What Affects Your Fixed Annuities?

There are at least four things that may possibly impact the return you receive on your fixed annuity:

- Market interest rates
- Budget deficits
- Income tax rates
- Competition between companies

Of these, interest rates probably have the greatest bearing. And this can even be more critical whenever we are entering a period of rising inflation and higher interest rates. For instance, many annuity companies offer multi-year guarantees (MYGA) whether rates are falling or rising. And when interest rates go up, MYGAs can become even more attractive since their rates climb, too.

Please note that all investments in annuities involve fees, charges, and expenses, and MYGA Annuities will often have higher fees and charges than annuities that do not offer these guarantees.

Budget deficits can also affect your annuity's performance. When deficits are high, the government may need to borrow more money to finance its debt. That means it is competing with other borrowers—corporations, municipalities, and you—for the lowest possible interest rate on the money it needs to borrow. This, unfortunately, could have the effect of driving interest rates up.

The earnings on your fixed annuity accumulate tax-deferred. This means that you or your beneficiaries will not have to pay income tax until the money is removed from the account. Of course, these annuities are designed for long-term investing, and ordinary federal income taxes and a 10% tax penalty could apply to withdrawals taken prior to age 59½.

Rate competition between annuity companies can sometimes result in opportunities for you to receive a higher return on your money. But you have to know what to look for. For example, how safe is the company, what is the renewal rate history, what is its Moodys or S&P Financial Strength rating, and what are the withdrawal options? As annuity guarantees and benefits are subject to the claims-paying ability of the annuity company, financial stability is very important to consider.