growth investments cannot promise to replace principal used for income.

No universal allocation: There is no reliable rule that 60% of every portfolio can fund all lifetime spending while the other 40% restores the original balance.

Know what is guaranteed

Read the contract, not just the headline rate. [1, 2, 3, 5, 6, 7]

The insurer backs the promise

Annuity guarantees depend on the issuing insurer's claims-paying ability. Review financial strength, licensing and complaints. Annuities are not FDIC-insured bank deposits; ratings are opinions, not guarantees.

Access and costs matter

Check surrender charges, market value adjustments, rider fees and withdrawal limits. An FIA's 0% index floor does not prevent reductions from fees, withdrawals or early-exit charges. Bonuses may have conditions or recapture rules.

An income base is not cash value

A rider's benefit base calculates income; it usually cannot be withdrawn as a lump sum. A stated roll-up rate on that base is not your investment return. Excess withdrawals can reduce or end guarantees.

Taxes depend on the source of funds

With after-tax money, earnings generally grow tax deferred. Nonannuitized withdrawals generally take taxable earnings first; annuitized payments may include a tax-free return of basis. Pretax retirement money is generally taxable when distributed. Qualified Roth distributions follow different rules.

A taxable early distribution before age 59½ may trigger an additional 10% federal tax unless an exception applies. An annuity inside an IRA adds no extra tax deferral. Review retirement-account distribution rules before moving funds.

State protections have limits

State guaranty associations may cover eligible benefits after insurer failure. Many states use a \$250,000 present-value annuity limit, with eligibility and aggregation rules. Verify your state's rules; multiple contracts with one insurer do not automatically multiply coverage.

Before you sign

Ask for written answers and compare more than one suitable option.

- 1. Purpose** What problem does this contract solve, and what alternatives did we compare?
- 2. Income** What is guaranteed in dollars, when does it start, and does it cover one life or two?
- 3. Access** What can I withdraw each year, and what charges or adjustments could apply?
- 4. Costs and crediting** What fees, caps and renewal terms apply? How is the seller paid?
- 5. Family and exit plan** What happens at death, after an excess withdrawal, or if I replace this contract?
- 6. Documents** Do the contract, illustration and free-look period match what I was told?

Bring to your review: retirement-account and annuity statements, Social Security and pension estimates, monthly expenses, beneficiary details and upcoming cash needs.

Build your retirement income plan

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Medicare and retirement needs.

Sources checked October 20, 2026

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| 3. NAIC: Buyer's Guide to Fixed Deferred Annuities | 7. NOLHGA: Product Coverage FAQs |
| 4. SSA: Cost-of-Living Adjustments | |

Photos: AI-generated retirement illustrations.