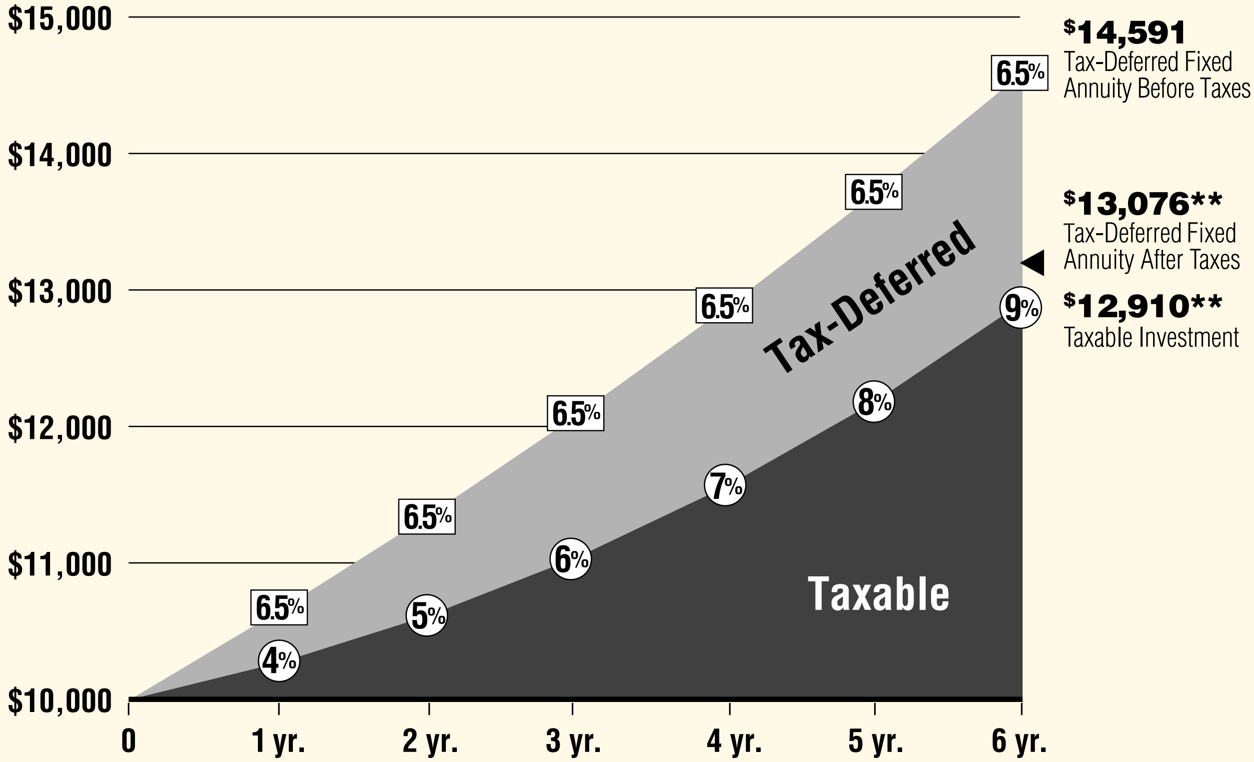
What if interest rates rise?

The facts about fixed annuities in a rising interest rate environment

Many people think rates are low and are sure to rise. Knowing that annuity renewal rates lag changes in the interest rate environment, they fear they may be left behind if rates go up. Is this fear justified? Does this mean fixed annuities don't make sense today?

Consider the following scenario. If rates on a taxable investment were to rise 1% per year from 4% to 9% for the next 6 years, and annuity renewal rates stayed at a constant level at 6.5%*, how would they compare at the end of 6 years both before and after taxes?



Even after taxes, the fixed annuity earned more! Working through the numbers reveals that annuities are today's smart investment.

* This is a hypothetical scenario used for illustrative purposes only. This is not to be used to predict future renewal rates.
** After taxes and assuming a combined federal and state marginal tax rate of 33%.

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