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Is An Annuity Your Missing Retirement Piece?

Annuities are growing in popularity thanks to the guaranteed income component. But are they right for you?



By Donna Fuscaldo | Last updated September 16, 2025 In Features



(Image credit: Getty Images)

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Running out of money in retirement is a real fear, one that prompts some people to spend too little when they stop working.

Instead of outliving their money, their money outlives them. For others, that fear keeps them up at night, ruining what is supposed to be a time of enjoyment and rediscovery.

Annuities can alleviate some of those fears, which is why quarter after quarter, sales top $1 billion. That was the case in the second quarter. Total U.S. annuity sales increased 8% year over year to a record high $119.2 billion, according to LIMRA's U.S. Individual Annuity Sales Survey. Favorable interest rates have been a big driver of demand, but so too is a desire for guaranteed income in retirement.

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Then there's the SECURE Act 2.0, which allows annuities to be included in 401(k)s. It gives investors more access to this type of guaranteed income, making annuities more popular.

But just because you can, should you add an annuity to your retirement portfolio? The answer: it depends.

Should you buy an annuity in 2025?

If any of this sounds familiar, an annuity may be right for you.

1. You're worried about running out of money in retirement. If you are losing sleep fretting over your nest egg, an annuity can give you peace of mind and a good night's sleep. With an annuity, you enter into a contract with an insurance company and make payments over a period of time. That money is invested and paid out to you at a later date, either as a lump sum, monthly or annual payments over your lifetime.

Annuities that guarantee income for your lifetime are either immediate or deferred. "Guaranteed income annuities (immediate or deferred) are the only financial products that can do this," says Ken Nuss, founder and CEO of AnnuityAdvantage, an online provider of fixed-rate, fixed-indexed, and lifetime income. "We sometimes call this creating your own personal pension."

An immediate annuity is typically purchased with a lump sum and you then begin receiving payments within 12 months or less. An immediate annuity can be fixed or variable. A

deferred annuity is designed to grow on a tax-deferred basis, providing guaranteed income to the annuitant starting on a particular date they choose. The savings period for deferred annuities can last from a few years to decades, and the money grows over time.

2. You want to play it safe but with a better return than bank CDs. Fixed annuities tend to outperform bank CDs because they are held longer, giving the insurance company more time to invest and grow the money. Also known as multi-year guaranteed annuities, these annuities have guaranteed interest rates and grow on a tax-deferred basis. Nuss says they are best for savers seeking higher yielding alternatives to bank CDs and bonds, but still want their interest rate and principal to be guaranteed.

3. You've maxed out your qualified retirement plan contributions. If you've maxed out all of your tax-advantaged investment accounts including a 401(k) and IRA and still want to save more for retirement, an annuity can be a tax-smart way. The money in the annuity grows tax free, enabling it to compound at a greater rate. If you contribute with after-tax dollars, those contributions are not subject to any additional income tax upon withdrawal.

4. You want stock market exposure and principal protection. Fixed indexed annuities are a safe way to get exposure to the stock market and diversify a retirement portfolio. With a fixed indexed annuity you're apt to produce higher returns than other fixed-income investments but lower returns than equities.

This type of annuity is particularly attractive to people who are in the preservation phase of retirement savings. "If you want to participate in the stock market upside, but simultaneously guarantee your principal against downside risk, take a look at fixed indexed annuities," says

Nuss. “Most people are aware, as we age...portfolio risk reduction should be a serious consideration.”

5. Your saving sources aren’t diversified. A good rule of thumb for retirement savers, according to Jeffrey Mellone, a wealth advisor at TIAA, is to structure your expected retirement income in thirds: one-third from Social Security, one-third from portfolio distributions, and one-third from lifetime guaranteed income.

Without the guaranteed income you end up with too much risk. “The stocks and bonds portion is susceptible to market fluctuations,” says Mellone. “Lifetime income adds more stability.”

Are there any downsides to annuities?

Annuities have a place in retirement savings, but there are downsides that should be considered.

For starters, your money is tied up in annuities. You invest now for a payout later. If you need the money before 59-1/2, that money is taxed as ordinary income and you could get hit with a 10% federal income tax penalty.

There are also fees and commissions. Some annuities may charge fees, such as surrender charges, mortality and expense risk fees, sales and commissions and administration fees. In some cases, coupled with fees and commissions, a rider could further dilute your investment.

Annuities growing role in retirement

Annuities are finding a place in American retirement portfolios thanks to their ability to provide guaranteed income for life. An annuity is protected, can grow tax deferred and provides peace of mind. As a result, annuities are becoming a sought-after component of a diversified retirement plan.

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Donna Fuscaldo is the retirement writer at Kiplinger.com. A writer and editor focused on retirement savings, planning, travel and lifestyle, Donna brings over two decades of experience working with publications including AARP, The Wall Street Journal, Forbes, Investopedia and HerMoney.

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