INSIGHTS

PACIFIC LIFE

RETIREMENT STRATEGIES GROUP | JULY 2026 **RETIREMENT PLANNING**

Fixed Indexed Annuities: Growth Potential and Guaranteed Income

When helping clients prepare for retirement, you'll likely focus first on asset growth. As clients near retirement, you'll turn to what may be the greater challenge—turning those assets into **reliable income clients won't outlive**. Deferred annuities are designed to help meet that challenge. We'll focus here on deferred fixed indexed annuities.

A deferred annuity is a long-term retirement contract that allows money to grow tax-deferred and defers income to a future date—typically at retirement. Unlike immediate annuities, which are built only for income, deferred annuities have two phases:

- Accumulation—money grows tax-deferred and without taxes related to reallocation.
- Income—the annuity can generate predictable lifetime income.

This structure gives retirees control over *when* and *how* income begins—an advantage traditional investments can't easily match. Additionally, unlike other retirement vehicles, annuities address longevity risk with their ability to offer guaranteed income for life—even for the lives of both spouses.

Why Tax-Deferred Growth Matters

Tax deferral means earnings compound without current taxes, potentially allowing savings to grow faster over time. Taxes are generally paid only when funds are withdrawn, meaning clients can control the timing so income can begin when they expect to be in a lower tax bracket. This makes deferred annuities an option for clients who:

- Have maxed out IRAs or employer-based retirement plans.
- Are currently living off their investments and seeking to reduce current taxation.
- Are seeking to secure income in retirement that they cannot outlive.

Of course, if the client chooses a qualified annuity, tax deferral is inherent in that arrangement, or if the vehicle is a Roth IRA, there's no tax. Whether qualified or nonqualified, the annuity can provide guaranteed income that lasts for life.

What Is a Fixed Indexed Annuity?

A fixed indexed annuity (FIA) is a type of deferred annuity that offers:

- Principal protection (no losses due to market declines).
- Crediting options that offer growth potential tied to a market index, such as the S&P 500® index.
  - Crediting options generally limit the index return that can be credited using cap rates (maximum that can be credited), participation rates (percentage of the index return than can be credited), and/or other more specialized rate options.
- No direct market exposure—clients do not invest directly in an index or the market.

If the index goes up, interest is credited to the client's annuity contract value, subject to the limits of the crediting option chosen. If the index is down, the contract value stays the same, earning 0%. There's no loss of value.

Fixed indexed annuities can also provide lifetime income that helps protect against outliving savings.

- **Annuitization** is an included option and converts the contract value to regular income payments based on the client's chosen annuity income option. Options will include income for life (Single Life) or income over the lives of spouses (Joint Life). If lifetime income isn't a concern, other options are available such as income over a specified period of time.
- **Optional income benefits** may be available and generally incur an additional fee. These benefits can generate protected lifetime income that can increase even if no interest is earned.

How income from the annuity is taxed differs both between qualified and nonqualified annuities and between annuitization and optional benefit withdrawals.

- In a qualified annuity, all income is generally fully taxable.
- In a nonqualified annuity, if the client annuitizes, an exclusion rule means that a portion of each payment is return of principal and a portion is taxable gains, until only principal remains. If the client chooses the optional income benefit, the last in, first out rule applies, meaning payments are fully taxable until only principal remains.

Of note, an exception to the above is Roth IRAs, where income is not taxable. And if a custodial account is chosen, the custodial rules apply.

Important Considerations Before Choosing a Fixed Indexed Annuity

Clients should be made aware that annuities are long-term tools, not short-term instruments. They should also be informed about:

- Withdrawal charges and limits on free withdrawals during the withdrawal charge period.
- The crediting options available and the mechanisms they use to determine interest crediting.
- How optional income benefits, if available, work and how much they cost.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Review your book for clients nearing or in retirement and those who have a low tolerance for market risk.**
- **Meet with clients whose risk and reward profiles might match what fixed indexed annuities have to offer.**
- **Integrate guaranteed income for life into clients' retirement income plans.**

The Bottom Line: Why Deferred Fixed Index Annuities Are an Important Tool

When clients are in or close to retirement, the focus may be more about protecting what they already accumulated rather than aggressive growth. Creating predictable income for life is also generally high on the list of pre-retiree and retiree concerns. For these clients, fixed indexed annuities can become the foundation of income stability that allows them to take on more risk in their other investments. When properly integrated into your clients' retirement strategies, fixed indexed annuities can be a planning solution that engenders confidence in their plans.

Additional Resources and Links

[NAIC Buyer's Guide to Fixed Deferred Annuities]

[Understanding Protected Income]

[Fixed and Fixed Indexed Annuities from Pacific Life]

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.

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