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Annuity Analyzer: Evaluate Any Annuity Before You Buy

Annuities are not good or bad by category; they are good or bad after you price the contract in detail. The words fixed, indexed, variable, and immediate describe very different products. Some provide plain principal protection. Some layer in mortality and expense charges, rider fees, surrender schedules, and capped upside that quietly consume the return. This analyzer is built to force the contract into plain English so you can see whether the guarantee is worth the cost and whether a simpler bond ladder or investment portfolio would solve the same problem with fewer moving parts.

1. Foundation

Start with the type of annuity because the risk is completely different across categories. Fixed annuities act more like insurance-company CDs: they promise a stated rate for a period and principal protection backed by the insurer, not by FDIC insurance. Indexed annuities credit interest based on an index formula with caps, spreads, or participation rates that limit upside while protecting principal from direct market loss. Variable annuities invest in underlying subaccounts that behave like mutual funds, which means the owner bears market risk on top of contract fees. Single-premium immediate annuities, or SPIAs, are different again: you hand over a lump sum in exchange for an income stream that usually starts now or at a chosen future date.

Fee structure is where many contracts become unattractive. Variable annuities commonly stack a mortality and expense charge around 1.00% to 1.40%, administrative fees, investment subaccount fees that can add another 0.40% to 1.00% or more, plus rider fees for guaranteed withdrawal or death benefits that often range from about 0.80% to 1.20%. It is easy for all-in costs to exceed 2.5% annually before surrender charges are even considered. Indexed annuities may hide the cost differently through caps, spreads, and participation limits rather than explicit line-item fees, but the

economic drag is still real if the credited return consistently trails the index by a wide margin.

Surrender schedules are another trap. A contract might start with a 7% surrender charge in year one, then fall to 6%, 5%, 4%, and so on for seven to ten years. That matters because life changes. If the product is sold as “completely safe” but your money is effectively locked up for most of a decade, the flexibility cost belongs in the analysis. Any annuity illustration that focuses entirely on the guaranteed income line while burying the surrender chart is asking to be challenged.

Legitimate use cases exist. A SPIA or deferred income annuity can make sense as longevity insurance for part of a retiree's portfolio, especially when the goal is to create enough guaranteed income to cover essential expenses after age 75 or 80. A plain multi-year guaranteed annuity can sometimes serve a specific conservative-income role when its net yield beats comparable safe alternatives and the surrender period fits the cash-flow plan. The product becomes suspect when the sales pitch centers on market-like upside, vague “no risk” language, or complicated riders that solve a problem a bond ladder or low-cost portfolio could solve more transparently.

In practical terms, the highest-leverage inputs are contract type, explicit fees, and implicit limits. If those are guessed from memory, the rest of the plan turns into opinion instead of execution. Pull them from current statements, quotes, payroll records, or plan documents before making changes. That groundwork is what turns the rest of the guide from good advice into a usable operating plan.

2. Step-by-Step System

Run these steps in sequence. The early work on identify the exact annuity type and what problem it claims to solve, pull every explicit and hidden fee into one annualized number, and map the surrender schedule and liquidity restrictions determines the quality of the later execution. Skipping ahead usually creates rework because the answer depends on information gathered earlier in the process.

1

Identify the exact annuity type and what problem it claims to solve

Ask the seller to name the contract precisely: fixed, fixed indexed, variable, SPIA, deferred income annuity, or another specific structure. Then ask what job the annuity is supposed to do. Is it principal protection for near-term cash? Lifetime income? Deferral of taxes? Legacy planning? Until the promised job is clear, you cannot test whether the annuity is the right tool. A product that claims to be growth, safety, income, and legacy planning all at once is usually solving its own sales problem more than yours.

Write the claimed benefit in one sentence. Example: "This SPIA would cover \$1,800 of monthly guaranteed income starting immediately." Or: "This indexed annuity is supposed to protect principal while earning more than CDs over a seven-year period." Once the promise is specific, the contract can be judged.

2

Pull every explicit and hidden fee into one annualized number

For a variable annuity, add the mortality and expense charge, contract administration fee, underlying investment expenses, and each rider fee. A contract with a 1.25% M&E charge, 0.80% average subaccount cost, and 0.95% guaranteed withdrawal rider already carries 3.00% annual drag before surrender risk. That is a very high hurdle for the investment sleeve to clear. For indexed annuities, ask for the cap, spread, and participation rate history so you can estimate how much index return the insurer keeps.

Do not let the seller compare gross index performance to your credited annuity return. Your analysis must be net of every fee, cap, and spread.

3

Map the surrender schedule and liquidity restrictions

Record the surrender charge every year and note how much free withdrawal, if any, is allowed annually. Many contracts allow 10% free withdrawals, but the details matter. If you might need a larger lump sum for health care, housing, or family support, that free-withdrawal feature may not be enough. A seven-year surrender schedule that starts at 7% and declines by one point per year materially changes the real flexibility of the money.

Also ask what happens at death, disability, nursing home confinement, or terminal illness. Some contracts waive surrender charges under limited circumstances, which can improve the picture. But the waiver rules must be written, not implied.

4

Calculate the break-even age or break-even year

For income annuities, the key question is how long you must live before total payments exceed the premium you handed over. If a 67-year-old pays \$200,000 for a SPIA that produces \$14,400 per year, the simple break-even before discounting is about 13.9 years, or roughly age 81. That does not make the annuity bad; it tells you the longevity bet you are making. If there is no inflation adjustment, also compare the real purchasing power of that income 10 or 20 years later.

For accumulation annuities, build a side-by-side projection against a low-cost portfolio or bond ladder using net returns after all contract drag. The annuity does not need to “win” on raw return to be useful, but it must justify the guarantee with numbers.

5

Compare the annuity with simpler alternatives that solve the same problem

If the goal is stable income, compare the annuity against a Treasury ladder, TIPS ladder, immediate bond fund portfolio, or delaying Social Security. If the goal is tax deferral, compare against simply using available tax-advantaged accounts more effectively first. If the goal is longevity insurance, a smaller deferred income annuity beginning at age 80 may do the job more cleanly than a complicated variable annuity with an expensive withdrawal rider.

The contract should be able to answer a hard question: why this product instead of a ladder of Treasuries, a simple balanced portfolio, or a cheaper guaranteed-income structure? If the answer is fuzzy, keep digging.

6

Stress-test the salesperson and the insurer before signing

Ask for the insurer's financial-strength ratings, the commission structure if disclosed, the full prospectus or contract, and a blank illustration showing the assumptions. Push on every vague statement. If the salesperson becomes evasive when asked about M&E charges, surrender penalties, or credited-rate resets, treat that behavior as part of the product analysis. Bad sales behavior is a legitimate red flag.

Annuities can be appropriate in narrow situations, but they are long-term contracts with real opportunity cost. A buyer should feel more clarity after reading the paperwork, not less.

3. Key Worksheets & Checklists

These worksheets force the annuity into comparable numbers. Once you can name the type, total the cost, and see the surrender and break-even math on one page, the sales pitch becomes much easier to judge.

Work the cards in order. Start with contract type, explicit fees, and implicit limits while the relevant documents are open. Then move through the execution checklist from top to bottom so the highest-value actions happen before lower-value cleanup work. Finally, put the first action windows—Day 1, Day 3, and Day 7—on your calendar so the guide becomes dated follow-through instead of something you read once and forget.

Annuity Analysis Worksheet

Contract type	Record whether the annuity is fixed, indexed, variable, SPIA, deferred income, or another structure, plus the exact problem it is meant to solve.
Explicit fees	List M&E charge, admin fees, rider fees, and subaccount expenses where applicable.
Implicit limits	For indexed annuities, note the cap rate, spread, and participation rate so you can estimate the insurer's share of upside.
Surrender schedule	Write the annual surrender charge percentages and the size of any free-withdrawal allowance.
Break-even point	Calculate the age or year where cumulative benefits exceed premium, and note whether inflation protection exists.
Alternative comparison	List the simplest alternative that could solve the same problem, such as a Treasury ladder, bond ladder, SPIA, or low-cost balanced portfolio.

Execution Checklist

- Identify the exact annuity type before reading any illustration.
- Total every explicit fee and estimate the economic drag of every cap or spread.
- Read the surrender schedule line by line, not just the headline brochure.
- Calculate the break-even age or year using real contract numbers.
- Compare the annuity to at least one simpler alternative that solves the same problem.
- Treat evasive sales behavior as part of the due-diligence result.

30-60-90 Day Tracker

Window	Action	Evidence Complete
Day 1	Collect the contract, illustration, fee schedule, and insurer information.	Complete document set in one folder
Day 3	Finish the fee and surrender worksheet.	All-in cost and lockup period visible
Day 7	Run the break-even and alternative comparison.	Annuity versus alternative analysis complete
Before signing	Ask remaining questions in writing and save the responses.	No unresolved cost or liquidity question
Annual review	If already owned, review insurer rating changes and the contract's remaining surrender timeline.	Position still intentional

4. Common Mistakes

The expensive errors in this topic usually come from some combination of comparing gross market returns to net annuity returns, ignoring the surrender chart, and buying a rider you cannot explain. Read these before implementing so you know where otherwise-solid plans most often break down.

Comparing gross market returns to net annuity returns

That comparison flatters the contract because it ignores the fees, caps, and spreads that actually determine what you keep.

Ignoring the surrender chart

Liquidity has value. A contract that locks up money for seven to ten years is not equivalent to a plain brokerage account or CD ladder.

Buying a rider you cannot explain

If the guaranteed withdrawal or death-benefit rider cannot be described in one sentence, you are probably paying for complexity more than value.

Assuming “guaranteed” means federally insured

Annuity guarantees are backed by the insurer and, within limits, state guaranty associations—not by the FDIC or the U.S. Treasury.

5. Next Steps

Do not sign anything until you can explain the contract to another adult without using the salesperson's brochure language. If the fee stack, surrender timeline, and break-even math still look compelling after that exercise, the annuity may deserve a place in the plan. If the product only sounds attractive when described with vague words like safe, upside, protected, and income rider, keep your money in your pocket.

If you only implement a short list in the next month, use the four checklist items below as your operating plan. They move the biggest lever first and create momentum before smaller cleanup work crowds the calendar.

- Identify the exact annuity type before reading any illustration.
- Total every explicit fee and estimate the economic drag of every cap or spread.
- Read the surrender schedule line by line, not just the headline brochure.
- Calculate the break-even age or year using real contract numbers.

After those first actions are in motion, use the tracker checkpoints—Day 1, Day 3, and Day 7—to confirm the change actually stuck. Most financial systems fail in follow-

through, not in first-day enthusiasm. A dated review catches billing reversals, allocation drift, paperwork delays, or missed implementation details while they are still easy to fix.

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