SILVER BAY
INSURANCE

THE ANNUITY BUYER'S GUIDE

Straight Answers That Could Save You Thousands

2026 Edition

Provided to you by:

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Please Read

This guide is for general information only. It is not tax, legal, or financial advice. An insurance company's promises are only as strong as the company behind them. Rules, products, and taxes are different from state to state and can change. Talk with a qualified tax or financial professional about your own situation.

Introduction: Annuities Can Be a Great Tool — If You Know How to Use Them

An annuity can give you a check every month for life. It can let your savings grow without yearly taxes. It can also help protect you from running out of money. But an annuity is not right for everyone. And the wrong one can cost you.

This guide gives you plain answers. No fancy talk. We cover the most common mistakes people make. We explain how annuity money is taxed. And we share some smart moves that could save you thousands of dollars over your retirement.

Taxes and rules differ from state to state. So we stick to the rules that apply almost everywhere in the country. Where your state may be different, we tell you.

> **A Note from Silver Bay Insurance**
> We help people make the most of their retirement savings. If you have questions after reading this guide, give us a call. The first meeting is free. There is no pressure. You just get straight answers.

Section 1: What Is an Annuity?

An annuity is a contract with an insurance company. You give the company money. In return, the company promises to pay you later. Some annuities pay you a check for as long as you live. Others simply grow your money until you are ready to use it.

The Four Main Kinds

Type	How It Works	Who Often Likes It
Fixed	The company pays a set interest rate for a set number of years. Think of it like a CD from an insurance company.	People who want safe and steady growth
Fixed Indexed	Your interest is tied to a stock market index, like the S&P 500. You cannot lose money because the market drops. Your gains are limited, though.	People who want some growth with no market losses
Variable	Your money goes into investment funds. It can grow a lot, or it can lose value. Fees are usually higher.	People who are comfortable with risk
Immediate	You give a lump sum. Checks start right away, usually within a year.	People who want a paycheck for life

Three Words You Should Know

- **Deferred** means your money grows now and you take it out later.
- **Immediate** means you start getting paid right away.
- **Qualified vs. non-qualified.** "Qualified" means the money came from an IRA or 401(k). "Non-qualified" means you bought it with money you already paid tax on. The tax rules are different for each. We explain this in Section 3.

> **Remember This**
> An annuity is not a checking account. Your money is tied up for a while. If you pull it out early, you can pay big fees and taxes. Only put in money you will not need soon.

Section 2: Should You Swap Your Annuity? Understanding the 1035 Exchange

If you already own an annuity, someone may have called you about "trading up" to a newer one. Sometimes that makes sense. Many times it does not. Take your time before you say yes.

A **1035 exchange** is a rule in the federal tax code. It lets you move money from one annuity to another without paying tax on the move. Your money keeps growing tax-deferred. But saving tax on the move is not a good enough reason to switch.

When a Swap May Make Sense

- The company that issued your annuity has money troubles.
- Your current interest rate is much lower than what a new contract would pay.
- The new contract has a feature you truly need, like long-term care help or a check for life.
- Your surrender charge period is over or almost over.

What to Ask Before You Swap

Switching can cost you more than you think. Get clear answers to these questions first:

- What are the surrender charges on my old contract? Will I have to pay them?
- Does the surrender charge period start over on the new contract?
- Will the yearly fees on the new contract wipe out any better interest rate?
- Do I really need the new features, or do they just sound good?
- How do the minimum guaranteed interest rates compare?

> **Important Tax Note**
> A 1035 exchange does not wipe out the tax on your gains. It only puts it off. Your original cost basis (the money you first put in) carries over to the new contract. Talk to a tax professional before you swap.

Section 3: How Annuity Money Is Taxed

Taxes are where many people get surprised. The rules are not hard once you see the basic idea: **you only pay tax on the growth, not on your own money coming back to you.** How that works depends on how you take the money out.

Getting Your Own Money Back Tax-Free

Say you buy an annuity with money you already paid tax on. That is called a non-qualified annuity. The money you put in is your "cost basis." When you get it back, it is not taxed again. Only the earnings are taxed.

When you turn the annuity into a stream of monthly checks, the IRS uses something called the **exclusion ratio**. It splits each check into two parts. One part is a tax-free return of your own money. The other part is taxable earnings.

A Simple Example

Let's say a 65-year-old man pays $100,000 for an income annuity. It pays him $600 a month for life. That is $7,200 a year.

The IRS uses a life expectancy table. For a 65-year-old, that table says about 20 years. So the IRS expects him to collect about $144,000 ($7,200 times 20 years).

His $100,000 is about 69% of that $144,000. So about **69% of each check is tax-free**. That is around $417 a month. The other 31%, or about $183 a month, is taxed as regular income.

If he lives past the table's life expectancy, he keeps getting paid. Once he has gotten all his own money back, every check is fully taxable. If he dies early, any money he did not get back may be deducted on his final tax return.

This is a simplified example. Your numbers will differ. Ask a tax professional to run yours.

Taking Money Out of a Deferred Annuity

- For a non-qualified deferred annuity, the IRS treats your **earnings as coming out first**. So early withdrawals are fully taxable until all the growth is out.
- The growth is taxed as **regular income**, not at the lower rate for stock gains.
- If you take money out **before age 59½**, you generally owe a **10% federal penalty** on top of the regular tax. There are a few exceptions, such as disability or death.

- If the annuity is a **qualified** one, bought with IRA or 401(k) money, the whole amount you take out is usually taxable. You also have to follow the required minimum distribution rules once you reach the required age.

What Rate Will You Pay?

Annuity earnings are taxed at regular federal income tax rates. Those rates run from 10% to 37%, depending on your total income. For 2026, the standard deduction is $16,100 for a single person and $32,200 for a married couple filing together. That means a good chunk of your income is not taxed at all. Ask a tax professional which bracket you would land in.

What About Your State?

State rules vary a lot. Some states have no income tax. Some tax annuity income like any other income. Some give a break on retirement income. A few states charge a small tax on annuity purchases, called a premium tax. And many cities and counties add their own income tax. Ask a local tax professional how your state treats annuities.

Spreading Out Your Income

Federal tax brackets go up as your income goes up. So it often pays to take annuity income in smaller amounts over several years, rather than one big chunk. That can keep you in a lower bracket.

Section 4: Fixed Indexed Annuities — Some Market Growth, No Market Losses

A lot of people want to grow their money but do not want to lose it if the market falls. Fixed indexed annuities (FIAs) were built for that worry.

An FIA earns interest based on how a market index does. Examples are the S&P 500 or the Dow Jones. If the index goes up, you get some of that gain. If the index goes down, you do not lose money because of it. Your money is **not actually invested in the stock market**. The insurance company just uses the index to figure out your interest.

Key Terms in Plain English

- **Participation rate:** The share of the index's gain that you get. If the index is up 10% and your rate is 70%, you earn 7%.
- **Cap rate:** The most interest you can earn in one period, no matter how well the index does. If the cap is 6% and the index is up 12%, you earn 6%.
- **Floor:** The least you can earn. It is usually 0%. So a down market does not take away your principal.

- **Spread (or margin):** A set amount the company subtracts from the index gain before it credits your interest.

What to Watch Out For

- **Surrender charges** usually last 5 to 15 years. Pulling money out early can cost you.
- Taking money out **before age 59½** can trigger a 10% federal tax penalty, plus regular income tax.
- Caps and participation rates **can change**, often every year. The rate you see today may not be the rate you get next year.
- Most FIAs do not count stock dividends. So your growth can trail the actual market.
- Contracts differ a lot from company to company. **Shop around.**
- Extra riders, like an income rider, often have yearly fees. Those fees lower what you earn.

> **Key Takeaway**
> An FIA is a good fit for people who want growth with protection and who can leave the money alone for a long time. It is not a short-term place to park cash.

Section 5: Using an Annuity to Cut Tax on Your Social Security

Here is something most people do not know. The right annuity may lower the tax you pay on your Social Security checks. For some retirees, it can wipe that tax out.

How Social Security Gets Taxed

Social Security used to be tax-free. Now, depending on your other income, up to 85% of your benefits can be taxed. The IRS looks at your **combined income**. That is your adjusted gross income, plus any tax-free interest, plus half of your Social Security benefits.

Your Combined Income	Single	Married Filing Jointly
Little or none taxed	Under $25,000	Under $32,000
Up to 50% taxed	$25,000 – $34,000	$32,000 – $44,000
Up to 85% taxed	Over $34,000	Over $44,000

These limits are set by law. They are not adjusted for inflation, so more people get caught every year.

How an Annuity Can Help

When money grows inside a non-qualified deferred annuity, you do not report that growth on your tax return each year. It does not count toward your combined income while it stays inside the contract.

Now think about your CDs and savings accounts. They send you a 1099 every year, and the interest counts. If you move some of that money into a deferred annuity, your yearly reported income can go down. That may push you under one of those limits.

> **Real-Life Example**
>
> A retired couple has $36,000 in combined income. Part of their Social Security is taxed. Part of that income is $5,000 in interest from $100,000 in CDs.
>
> They move the $100,000 into a deferred annuity. Now the $5,000 stays inside the contract. Their reported combined income drops to about $31,000. That is under the $32,000 limit. So they may no longer owe tax on their Social Security.

But be careful. The tax is not gone forever. You pay it when you take money out. Your money is also tied up, and there may be surrender charges. Do not buy an annuity just to save tax. Make sure it fits your bigger plan.

Every case is different. Bring your latest tax return to your Silver Bay Insurance meeting. We can help you see if this move makes sense for you.

Section 6: A Paycheck for Life — Immediate Annuities

Some retirees want one thing: a check they can count on every month. They do not want to watch the stock market or manage investments. An immediate annuity can do that.

You give the insurance company a lump sum. In return, you get guaranteed monthly checks. They start soon, usually within a year. They can last for a set number of years or for the rest of your life.

Common Payout Choices

- **Life only:** The biggest check. It stops when you die. Nothing goes to your family.
- **Joint and survivor:** A smaller check, but it keeps paying your spouse after you are gone.
- **Period certain:** Pays for life, but guarantees payments for a set time, like 10 or 20 years. If you die early, your family gets the rest.

How the Checks Are Taxed

Most immediate annuities are bought with money that has already been taxed. So part of each check is a tax-free return of your money. The rest is taxable. Once you have gotten all your money back, every check is fully taxable. (See the example in Section 3.)

Who May Like an Immediate Annuity?

- People who need steady monthly income to pay the bills
- People who do not want to manage investments in retirement
- People who worry about outliving their savings
- People who have other money set aside for their family and do not need this money to pass to heirs

Sample Monthly Checks

This table shows rough monthly checks for a $100,000 immediate annuity, life-only payout.

Age When Checks Start	Man (Monthly)	Woman (Monthly)	Two People (Joint)
65	~$580	~$540	~$490
70	~$665	~$610	~$560
75	~$800	~$730	~$660

These numbers are rough and for illustration only. Real payouts depend on today's interest rates, the company, and the contract. Call Silver Bay Insurance for a quote based on your situation.

> **Think Before You Buy**
> Most immediate annuities cannot be canceled once they start. The money is gone from your hands for good. So do not put in more than you can afford to lock up.

Section 7: Annuities and Long-Term Care

Long-term care is one of the biggest money risks in retirement. It means help with daily life, like bathing, dressing, or eating. It can be at home, in assisted living, or in a nursing home. Most people who reach 65 will need some form of it before they die.

Regular long-term care insurance has gotten very expensive. Many people are turned down because of their health. So annuity-based options have become more popular.

What Does Care Cost?

Costs depend on where you live. In many parts of the country, a private room in a nursing home now runs about $9,000 to $12,000 a month or more. A home health aide often costs $30 an hour or more. That kind of bill can burn through savings fast. Ask about costs in your own area.

Annuity Ideas for Long-Term Care

- **Long-term care riders:** Some annuities add a rider that doubles or triples your money when you use it for qualified care costs.
- **Hybrid (asset-based) products:** One premium pays for both retirement income and long-term care protection. Some are built on life insurance and some on annuities.
- **Medicaid planning:** In some cases, an immediate annuity set up under your state's Medicaid rules may help you qualify for Medicaid without spending down every dollar.

> **About Medicaid**
>
> Medicaid rules are tricky. They are different in every state, and they change. In most states, gifts or transfers made in the five years before you apply can be penalized. This is called the "look-back" period. An annuity can sometimes be used the right way inside those rules, but it must be done right. Talk to an elder law attorney or a Medicaid planning specialist in your state before you make any move.

Section 8: Annuities and Leaving Money to Your Family

Annuities can help you pass money to the people you love. But how they are taxed after you die surprises a lot of families.

Skipping Probate

An annuity goes straight to the people you name as beneficiaries. It does not go through probate, the court process for wills. Probate can be slow, costly, and public. An annuity avoids that. Your family can get the money faster and in private.

Tax on an Inherited Annuity

When someone inherits an annuity, they generally owe income tax on the growth that has not been taxed yet. Unlike a house or stocks, an annuity does not get a "reset" of its tax basis at death. How the money is taken out changes how the tax is spread over time.

- **Spouse:** A surviving spouse can usually keep the annuity as their own. They put off the tax until they take money out.
- **Someone who is not a spouse:** They usually must start taking money out within a set time. Common choices are a lump sum, taking it all within five years, or taking payments over their life expectancy. Each choice has different tax effects.

Check Your Beneficiaries

Your beneficiary form on the annuity beats what your will says. That is a big deal. Many people forget to update it after a divorce, a death in the family, or the birth of a grandchild. We suggest checking it every two to three years.

Estate Tax

The federal estate tax only hits very large estates. In 2026, each person can leave about $15 million before federal estate tax applies. Most families are far below that. But a few states have their own estate or inheritance tax, with much lower limits. If you own a business, real estate, and several annuities, talk to an estate planning attorney.

> **Beneficiary Check-Up**
> When did you last look at your annuity beneficiaries? If it has been more than two years, or if your family has changed, call us. A review takes less than 30 minutes. It could mean a lot to your loved ones.

Section 9: Your 2026 Annuity Checklist

Use this list to take stock of where you stand. Check off what applies to you.

Look at Your Tax Picture

- Do I know what tax bracket I am in? Do I know how my state taxes annuity money?
- Am I planning my withdrawals so I do not get pushed into a higher bracket?

See If a Deferred Annuity Could Lower Your Combined Income

- Do I have CDs, money market accounts, or savings bonds that send me a 1099 for interest I do not need?
- Could moving some of that money into a deferred annuity bring me under a Social Security tax limit?

Check Your Long-Term Care Plan

- Do I have a plan to pay for long-term care? If not, now is a good time to look at options.
- Should I have my assets reviewed by a Medicaid planning specialist?

Look for Red Flags in Your Annuity Contracts

- A surrender charge period that is longer than I expected, or that was extended without my knowing
- A renewal interest rate that is much lower than what I first got

- An income rider that I have not used but may be losing value or about to expire
- Beneficiary forms that are out of date

> **Schedule Your Free Review**
> Silver Bay Insurance offers a free annuity and retirement income review. Bring your latest annuity statements and your last tax return. We will look at where you stand and show you any changes that could help you in 2026 and beyond.

Section 10: Questions to Ask Before You Buy

Before you sign anything, get clear answers to these questions. A good agent will be glad to answer them. Get the answers in writing.

- **How long are the surrender charges, and how much are they each year?**
- **How much can I take out each year without a penalty?**
- **What are all the fees?** This includes rider fees and yearly charges.
- **Which parts are guaranteed, and which are not?** Ask what happens if rates change.
- **How strong is the insurance company?** Look up its rating from independent rating firms like AM Best.
- **How do you get paid?** Most agents earn a commission from the insurance company. Ask how much, and whether it changes which product they suggest.
- **What happens to the money when I die?**
- **What is the "free look" period?** Most states give you a window, often 10 to 30 days, to cancel and get your money back.

What Protects You If a Company Fails?

Every state has a guaranty association. It steps in to protect policyholders if an insurance company goes broke. But limits are set by each state. A common limit for annuities is $250,000 per person, per company. It is not the same as FDIC insurance at a bank. So it is smart to check the company's strength before you buy, and to think twice before putting everything with one company.

Summary: Making the Most of Your Annuity

Used the right way, annuities can be an important part of a safe and tax-smart retirement. Here are the main points from this guide:

- A 1035 exchange can help, but only after you weigh every cost and benefit — not just the interest rate.

- Know how your annuity money is taxed. You pay tax on the growth, not on your own money coming back.
- Early withdrawals before age 59½ can bring a 10% federal penalty.
- A deferred annuity may lower the tax on your Social Security. But it locks up your money, so use it with care.
- Long-term care is a real and costly risk. Annuity-based plans are one option for people who cannot get regular coverage.
- Annuities skip probate and go to your named beneficiaries — but only if your forms are up to date.
- Ask lots of questions before you buy, and get the answers in writing.

The right choice depends on your income, taxes, health, and goals. That is why it helps to work with someone who takes the time to know you. We care about the financial security of every client we serve.

About Silver Bay Insurance

Silver Bay Insurance is an insurance and retirement planning firm based in Dublin, Ohio. We help people protect and grow their retirement savings. We focus on annuities, long-term care planning, life insurance, and Social Security strategies.

Our approach is simple. We listen. We explain your options in plain words. And we recommend only what truly fits your needs. Retirement planning should make you feel confident, not confused.

Our Services

- **Annuity Review and Selection:** fixed, fixed indexed, and immediate annuities from leading carriers
- **Retirement Income Planning:** plans that give you dependable income through retirement
- **Long-Term Care Solutions:** annuity care riders and hybrid products
- **Social Security Planning:** help choosing the best time and way to claim
- **Life Insurance Review:** making sure your coverage is the right size and price
- **Estate and Beneficiary Planning:** lining up your beneficiary forms with your overall plan

Products and services may not be available in every state.

Contact Silver Bay Insurance Today

There is no charge for an initial consultation.

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About the Author



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Alex Wong has spent more than ten years in the financial services field. His goal has always been the same: help people and families build a secure financial future. What started as a passion for life insurance grew into a full, client-first practice.

Alex's background in financial planning gives him a wider view than most insurance agents have. He looks at your whole financial picture, not just one product. That helps him find the solutions that truly serve you in the long run.

Alex enjoys sitting down with clients, learning about their goals and worries, and building a plan that gives them clarity and confidence. As President of the agency, he leads by example, with a personal approach that clients trust.

"When you work with Alex, you're not just getting an agent — you're getting a dedicated partner committed to finding the right coverage and the right plan for you and your family."

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