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Traditional Fixed Annuities

Primary Benefit:  Grow Your Money

Secondary Benefit:  Get Income Now  Guarantee Future Income

A Traditional Fixed Annuity is a type of annuity contract that credits an interest rate that is declared one year at a time. Sometimes, during the first year, they will offer an upfront premium bonus or interest rate enhancement. After the first year, the issuing insurance company will re-set the interest rate on an annual basis. In all years, you are guaranteed to receive at least the contractually guaranteed minimum interest rate; you may earn interest at a higher rate than the minimum, but only the minimum rate is guaranteed.

Like all annuities, traditional fixed annuities are afforded special tax treatment. Income tax on annuities is deferred, which means you aren't taxed on the interest your money earns until it is withdrawn. As your needs dictate, you can take partial withdrawals, completely cash out and surrender your annuity, or convert your deferred annuity into a stream of income payments, called annuitization. You decide when to take income from your annuity and, therefore, when to pay the taxes. Gaining increased control over your taxable income is one of the key benefits of any annuity.

Traditional fixed annuities are sometimes called single-year guarantee fixed annuities. At AnnuityAdvantage, we frequently call them "trust me" annuities, because the insurance company essentially says, "give us your money and after the first year, trust us to be fair with you." This can be okay, as long as the issuing insurance company has proven its trustworthiness over the years.

One way you can determine if an insurance company has been fair with their policyholders in the past, is to request to see a renewal rate history table. This table can give you a good indication if the company has a pattern of raising, lowering or maintaining the base interest rate on its previously issued contracts over time. However, not all companies make this information available.

An often touted selling point with traditional fixed annuities is, because they have an annually adjusted base interest rate, when interest rates do rise, so will the crediting interest rate on your contract; whereas with a multi-year guarantee annuity, your interest rate is locked in and unchanged for an extended period of time, depriving you of the opportunity to take advantage of higher interest rates should they occur.

It's an unfortunate fact, and it's been our experience, that in a rising interest rate environment, the majority of traditional fixed annuity contracts do not realize increased crediting rates at nearly the pace at which most contract owners had hoped for. Some annuity issuers do a better job than others and have a track record of offering competitive renewal rates. Whereas, other issuers may have a record of only offering a renewal rate that is barely above the contractually guaranteed minimum.

The competitive annuity marketplace is one thing that helps keep insurance companies honest with their renewal rates. If the renewal rate offered on an existing traditional fixed annuity is too low, as compared to current interest rates available on new annuity products, policyholders will surrender their contracts and move their money to a new higher yielding alternate annuity. Most insurance companies do not want to see this happen, so if possible, they will attempt to offer a renewal rate that is sufficient to keep the money and retain the business. Keep in mind that charges may apply to withdrawals made prior to the end of the surrender period.

So what's the bottom line? Depending on your individual needs, a traditional fixed annuity can be an appropriate purchase, if you do your homework and pick a well-designed product from a reputable company with an established history of crediting fair renewal interest rates. However, if you prefer a fixed rate annuity product with a little bit more certainty, you may want to consider a [multi-year guarantee annuity](#) instead.

If you have any questions or would like to discuss your options further, please give us a call. One of our licensed Annuity Specialists would be happy to patiently answer all of your questions without hype or any sales pressure.

Rates are based on current interest rates and are subject to change at any time. Some first year yields/rates reflect the fixed rate plus a premium bonus or interest rate enhancement. Not all annuities are available in all states. Surrender charges may apply to withdrawals during the surrender period. A 10% IRS penalty may apply to withdrawals prior to age 59 ½. Annuity product guarantees rely on the financial strength and claims-paying ability of the issuing insurer. Annuities are not guaranteed by any bank or credit union and are not insured by the FDIC or any other federal government agency. Information presented on this website is not intended as tax or legal advice. You are encouraged to seek tax or legal advice from a qualified professional.