Do You Like Fixed Annuities but Don't Like Short-term Rates?

Fixed annuities can be popular among seniors. They are easy to buy, you know exactly how long you must tie up your money, and the IRS will let you defer the income tax on the earnings.

But one point that may have stopped you from investing in an annuity is that some traditional fixed annuities do not lock in the interest rate for the duration of the contract. This means that after the initial period, which is typically one year, the return that the annuity company pays could possibly go higher or lower each year thereafter. There is, however, a type of annuity that fixes the return for the entire contract's term. This way you will know exactly how much you'll earn while you own the contract.

CD-annuities – also known as multi-year annuities – provide level interest rates for the entire term so you won't get any surprise notices during this time. You select the term, which generally ranges from 3 to 10 years when you make the investment. At the end of the term, you will usually have a 30-day window to withdraw all or part of your money or renew the contract for another multi-year period. And the withdraw charges expire when the term ends.

As with traditional annuities, there are no income taxes on the earning while they remain in the account. Therefore, you won't get a 1099 Form to file with the IRS each year. Nor will you have to worry about income taxes if you renew the contract at the end of the term. And you get to name a beneficiary. This means that if you die while you own the CD-annuity, your heirs will quickly receive the account's value without going through probate. They'll then have the option to take a lump sum payment or a systematic payout. I always recommend investors consult with their own qualified tax and financial advisors prior to making any investment decisions.

Please note, however, that 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.

Annuity benefits and guarantees are based upon the claims-paying ability and financial strength of the underlying insurance company and are not government insured. Additionally, one should remember that annuity surrender charges are often based upon the time the insured has been invested in the annuity and surrender schedules vary from company to company.