



FIA EDUCATION SERIES

NAFA has created this series to promote education on how FIAs work and important factors to consider when buying one.

WHO HAS YOUR BACK?

UNDERSTANDING THE SAFETY NET BEHIND FIXED AND FIXED INDEXED ANNUITIES

LETTER FROM THE CEO

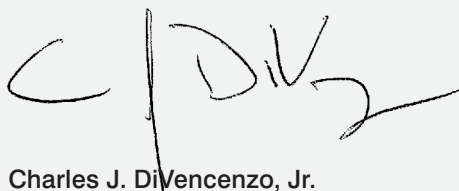
I am pleased to introduce the latest in the Fixed Indexed Annuity Education Series. The Series is designed to help consumers better understand how fixed indexed annuity (FIA) products work and to develop an awareness of how they might fit into financial and retirement plans. NAFA's goal for this educational series is to provide education regarding the features of FIAs and how these products can provide enhanced returns for consumers while limiting downside, or losses.

When planning for your financial future, it is important to understand the risks and rewards of various products. As previous pieces in this Series have illustrated, fixed indexed annuities are insurance products that provide downside protection from loss of principal, with a guarantee that the interest earned on the annuity contract can never go below zero. In an FIA, the return or rate is determined based on an interest crediting formula or method established by the issuing insurance company that is linked to the performance of a market index, such as the S&P 500.

In this piece we discuss what happens in the unlikely scenario that the issuer of the annuity is unable to meet its obligation to the annuity contract holder and the state-level protection that is provided through a state's life and health insurance guaranty association. Guaranty associations are nonprofit organizations created by state statute for the purpose of protecting insurance policyholders from financial losses—up to state-defined limits—and delays in claims payments due to the insolvency of an insurance company. Understanding this protection is important in evaluating the risk and rewards of various products when planning for your financial future.

All pieces in this Series are available at <https://nafa.com/education/consumer-materials/>.

NAFA is the premier trade association exclusively dedicated to fixed annuities. We are committed to providing information and education regarding the value of fixed annuities and their benefits to our members, journalists, and the public to help Americans plan for a lasting and safe retirement.



Charles J. DiVencenzo, Jr.
President & CEO

INTRODUCTION

For many people planning retirement or seeking financial stability, annuities offer peace of mind. They provide dependable income, protection of principal, and in many cases, tax-deferred growth. Among these, fixed and fixed indexed annuities stand out for their combination of security and predictable performance. But even with these guarantees, a natural question arises: What happens if the insurance company behind my annuity can no longer meet its obligations?



The good news is that fixed and fixed indexed annuities come with layers of protection—starting with the backing of the insurance company and extending to state level resources set up to protect the contract holders. Understanding this system can help you feel confident in your financial future.

FIXED AND FIXED INDEXED ANNUITIES: BUILT FOR PROTECTION

Let's first review fixed annuity ABCs. Fixed rate annuities promise a set interest rate over a specific period, while fixed indexed annuities link their growth to the performance of a market index—in either case, without risking your principal. Both are insurance products, regulated by state insurance departments and backed by the issuing insurance company's general account.

What makes these annuities especially secure is the state-level safety net. If an insurer experiences financial trouble or fails, your contract is protected—up to state-defined limits—by the state's guaranty association. These organizations are funded by the insurance industry and act swiftly to ensure policyholders continue receiving their benefits.

For most states, the coverage limit is \$250,000 in present value per person, per insurance company. That means both your initial investment and any guaranteed benefits, including credited interest or lifetime income payments, are secure within that threshold.

TYPE OF ANNUITY	LINKED TO INDEX	SET INTEREST RATE OVER A SPECIFIC PERIOD	NO RISK TO PRINCIPAL	REGULATED BY STATE INSURANCE DEPTS	PROTECTION BY STATE GUARANTY ASSOCIATION
Fixed Rate Annuities		✓	✓	✓	✓
Fixed Indexed Annuities	✓		✓	✓	✓

HOW YOUR ANNUITY IS PROTECTED: WHAT HAPPENS WHEN AN INSURER FAILS

Every U.S. state has a life and health insurance guaranty association—nonprofit organizations created by law to protect policyholders if their insurance company becomes financially impaired. While insurance company failures are rare, they do happen. Since 2008, just a handful of annuity issuers have been declared insolvent and entered receivership. When this occurs:

- If an insurer is in trouble, the state Department of Insurance may first attempt to rehabilitate it or arrange for it to be purchased.
- If insolvency is declared, the company may be liquidated, and the guaranty association steps in to continue coverage or transfer policies to another stable insurer.
- Your guaranteed benefits are honored up to the legal coverage limit set by your state.

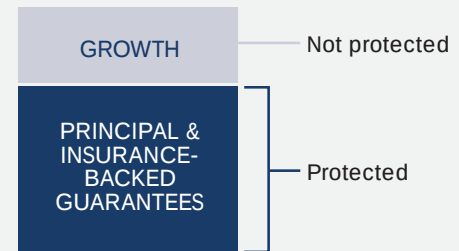
This applies fully to both fixed and fixed indexed annuities. While hypothetical or non-guaranteed values (like uncredited interest from a market index) may not be covered, your guaranteed principal and credited returns are protected under the association's rules.

In multistate cases, a national organization—the National Organization of Life & Health Insurance Guaranty Associations (NOLHGA)—coordinates across state lines to ensure smooth handling and continued protection.

WHAT THE GUARANTY ASSOCIATION DOESN'T COVER

Not all features of all annuities are backed by the guaranty association. For example, in variable annuities, which are directly invested in mutual fund-like subaccounts, the market performance component is not protected—only

certain insurance-backed guarantees, like income or death benefits, may qualify for coverage.



Even for fixed and indexed annuities, coverage is limited to the statutory cap per individual, per insurer. If your annuity exceeds that cap, the excess could be at risk unless another insurer takes over and assumes full benefits. That's why some people divide large annuity investments among multiple insurance companies.

FDIC VS. GUARANTY ASSOCIATION PROTECTION: KNOW THE DIFFERENCE

People often hear that annuities are “not FDIC-insured,” which is true—but that doesn't mean they aren't protected.

FDIC insurance applies to bank accounts and typically restores access to funds the next business day after a bank failure. In contrast, annuity protections come through state guaranty associations. While they may take slightly longer to activate, they're designed specifically to protect long-term insurance-based products like annuities.

EVEN FOR FIXED AND INDEXED ANNUITIES, COVERAGE IS LIMITED TO THE STATUTORY CAP PER INDIVIDUAL, PER INSURER.

WHO HAS YOUR BACK?

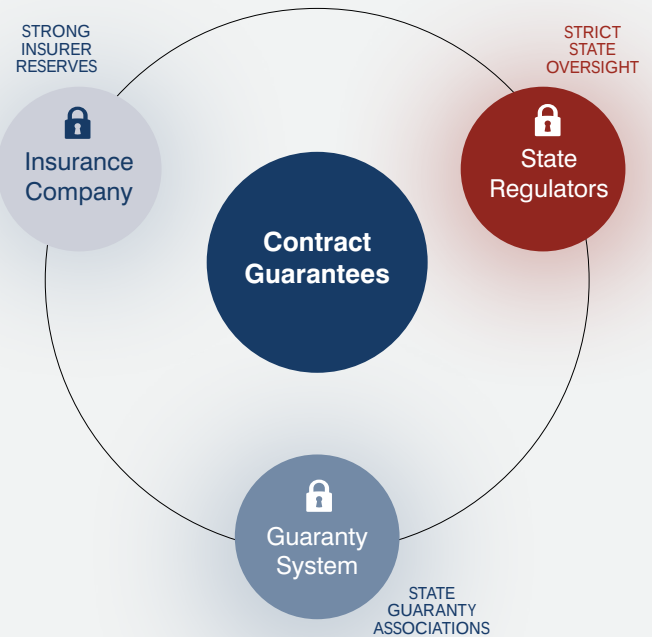
Both systems provide essential safeguards. The difference lies in the structure and timelines of how that protection is delivered.

YOUR BEST PROTECTION: KNOWLEDGE AND PLANNING

State guaranty associations form a strong backstop—but being an informed annuity owner makes that protection even stronger. To make the most of it:

- 1 Know your **state's coverage limits**
- 2 **Spread large investments** across different companies, if necessary
- 3 Choose **insurers with strong financial ratings** from credible agencies like AM Best or Moody's
- 4 Ask your advisor how **specific features** of your annuity are covered under your state's rules.

INSURANCE INDUSTRY SAFEGUARDS



IN SUMMARY

Fixed and fixed indexed annuities are supported by more than just contract guarantees—they benefit from a coordinated protection system built into the fabric of the insurance industry. Through strict state oversight, strong insurer reserves, and the backing of state guaranty associations, your annuity contract is designed to hold strong even in the face of unlikely challenges.

When it comes to annuities, you're not navigating alone. You have the insurance company, your state regulators, a well-funded guaranty system—and most importantly, your own good judgment—standing behind your financial future. 