

# Annuities 101 Handbook

A simple 12-page primer on annuity terms, product types, and the questions worth asking before you buy.

This guide is built for readers who want the basics without the jargon. Use it to understand how annuities work, what the main product types do, and where to slow down before making a decision.

**Inside this handbook:** plain-English definitions, product breakdowns, tradeoffs, and a smart buyer checklist.

Prepared for [Benefits of Annuities.com](https://www.benefitsofannuities.com)

Education first. No hype. No pressure.

# What An Annuity Is

**An annuity is a contract with an insurance company. You put money in, and the contract can help turn that money into income later.**

## **The simple version**

Think of an annuity as a tool for turning savings into a future paycheck. Some contracts focus on growth first. Others focus on income sooner.

## **Why people use them**

People often use annuities when they want more predictable income, more protection from market swings, or both.

## **Quick points**

- You can use one deposit or a series of deposits.
- Income can start soon or years later.
- Some contracts are more about safety. Others allow more growth.

# Key Terms To Know

You do not need to memorize every term. These are the basics that help you read a contract with more confidence.

## **Premium**

The money you put into the annuity.

## **Annuitization**

Turning the contract value into a stream of payments.

## **Beneficiary**

The person or people who may receive remaining value after you pass away.

## **Quick points**

- Surrender period: the years when early withdrawals may cost extra.
- Free withdrawal: an amount you may be able to take without penalty.
- Crediting method: the rule that decides how interest or index-based growth is added.

# Fixed Annuities

**Fixed annuities are the easiest to understand. They focus on stability, clear terms, and predictable growth.**

## **How they work**

The insurance company credits a guaranteed rate for a set period. Your principal is not directly tied to market losses.

## **Who they may fit**

People who want steady growth, lower complexity, and a contract they can explain in plain English.

## **Quick points**

- Good for conservative savers.
- Helpful when predictability matters more than chasing the highest upside.
- Often used as part of a retirement income plan.

# Fixed Indexed Annuities

**Fixed indexed annuities sit between full safety and full market exposure. They aim to give you some growth potential without direct market losses to principal.**

## **How they grow**

Growth is linked to an index, but the contract uses rules such as caps, spreads, or participation rates. That means you get only part of the upside.

## **Why people choose them**

They appeal to people who want more growth potential than a plain fixed annuity but still want protection from big market drops.

## **Quick points**

- The rules matter as much as the headline pitch.
- Two contracts can sound similar but work very differently.
- This is where side-by-side comparison really helps.

# Variable Annuities

**Variable annuities give you market-based investment options inside the contract. That can mean more upside, but it also means more risk and more complexity.**

## **What changes**

Your value can go up or down based on the investments you choose. This is different from fixed products that protect principal.

## **What to watch**

Variable annuities can include layers of fees and optional features. They need closer review before you buy.

## **Quick points**

- Best for people comfortable with market swings.
- Fees can be higher than with other annuity types.
- The investment menu and contract details both matter.

# How Growth Works

**Not every annuity grows the same way. The contract type decides how interest is added and how much risk you take.**

## **Fixed growth**

A fixed annuity credits a stated rate for a period of time. It is the most straightforward option.

## **Index-based growth**

An indexed annuity follows a formula tied to an index. The formula limits upside, but it also keeps market losses from directly reducing principal.

## **Market-based growth**

A variable annuity rises and falls with its investments. That means more risk in exchange for more possible upside.

## **Quick points**

- Always ask how the contract earns interest.
- Always ask what happens in a bad market year.

# How Income Works

The income side is why many people buy annuities in the first place. The main question is when you want payments to begin and how long you want them to last.

## Income now

Some annuities are built to start paying soon, sometimes within a year.

## Income later

Other annuities let your money grow first and then turn income on years down the road.

## Length of payments

Payments can last for life, for two lives, or for a set period, depending on the contract choice.

## Quick points

- Income timing affects payout amounts.
- Joint-life options can matter a lot for couples.
- A higher payout is not always the best fit if flexibility matters more.

# Fees And Tradeoffs

Every annuity solves one problem while creating another tradeoff. The goal is not to find a perfect product. The goal is to find the right fit for your job.

## Common tradeoffs

More guarantees can mean more limits. More growth potential can mean more risk. More optional features can mean more cost.

## Common fees

Some contracts have no ongoing fees, while others include contract fees, investment fees, or charges for optional features.

## Quick points

- Ask what you are paying for.
- Ask what you are giving up in return for the benefit.
- Ask whether you really need every added feature.

# Questions To Ask Before You Buy

Good questions protect you from buying the wrong product for the wrong reason.

## Start with fit

Ask what job the annuity is supposed to do. Is it meant to protect principal, create income, help with tax deferral, or support legacy goals?

## Then ask about limits

You also need to know how long the money will be tied up, what withdrawals are allowed, and what costs apply.

## Quick points

- When does the surrender period end?
- How much can I withdraw each year without penalty?
- What is guaranteed, and what is only illustrated?
- What fees apply now and later?

# What To Compare Across Products

**Do not compare annuities using only one number. A better comparison looks at the whole contract.**

## **Core comparison points**

Look at guarantee period, crediting rules, payout options, withdrawal access, carrier ratings, and overall fees.

## **Why details matter**

Two annuities can look similar in a quick sales summary but create very different outcomes in real life.

## **Red flags to slow down for**

Be careful if the explanation feels rushed, fee answers stay fuzzy, or the product sounds too good to question. If you cannot explain the contract back in your own words, pause and ask for a simpler breakdown.

## **Quick points**

- Compare the same timeline across carriers.
- Compare the same income start date across quotes.
- Compare the same optional features when fees are involved.
- Do not rely on verbal promises that are not in the contract.

# Simple Next Steps

A good annuity decision should feel clear, not rushed. Learning first usually leads to better choices.

## **Build your shortlist**

Use calculators, compare product types, and write down the questions you still have.

## **Bring real numbers**

If you already own an annuity or have a quote, bring it into the conversation so it can be reviewed line by line.

## **Keep it simple**

The best next step is usually a clearer comparison, not a faster purchase.

## **Quick points**

- Review your options with plain-English explanations.
- Compare products based on your goals, not just the sales pitch.
- Book a pressure-free conversation at [Benefits of Annuities.com](https://www.benefitsofannuities.com).