Annuity.org

2026 CONSUMER EDITION

The Annuity Myth Handbook

Twelve things almost everyone gets wrong about annuities and retirement income — and what the numbers actually say.

FINANCIALLY REVIEWED BY STEPHEN KATES, CFP®

PUBLISHED BY ANNUITY.ORG, A LICENSED ANNUITY
AND LIFE INSURANCE AGENCY
EVERY FIGURE SOURCED — RATES AS OF AUGUST 2026

BEFORE YOU READ

What this guide is — and what it isn't

Annuities are the most argued-about product in American retirement. Depending on who you ask, they are either the last honest paycheck left or an expensive trap sold at a steak dinner.

Both camps are describing something real. The problem is that "annuity" is not a product — it's a category containing at least five very different things, some costing almost nothing and some costing more than 3% a year. Most arguments about annuities are really two people describing different products and assuming they're the same one.

This handbook takes the twelve objections we hear most often and does three things with each: states the myth in the words people actually use, gives the accurate answer, and then says plainly where the skeptics have a point. There is a whole page near the back devoted to reasons an annuity may be the wrong choice for you, because that page is the reason you should trust the rest.

ONE THING TO KNOW BEFORE YOU READ IT

Annuity.org is a licensed annuity and life insurance agency, and we are paid when readers go on to work with an agent in our network. **We have a financial interest in your decision to buy an annuity.** We are telling you that on page 2 rather than in the small print, because a guide like this one is worth less if you discover it later — and because from where we sit, the only version worth writing is the one that also tells you when to walk away.

HOW TO USE IT

Read the myths that match your own objections — you don't need to go in order. Then use the three worksheets starting on page 21. The first one produces a single number: the monthly gap between your essential expenses and the income you already have guaranteed for life. If that number is zero or negative, you may not need an annuity at all, and you'll have saved yourself a conversation. If it's positive, that number is what any honest recommendation should be solving for.

The twelve questions on page 23 are worth more than the rest of this document combined. Bring them to whoever you talk to. How they answer question 10 will tell you most of what you need to know.

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INTRODUCTION

The most misunderstood product in American retirement

Americans bought a record $464.1 billion of annuities in 2025 — the fourth consecutive record year. It is difficult to think of another financial product that so many people buy and so few can explain.

$464.1B U.S. retail annuity sales in 2025, up 7% over 2024 — a fourth straight record year	**67%** of surveyed Americans with household income above $50,000 fear running out of money more than death — up 10 points since 2022	**4.1M** Americans turning 65 every year, most of them without a pension to fall back on

Those three numbers explain the whole market. A generation is retiring into a system that was quietly redesigned underneath them. Their parents got a pension — a check that arrived every month, from someone else's balance sheet, until they died. They got a 401(k), which is a very different thing: a pile of money and full responsibility for making it last an unknown number of years.

An annuity is the only retail financial product that converts the pile back into the check. That is the entire pitch, and it is why the category keeps growing even while the internet argues about it. It is also why the myths matter. Someone who dismisses annuities because of a fee structure that applies to one product family, or because of a payout option they were never required to choose, may be turning down the rightthing for the wrong reason.

A NOTE ON WHERE THESE NUMBERS COME FROM

Every figure in this guide is sourced on page 27, with the date it was current. Rates in particular move weekly; where we cite one, we say when. Nothing here is a forward-looking projection of your results — where we show a figure, someone published it, and where we work an example we show the arithmetic.

One definition, up front. An annuity is a contract with an insurance company. You give them money, either in a lump sum or over time. In exchange they agree to one of two things: to credit your money at a stated or formula-driven rate, or to pay you an income — often for as long as you live. Everything else is detail. Important detail, but detail.

MYTH ONE

MYTH

"Annuities are a bad investment."

> **REALITY** Annuities are not investments, they are insurance. It might seem like semantics, but it is important for determining when and why an annuity could be right, or wrong, for you.

This is the most common objection and the easiest to answer, because it's a category error rather than a factual mistake. Historically, if you compare a fixed annuity to a broad stock index fund over thirty years, the index fund wins by a wide margin — though past performance never predicts future results. That comparison tells you nothing, in the same way that comparing homeowners insurance to a rental property tells you nothing. Both involve a house. Only one of them is trying to make you money.

What an annuity does is transfer a risk you cannot diversify away: the risk of living longer than your savings. You can hedge inflation with assets. You can hedge market risk with allocation. You cannot hedge your own lifespan, because you only get one draw, and no amount of rebalancing changes it. An insurance company can, because it holds thousands of contracts and only needs to be right about the average.

THE HONEST VERSION OF THE OBJECTION

If your goal is maximum long-term growth, an annuity is the wrong tool and you should not buy one. Most annuities are not built to outperform equities, and the ones with market exposure — indexed and variable contracts — buy their downside protection by capping your upside. That trade is the product working as designed, not a defect. But it does mean the money you put in an annuity is money you have decided to stop optimizing for return.

> **THE QUESTION THAT REPLACES IT**
>
> Not "will this beat the market?" but: **which of my expenses do I want covered no matter what happens to the market, and how much of my savings am I willing to take off the table to cover them?** Answer that and the product choice gets much narrower, much faster.

BOTTOM LINE

Judge an annuity against the job it was hired for — turning savings into income that doesn't stop — not against a job it never applied for.

MYTH TWO

MYTH

"They're packed with hidden fees."

REALITY Fees vary enormously by product family — and the family Americans buy most has no explicit annual fee at all. "Hidden" is the wrong word. "Unread" is closer.

The best-selling annuity in America is the fixed-rate deferred contract, often called a MYGA. It has no annual fee line item. You are quoted a rate, the insurer earns the spread between what they credit you and what they earn on their own portfolio, and that's the arrangement. It is closer in structure to a bank CD than to a mutual fund — though it is not a bank product: it isn't FDIC insured, and it depends on the insurer's claims-paying ability.

Variable annuities are the other end of the range, and they are where the reputation was earned. Stack the mortality and expense charge, fund expenses, an administrative charge and a living-benefit rider and you can clear 3% a year. Every one of those charges is disclosed in the prospectus. Few people read the whole prospectus.

CHARGE	TYPICAL LEVEL	WHICH PRODUCTS
Explicit annual fee	None	Fixed-rate deferred (MYGA)
Mortality & expense	~1.25%/yr	Variable; some indexed
Fund / subaccount expenses	~0.85%/yr	Variable (varies by subaccount)
Administrative charge	A small flat annual charge, or built into the rate	Most deferred contracts
Optional rider	~1%/yr each	Any, if you elect it
Surrender charge	~7% in year one, declining to zero	Most deferred contracts

Representative ranges, not quotes. Actual charges are set by contract and vary widely by insurer, product and state. Source: Annuity.org, "Annuity Fees and Commissions."

WHERE INDEXED PRODUCTS HIDE THEIR COST

Fixed indexed annuities usually have no explicit annual fee either, which is why they're often marketed as "no fee." The cost is real but structural: caps, participation rates and spreads limit how much of the index's gain reaches you. A 7% cap in a year the index returns 22% cost you fifteen points. Not a fee, but a price.

WHAT ABOUT THE COMMISSION?

A fixed indexed annuity commonly pays the agent around 6%, and it is not deducted from your premium — the insurer pays it. That does not make it free. It is funded by the product's economics, which is part of why surrender periods exist. Ask anyway: an agent who won't discuss compensation is telling you something.

BOTTOM LINE

Ask one question and this myth dissolves: *"What is the total all-in annual cost of this contract, in dollars, including every rider — in writing?"*

MYTH THREE

MYTH

"If I die early, the insurance company keeps my money."

> **REALITY** True of exactly one payout option — and it's the one that pays the most, precisely because you accepted that risk. You are never required to choose it.

This fear usually traces back to a story about someone's uncle who bought an income annuity, died fourteen months later, and whose family got nothing. That story is real, and the option that produced it is called *life only*. It maximizes income by pooling the money of people who die early to pay those who live long — which is the entire reason a life annuity can pay more than a bond ladder of comparable safety.

If you don't want that trade, you buy a different form. It costs less than most people expect.

PAYOUT OPTION	WHAT YOUR HEIRS GET	MONTHLY INCOME
Life only	Nothing after your death	$625
Life with 10-year certain	Payments continue to year 10	$608
Joint life (spouse, same age)	Payments continue for survivor's life	$536

Estimated monthly income on a $100,000 single-premium immediate annuity, 65-year-old male, based on quotes as of April 2026. Actual payouts vary by insurer and state. Source: Annuity.org.

Guaranteeing a full decade of payments to your family costs about **$17 a month** — roughly 2.7% of the income. Most people, told the price, take it. The point is that "the company keeps it" is a box on a form, not a property of annuities.

AND ON DEFERRED CONTRACTS, THE QUESTION BARELY ARISES

The myth applies only to income annuities you've annuitized. If you own a deferred annuity still in accumulation — a MYGA or an indexed contract — the standard death benefit pays your account value to your beneficiary. That's most of the market: fixed-rate deferred and indexed products together made up about $293 billion of 2025's $464 billion.

> **WHERE THE SKEPTICS HAVE A POINT**
>
> Every protection you add lowers your income, and the sum of them can lower it enough that a bond ladder starts looking competitive. If you load a contract with a joint-life payout, a 20-year certain period and a cash refund, you've insured away most of the mortality pooling — which was the reason to buy a life annuity in the first place. Pick the one or two protections you actually need.

BOTTOM LINE

Before you reject income annuities over this, ask what a 10-year certain period or a cash refund would actually cost you. Then decide — the number is usually smaller than people assume.

MYTH FOUR

MYTH

"My money is locked up forever."

> **REALITY** Not forever if it's a deferred annuity, but genuinely less liquid than savings. If the contract is annuitized, closer to true than not. This is the myth to take most seriously.

For deferred annuities, the accumulation contracts most people are shown, three facts make the 'forever' claim wrong. First, most deferred annuities include a free withdrawal provision, commonly around 10% of contract value each year, with no surrender charge. Second, surrender charges decline and then stop — a schedule often starts around 7% and runs down to zero over five to ten years, after which you have full access to your money. Third, nearly every state requires a free-look period — typically ten to thirty days — during which you can cancel and have your premium returned. So the accurate version: a portion is accessible each year, a penalty applies to the rest for a defined term, then it's gone.

BUT HERE IS THE PART THAT DESERVES YOUR ATTENTION

Illiquidity is not a marketing problem to be argued away. It's the actual trade. Two things make it sharper than the surrender schedule alone suggests:

- **The IRS has its own penalty.** Withdraw gains before age 59½ and you generally owe a 10% federal penalty on top of ordinary income tax. That's independent of anything the insurer charges.
- **Gains come out first.** Withdrawals from a non-qualified deferred annuity are generally treated as earnings first, principal second — so the first dollars out are the fully taxable ones.
- **A market value adjustment may apply.** Many fixed contracts adjust your withdrawal value with interest rates. If rates have risen since you bought, you can get back less than expected — on top of any surrender charge.

> **THE RULE OF THUMB THAT PREVENTS MOST REGRET**
>
> Fund your emergency reserve first, in something boring and instantly available. Annuity money should be money you have no other plan for — and annuitized money, money you'll never need as a lump sum. If you find yourself hoping you won't need it, the amount is too large.

IF THE CONTRACT IS ANNUITIZED, THE ANSWER CHANGES

Everything above describes deferred contracts. Once you annuitize — an immediate annuity, a deferred income annuity, or a deferred contract whose income option you elect — there is no account value to surrender and no schedule to wait out.

BOTTOM LINE

Ask which contract you're being shown. For deferred, get the surrender schedule and free withdrawal percentage in writing; for annuitized, ask what a refund option costs in monthly income.

MYTH FIVE

MYTH

"The payments never keep up with inflation."

REALITY A level payment doesn't — and that's a serious risk worth naming. But level isn't the only option, and inflation protection has a price you should see before you decide.

Start by conceding the point, because it's a real one. A fixed $2,000 monthly payment at 3% inflation buys roughly half as much in twenty-four years. If you retire at 65 and live to 90, that is not a hypothetical. It's the central weakness of a level income guarantee and no amount of product design makes it disappear.

What product design does offer is choices about where the risk sits:

APPROACH	HOW IT ADDRESSES INFLATION	WHAT YOU GIVE UP
Increasing income option	Payment rises a set percentage each year, often 1–3%	A meaningfully lower starting payment
CPI-linked option	Payment tracks a published inflation index	Lower start; availability is limited
Indexed contracts (FIA/RILA)	Credited interest linked to market index performance	Caps, spreads and participation rates limit gains
Laddering	Buy income in tranches over years, at different ages and rates	Complexity; no protection on tranches already bought
Cover only the floor	Guarantee essentials; keep the rest invested for growth	Liquidity and expected return on the portion you commit

That last row is the one most people miss. The inflation objection assumes you're putting everything into guaranteed income. Almost nobody should. If an annuity covers your fixed essentials — the expenses that don't drop no matter what the market does — then the rest of your portfolio stays invested and available to do the inflation-fighting, which is what equities are actually good at.

READ THE TRADEOFF BEFORE YOU BUY IT

Inflation protection is not a free upgrade. A contract with a 3% annual increase can start well below a level contract on the same premium, and it may take a decade or more before the increasing option has paid you more in total. Ask for both illustrations side by side, and ask at what age the lines cross. If the crossover is past your realistic horizon, the level option may serve you better.

BOTTOM LINE

The right question isn't "does it beat inflation." It's "which expenses do I want guaranteed, and what am I keeping invested to handle the rest?"

MYTH SIX

MYTH

"Annuities are only for people already retired."

REALITY Two of the largest use cases happen years before anyone retires — and one of them is only cheap if you do it early.

The mental image is a 72-year-old converting a lump sum into a monthly check. That's one use, and it's among the smallest by sales volume: single premium immediate annuities accounted for $14.4 billion in 2025, about 3% of the market. Much of the rest was bought by people still working and still accumulating.

ACCUMULATION: THE MYGA AS A CD ALTERNATIVE

A multi-year guaranteed annuity locks a rate for a set term, much like a CD. In a taxable account it does something a CD can't: interest compounds tax-deferred until you withdraw it, rather than generating taxable income every year. For someone in their fifties in a high bracket with money earmarked for retirement, that difference compounds. Fixed- rate deferred contracts were the single largest category in 2025 at $165.3 billion.

LONGEVITY INSURANCE IS CHEAPEST WHEN BOUGHT YOUNG

A deferred income annuity bought at 55 that begins paying at 80 costs a fraction of what the same income costs purchased at 79. You're paying for twenty-five years of deferral and for the possibility you don't reach 80 at all. Inside a qualified account, a QLAC does the same job with an additional benefit: the money used for it is generally excluded from required minimum distribution calculations, within IRS limits.

NO ANNUAL CONTRIBUTION LIMIT

Once you've maxed your 401(k) and IRA, tax-deferred space runs out. Non-qualified annuities have no IRS annual contribution cap, which makes them one of the few remaining places to defer taxes on investment growth.

THE CATCH ON TAX DEFERRAL

Deferral is not forgiveness. Annuity gains come out as **ordinary income**, not long-term capital gains, and they don't receive a step-up in basis for your heirs. If you'd otherwise hold a low-turnover index fund taxed at capital-gains rates, deferral may not win. The math depends on your bracket now versus later, your holding period, and what you'd hold instead. This is a real calculation, not a slogan.

BOTTOM LINE

If you're in your fifties, the annuity question isn't premature — it's the one decade where some of the options are still cheap.

MYTH SEVEN

MYTH

"I don't need one — I have a 401(k)."

REALITY A 401(k) is a pile of money. It is not a paycheck. Converting one into the other is the actual problem of retirement, and the pile does nothing to solve it.

Your 401(k) balance answers the question "how much do I have?" Retirement asks a harder one: "how much can I spend every month without running out, given that I don't know how long I'll live or what the market will do in the meantime?" That question has no arithmetic answer, which is why an entire industry argues about the 4% rule.

There are three risks a portfolio alone doesn't handle:

1. LONGEVITY RISK

You cannot know your withdrawal horizon. For a healthy 65-year-old couple, there's a meaningful chance at least one of them is still spending money in their nineties. Plan for 85 and you may be short; plan for 100 and you'll underspend two decades of your life. An income guarantee removes the variable rather than estimating it.

2. SEQUENCE-OF-RETURNS RISK

The order of returns matters enormously once you're withdrawing. A 30% decline in your first two years of retirement does damage the same decline in year fifteen wouldn't, because you're selling shares into it to fund your living expenses. Average returns can be identical and outcomes wildly different. Guaranteed income covering your essentials means you're not forced to sell into a downturn.

3. MORTALITY POOLING — THE HARDEST ONE TO REPLICATE

A life annuity can pay more than a comparably safe bond ladder because it pools risk across thousands of contract holders. One person cannot do this alone, at any level of skill. It is arguably the one genuinely unique thing annuities offer.

> **THIS IS NOT AN ARGUMENT FOR PUTTING EVERYTHING IN AN ANNUITY**
>
> It's an argument for covering a floor. Most planners who use annuities use them for the portion of income that must not vary — housing, food, utilities, insurance, healthcare — and leave the rest of the portfolio invested for growth, flexibility and legacy. Worksheet 1 on page 21 gives you that floor number in about five minutes.

BOTTOM LINE

Two-thirds of surveyed Americans fear outliving their money more than they fear dying. A larger pile doesn't answer that fear. A check that doesn't stop does.

MYTH EIGHT

MYTH

"The rates are terrible."

REALITY This one was defensible for most of the 2010s. It hasn't been for several years. Fixed annuity rates now compete directly with CDs and Treasuries.

A dated snapshot rather than a claim. These were the leading advertised multi-year guaranteed annuity (MYGA) rates on Annuity.org's rate table at the end of August 2026:

TERM	LEADING ADVERTISED RATE
2 years	5.40%
3 years	6.10%
5 years	6.30%
7 years	6.40%
10 years	6.30%

Leading advertised rates as of August 31, 2026. Carrier names are omitted deliberately — the top of a rate table changes weekly, and a rate is not a recommendation. Rates vary by state, premium amount and age; advertised rates are not offers and may not be the rate you receive. Current table: annuity.org/annuities/rates/

Notice how flat the curve is: you were being paid slightly *less* to commit for ten years than for seven — a good reason to think hard before locking money up for a decade.

THE COMPARISON THAT ACTUALLY MATTERS

A MYGA's real competition is a CD or a Treasury of the same maturity — bearing in mind that a MYGA is not a bank or government product: it is not FDIC insured and depends on the insurer's claims-paying ability. Against a CD, a MYGA held in a taxable account has a structural edge, since CD interest is taxable each year while annuity interest compounds tax-deferred until withdrawal. Against a Treasury, you're trading government backing for insurer backing, usually for a higher rate. Both are tradeoffs you can evaluate in an afternoon.

THREE CAUTIONS ON CHASING THE TOP OF THE TABLE

- The highest rate often comes from a smaller or less highly rated carrier — some of the leading rates in any given week come from carriers rated below A. Look up the rating before you look at the rate.
- A strong financial rating does not guarantee a competitive rate, and a competitive rate does not imply a strong rating. They're independent.
- Advertised rates assume a premium band and a state. Yours may differ. Get a quote for your actual amount.

BOTTOM LINE

Don't decide on a rate you read in a PDF. Rates in this category move weekly — check the live table, then compare against a CD of the same term.

MYTH NINE

MYTH

"If the insurance company fails, I lose everything."

REALITY An annuity is backed by the insurer's claims-paying ability. It is not FDIC-insured, and nobody should tell you it's equivalent. What exists instead is layers of regulation and a backstop of last resort.

We'll be blunter here than most guides are, because the honest answer is more useful. If you buy an annuity, your contract depends on the financial strength of one insurance company. That is a real form of credit risk and it belongs in your decision.

WHAT ACTUALLY STANDS BETWEEN YOU AND A LOSS

- **Statutory reserves and capital.** State law requires insurers to hold reserves against their obligations, with capital scaled to the risks they take.
- **Regular examination.** State regulators examine insurers on an ongoing cycle and can intervene long before insolvency.
- **Independent strength ratings.** A.M. Best, Moody's, S&P and Fitch publish claims-paying-ability ratings. These are public and quick to look up, though some require a free registration and not every carrier is rated by all four.
- **State guaranty associations.** Every state has one. If an insurer is declared insolvent, the association in the contract holder's state of residence steps in — transferring contracts to a solvent carrier or continuing payments, subject to statutory limits that vary considerably from state to state.

AN IMPORTANT CAVEAT ABOUT THAT LAST LAYER

Guaranty association coverage is a backstop against company failure. It is not a product feature, not FDIC insurance, and not a reason to buy anything. Insurers and agents are prohibited by law from using it as a sales inducement — and Annuity.org, as a licensed agency, is not offering it to you as one here. We mention it because readers ask what happens if a carrier fails, and because anyone who pitches it to you as a safety guarantee is doing something they shouldn't.

It should play no part in sizing or structuring a purchase. It's also slow: resolutions typically run **12 to 36 months** from the declaration. And it covers insurer failure only — never market losses or disappointing performance in a variable or indexed contract.

WHAT TO ACTUALLY DO

Look up the carrier's rating yourself before you sign, not after. Then think about concentration on its own terms: splitting a large premium between two strongly rated carriers rather than committing all of it to one is a common and unglamorous way to limit your exposure to any single company.

BOTTOM LINE

"I lose everything" overstates it. "As safe as a bank account" also overstates it. Check the rating, watch the concentration, and be suspicious of anyone who won't discuss either.

MYTH TEN

MYTH

"The agent just wants the commission."

REALITY Commissions are real, and so is the standard that now governs them. Since 2020, nearly every state has adopted a best-interest rule for annuity recommendations — with documentation requirements attached.

The NAIC revised its Suitability in Annuity Transactions Model Regulation (Model #275) in February 2020 to impose a best-interest standard, and as of April 2025 **all 50 states had adopted it**. Its core requirement is that a producer may not place their own financial interest ahead of yours. It obligates them to four things:

OBLIGATION	WHAT IT REQUIRES
Care	Reasonable diligence, care and skill in making the recommendation, based on your financial situation, needs and objectives
Disclosure	The producer must disclose their licensure, the scope of products and insurers they can offer you, and how they are paid
Conflict of interest	Material conflicts of interest must be disclosed to you
Documentation	The basis for the recommendation must be documented, with insurer supervision systems to support compliance

Source: NAIC, "Annuity Suitability and Best Interest Standard." Implementation details vary by state.

None of this makes every recommendation a good one. It makes a bad one *actionable* — there is now a written standard, a documentation trail, and a regulator with an interest in both.

HOW THE MONEY ACTUALLY MOVES

On a typical fixed indexed annuity the commission runs around 6%, paid by the insurer to the agent. It isn't subtracted from your premium, so your full deposit goes to work — but it isn't free either. The insurer recovers it through the product's economics, which is much of why surrender periods exist, and why longer schedules often accompany higher commissions.

THE QUESTION WORTH ASKING FIRST

"How are you compensated on this product compared with the alternatives you considered — and what did you compare it to?"

A good agent answers both halves without hesitation and can name the products they ruled out and why. Deflection, or "the company pays me, it doesn't cost you anything" as a complete answer, is your signal to slow down. You're entitled to ask — under Model #275 they must disclose how they're paid and how many insurers they can offer you anyway.

BOTTOM LINE

Assume compensation exists, ask what it is, and judge the person by how readily they tell you. That single exchange is more diagnostic than any brochure.

MYTH ELEVEN

MYTH

"They're too complicated for a normal person to understand."

REALITY The categories are simple — there are five, and one question sorts them. The complexity that actually trips people up lives in the riders, not the product types.

Every annuity answers one question: **how does your money grow, and who carries the risk?** Sort by that answer and the whole category fits on one page — which is exactly what page 19 does. The short version:

- **Fixed-rate deferred (MYGA)** — a stated rate, locked for a term. The insurer carries all the market risk.
- **Fixed indexed (FIA)** — interest linked to an index, with a floor of zero and a cap on the upside. Risk is shared.
- **Registered index-linked (RILA)** — more upside than an FIA in exchange for a defined slice of downside: the insurer absorbs the first losses, you absorb everything past that.
- **Variable** — you pick subaccounts and carry the market risk yourself, unless you pay for a rider that transfers some back.
- **Income annuities (SPIA / DIA)** — not a growth category at all. You're buying a payment stream, now or later.

That's it. Five families. If you can tell someone which of those five you're being shown and why, you understand your product well enough to evaluate it.

THE REAL COMPLEXITY: THE RIDER STACK

Where people genuinely get lost is in optional benefits — guaranteed lifetime withdrawal benefits, income multipliers, enhanced death benefits, long-term-care doublers. Each one has a cost, often around 1% a year, and its own set of conditions about when and how it pays. Stack four of them and the contract becomes genuinely hard to model, even for professionals.

A TEST WORTH APPLYING LITERALLY

If you cannot explain, **in one sentence and out loud**, what a rider does and what it costs, you are not ready to buy it. That's not a comment on your intelligence — it's the same test a good agent applies to themselves. Ask them to explain it again, in one sentence. If they can't either, that tells you something about the rider.

A useful companion habit: ask for the *guaranteed* column of any illustration, not the hypothetical or "illustrated" one. The guaranteed column is the contract. Everything else is arithmetic about a future nobody has seen.

BOTTOM LINE

Learn the five families — ten minutes of work. Then refuse to buy any rider you can't explain in a sentence.

MYTH TWELVE

MYTH

"Once I sign, I'm stuck with the decision."

REALITY There are three exits, and the first one is completely free. Knowing they exist changes how the whole conversation feels.

1. THE FREE-LOOK PERIOD

Nearly every state requires one — typically ten to thirty days from delivery of the contract, during which you can cancel and have your premium returned. A small number of states don't mandate it, though carriers generally provide one anyway, so confirm yours in the contract. Note one wrinkle: on a variable annuity, and on contracts with a market value adjustment, the amount returned may be adjusted for investment performance rather than being exactly what you paid. It is one of the most underused protections in the industry, largely because nobody mentions it after the signing. Write your deadline on a calendar the day the contract arrives.

Use the window for its actual purpose: read the contract, not the brochure. Find the surrender schedule, the free withdrawal percentage, the guaranteed minimum, and the rider costs. Confirm each one matches what you were told. If anything differs, you have a costless exit.

2. THE 1035 EXCHANGE

Section 1035 of the tax code lets you move from one annuity to another without triggering income tax on the gain. If your circumstances change or a materially better contract becomes available, you're not frozen in place.

3. THE SURRENDER SCHEDULE ENDS

Surrender charges are temporary by design. Once the schedule runs out — commonly five to ten years — you have full access to the contract value with no insurer penalty. "Forever" was never in the contract.

THE 1035 EXCHANGE CUTS BOTH WAYS

It is also the mechanism behind churning: replacing a perfectly adequate contract to generate a new commission, which restarts a brand-new surrender schedule on money that had almost worked its way free of the old one. Model #275's documentation requirements exist substantially because of replacement abuse.

If anyone proposes replacing an annuity you already own, ask for a written side-by-side: what you gain, what you give up, what new surrender period you're accepting, and what they're paid on the new contract versus nothing on the old one. A legitimate replacement survives that document easily. Most proposed ones don't.

BOTTOM LINE

Put your free-look deadline in your calendar the day the contract arrives, then spend that window reading the contract instead of the brochure.

Where the skeptics are right

Twelve myths debunked is only half an honest document. Here are six situations in which an annuity is probably the wrong choice — and in which a good agent should tell you so.

1. You don't have an emergency reserve yet.

Cash you might need next year does not belong in a contract with a surrender schedule. Build the reserve first. This is not a close call.

2. Your essential expenses are already covered by guaranteed income.

If Social Security and a pension already cover your housing, food, utilities, insurance and healthcare, you may be buying a solution to a problem you don't have. Run Worksheet 1 before anything else. A gap of zero means your essential expenses are fully covered.

3. You're in poor health with a genuinely short horizon.

Mortality pooling works against you in that case. Period-certain and refund options change the math somewhat, but if longevity isn't your risk, longevity insurance isn't your product. Some carriers do underwrite medically-enhanced income annuities that pay more for impaired health — worth asking about, and worth being skeptical of a recommendation that ignores your health entirely.

4. You have known large expenses coming.

A house purchase, a renovation, tuition, a business need, an anticipated medical cost. Money with a job already assigned to it should stay liquid.

5. You can't explain the product back to someone else.

Not "you don't feel like an expert" — you literally cannot describe what you'd be buying. That's a reason to wait, get a second opinion, or ask for something simpler. Complexity is not a sign of sophistication; often it's a sign of a product designed to be sold rather than bought.

6. It would take too much of your money.

Concentrating a majority of your liquid net worth in one contract with one carrier needs a very good reason, and "the rate was the highest available" is not one. A useful test: would you still be fine if this single company ran into trouble?

> **HOW A GOOD RECOMMENDATION SOUNDS**
>
> The best signal you'll get from any agent is hearing them talk you out of something — a rider you don't need, an amount that's too large, or the product entirely. Under the best-interest standard that's the job. In practice it's also the most reliable indicator you're talking to someone worth listening to.

THE OTHER SIDE

The tax facts nobody leads with

Tax deferral is the most-advertised benefit of a deferred annuity. It's real, and it's also more conditional than the brochures suggest. Four facts that belong in your decision.

Gains come out as ordinary income

Not long-term capital gains. If you would otherwise hold a low-turnover index fund in a taxable account and pay capital-gains rates on it, deferral inside an annuity may convert a favorable rate into an unfavorable one. Whether that's a net win depends on your bracket now, your bracket later, and your holding period.

Withdrawals are earnings-first

In a non-qualified deferred annuity, partial withdrawals are treated as coming from gains before principal. The first dollars out are the fully taxable ones. Annuitized payments work differently — each payment is part return of principal and part taxable earnings, under an exclusion ratio — which is one quiet argument for annuitizing rather than drawing down ad hoc. Note that the exclusion ratio stops once you have recovered your full basis; payments after that point are fully taxable.

There's no step-up in basis for your heirs

Appreciated stock passed to heirs generally receives a step-up in basis; the embedded gain is not taxed. Annuity gains do not get that treatment. Your beneficiary inherits the deferred tax liability along with the money. If legacy is a primary goal, this matters and should be modeled.

Inside an IRA, deferral adds nothing

An IRA is already tax-deferred. Putting an annuity inside one does not stack a second layer of deferral, and anyone selling it on that basis is either confused or hoping you are. There can still be excellent reasons to hold an annuity in a qualified account — a lifetime income guarantee, longevity protection, a QLAC's treatment under required minimum distribution rules — but tax deferral is not one of them. Ask which reason applies to you.

> **AND THE 10% PENALTY**
>
> Withdrawing gains from an annuity before age 59½ generally triggers a 10% federal penalty in addition to ordinary income tax. Exceptions exist — death, disability, and substantially equal periodic payments among them. This is IRS policy, entirely separate from any surrender charge the insurer applies, meaning an early withdrawal can incur both at once.

REFERENCE

The five families, on one page

One question sorts every annuity on the market: **how does your money grow, and who carries the risk?**

FAMILY	HOW GROWTH WORKS	YOUR DOWNSIDE	EXPLICIT ANNUAL FEE	TYPICAL BEST FIT
Fixed-rate deferred MYGA	A stated interest rate, guaranteed for a set term of 2–10 years	None from markets; credit risk of the insurer	Typically none	A CD alternative for money with a known time horizon
Fixed indexed FIA	Interest credited on a formula tied to an index, subject to caps, spreads and participation rates	Credited interest floors at 0%; rider and surrender charges and market value adjustments can still reduce value	Usually none; riders ~1% each	Wanting some index participation with a floor on credited interest
Registered index-linked RILA	Higher caps than an FIA in exchange for accepting a defined band of loss	Real, but buffered or floored at a stated level	Varies; often modest	Accepting limited downside for more upside
Variable VA	You choose subaccounts; performance is theirs, good or bad	Full market risk unless you buy a rider	Highest — can exceed 3% all-in	Tax-deferred market exposure plus optional guarantees
Income annuities SPIA / DIA / QLAC	Not a growth product — you buy a payment stream, starting now or at a future date	Loss of liquidity; level payments lose purchasing power	Built into the payout rate	Converting a lump sum into a paycheck for life

Generalized characteristics for orientation only. Individual contracts vary substantially; read the contract and, for registered products, the prospectus.

THREE WORDS WORTH KNOWING BEFORE ANY INDEXED CONVERSATION

Cap — the maximum interest you can be credited in a period, regardless of how far the index rises. A 7% cap in a 22% year credits you 7%.

Participation rate — the share of the index's gain used in the calculation. At 60% participation, a 10% index gain becomes 6% before any cap applies.

Spread — an amount subtracted from the index gain first. Ask whether the insurer can change any of these three after issue, and by how much. In many contracts they can.

ONE SENTENCE THAT TELLS YOU WHICH FAMILY YOU'RE BEING SHOWN

Ask: *"If the index or the market drops 20% next year, what happens to my account value?"* A MYGA salesperson says nothing happens. An FIA salesperson says you're credited zero. A RILA salesperson names a buffer or floor. A variable salesperson says you lose roughly 20% unless you've bought a rider. Four different answers, four different products — and you'll know within one sentence which conversation you're actually in.

REFERENCE

What Americans actually bought in 2025

A useful corrective to the internet's version of this market. The products that dominate sales are mostly the simple ones.

PRODUCT FAMILY	2025 SALES	SHARE	VS. 2024
Fixed-rate deferred (MYGA)	$165.3B	36%	+6%
Fixed indexed (FIA)	$127.9B	28%	+1%
Registered index-linked (RILA)	$79.5B	17%	+20%
Traditional variable	$63.1B	14%	+8%
Single premium immediate (SPIA)	$14.4B	3%	+6%
Deferred income (DIA)	$4.8B	1%	-3%
Other / not separately reported	$9.1B	2%	—
Total U.S. retail	**$464.1B**	100%	**+7%**

Source: LIMRA U.S. Individual Annuity Sales Survey, final 2025 results. Shares calculated from reported figures and rounded.

THREE THINGS THIS TABLE TELLS YOU

Simple products dominate. Fixed-rate deferred contracts — the ones with a stated rate, no annual fee and no index formula — are the single largest category at more than a third of the market. The complicated products are not what most people are buying.

Income annuities are a small slice. SPIAs and DIAs together are about 4% of sales, despite being the product most people picture when they hear "annuity." Most annuity buyers are accumulating, not annuitizing.

The fastest growth is in the middle. RILAs grew 20% — the products that give up a defined amount of downside in exchange for more upside than an FIA allows. That's where product development and competition are concentrated right now, which cuts both ways: better terms, and newer structures with shorter track records.

Why any of this matters to you: it's context for a sales conversation. If you're being steered toward a product family that represents 1% of the market, that may be exactly right for your situation — but it's a fair thing to ask about. "Why this family rather than a MYGA?" is a reasonable question with a good answer available if the recommendation is sound.

WORKSHEET ONE

Your monthly income floor gap

This is the only number that matters before any product conversation. Five minutes, a pen, and last month's bank statement.

STEP A — ESSENTIAL MONTHLY EXPENSES

Only the ones that don't stop. Skip travel, gifts, dining out and anything you could cut in a bad year.

Housing — mortgage or rent, taxes, HOA	______
Utilities, phone, internet	______
Groceries	______
Healthcare — premiums, prescriptions, expected out-of-pocket	______
Insurance — auto, home, life, long-term care	______
Transportation — payment, fuel, maintenance	______
Any remaining debt payments	______
A. Total essential monthly expenses	______

STEP B — INCOME ALREADY GUARANTEED FOR LIFE

Social Security — yours	______
Social Security — spouse's	______
Pension income	______
Existing annuity income	______
Other guaranteed lifetime income	______
B. Total guaranteed monthly income	______

STEP C — THE GAP

C. A minus B — the monthly gap to solve for	______

> **If C is zero or negative:** your essentials are already covered by income that can't run out. You may not need an annuity at all. That's a legitimate outcome of this exercise and worth knowing before anyone quotes you anything.
>
> **If C is positive:** that's the number any honest recommendation should be sized against — not your total savings, and not a round number someone suggests.

Then turn the page: it shows roughly what a lump sum has been buying in monthly income, so you can sanity-check any figure you're quoted.

What a lump sum buys in monthly income

Take your gap from the previous page and use this table to sanity-check any premium figure you're quoted. It is orientation, not a quote — but it will tell you within seconds whether a number is in the right neighborhood.

AGE AT PURCHASE	MALE, LIFE ONLY	FEMALE, LIFE ONLY	JOINT, BOTH SAME AGE
60	$530	$503	$482
65	$625	$590	$536
70	$750	$703	$620
75	$920	$859	$725
80	$1,150	$1,080	$848

Estimated monthly income per $100,000 of single-premium immediate annuity premium, based on quotes as of April 2026. Life-only payout unless noted. Actual payouts vary by insurer, state, rate environment and options elected, and change over time. Not a quote or an offer.

HOW TO USE IT

Divide your monthly gap by the figure for your age, then multiply by $100,000. A 65-year-old man with an $800 monthly gap: 800 ÷ 625 = 1.28, so roughly **$128,000** of premium at those rates. A 70-year-old woman with the same gap: 800 ÷ 703 = 1.14, or about **$114,000**.

THREE THINGS THE TABLE SHOWS AT A GLANCE

Waiting is worth real money. The same $100,000 bought about 42% more monthly income at 70 than at 60 for a man, and about 40% more for a woman. Part of that is fewer expected payments; part is ten more years of deferral. This is the honest argument for not rushing.

Joint income costs noticeably more. Covering two lives at 65 dropped the payment from $625 to $536 — about 14%. That's the price of guaranteeing a surviving spouse keeps the check. Whether it's worth it depends on what other income the survivor would have.

Adding protection is cheaper than most people guess. A 10-year certain period at 65 cost about $17 a month against life-only — roughly 2.7%. Compare that with the 14% for joint life and you can see which protections are expensive and which are nearly free.

These figures were current in April 2026 and payout rates move with interest rates. For your own age, state and premium, use the live calculator at **annuity.org/annuities/annuity-calculator/**, or get a quote on your actual premium amount.

WORKSHEET TWO

Twelve questions to ask before you sign

Print this page. Bring it. Write the answers down — the act of writing changes the conversation, and a good agent will welcome it.

1. What type of annuity is this, in one sentence — and which of the five families does it belong to?
2. What is the total all-in annual cost, in dollars, including every rider I'm being recommended?
3. What is the surrender charge schedule, year by year, from year one to the end?
4. How much can I withdraw each year without a surrender charge?
5. What happens to this money if I die in year two? In year twelve? Who receives it and how much?
6. Is the income guaranteed for life, for a period of years, or only while the account value lasts?
7. If it's indexed: what are the cap, participation rate and spread — and can the insurer change them after issue?
8. What does the *guaranteed* column of the illustration show, as distinct from the hypothetical or illustrated column?
9. What is this carrier's financial strength rating from A.M. Best, and from any other agency that rates them?
10. How are you compensated on this product compared with the alternatives you considered?
11. What specifically did you compare this to, and why did this one win for my situation?
12. What is my free-look deadline, and what is the exact process and address for cancelling?

> **READING THE ANSWERS**
>
> Questions 2, 3 and 9 should produce specific numbers or a promise to send them in writing today. Anything vaguer than that should give you a reason to pause.
>
> Questions 10 and 11 are the character test. You are asking someone to describe their own conflict of interest and then justify a recommendation against the alternatives. Under the best-interest standard now adopted in all 50 states, they should already have documented the answer to 11.

One more, unnumbered because it isn't for them: *can I explain this product to my spouse, or to a skeptical friend, without the brochure in front of me?* If not, the answer isn't no — it's not yet.

WORKSHEET THREE

Ten red flags

None of these means someone is dishonest. All of them mean slow down. Check any you encounter, and treat two or more as a reason to get a second opinion.

- [ ] **Urgency about a rate.** "This rate is only available until Friday." Rates move weekly in this market. Anyone using that as a closing device is using a normal feature of the market as pressure.
- [ ] **"Guaranteed" describing market-linked returns.** The word applies to contractual minimums and stated rates. Applied to index performance, it's either sloppy or misleading.
- [ ] **An illustration shown without its guaranteed column.** The hypothetical column is a projection. The guaranteed column is the contract. You need to see both.
- [ ] **Reluctance to put total cost in writing.** Every charge in an annuity is disclosable. A refusal to total them up is a choice.
- [ ] **"It's basically FDIC-insured."** It isn't. Using state guaranty association coverage as a selling point is prohibited, and hearing it should lower your confidence in this advisory relationship.
- [ ] **A recommendation to move all or nearly all of your savings.** Concentration in a single contract with a single carrier requires a compelling, specific rationale.
- [ ] **Replacing an existing annuity without a written side-by-side.** Ask what you gain, what you lose, what new surrender schedule you're accepting, and what they're paid on the new contract.
- [ ] **Vague answers about compensation.** "The company pays me, it doesn't cost you anything" is a partial truth offered as a complete answer.
- [ ] **A rider stack nobody can explain in one sentence each.** If the person selling it can't, that's information about the rider.
- [ ] **Anyone who calls it "an investment that can't lose."** That sentence is wrong in both halves.

> **IF SOMETHING HAS ALREADY GONE WRONG**
>
> Your state insurance department regulates annuity sales and accepts consumer complaints. If you're still inside your free-look window, you can cancel for a full refund without needing a reason — act on the deadline rather than on being certain.

AND ONE GREEN FLAG WORTH MORE THAN ALL TEN OF THESE

Someone who volunteers a reason not to buy — a rider you don't need, an amount that's too large, a product family that doesn't fit your gap — before you've raised the objection yourself. It costs them money to say it, which is exactly why it's among the most reliable signals you'll get.

REFERENCE

Plain-English glossary

Accumulation phase
The period before income starts, while the contract's value is growing.

Annuitize
To convert a contract value into a stream of income payments. Usually irreversible.

Cap
The maximum interest creditable in a period, regardless of index performance.

Death benefit
What passes to your beneficiary. On most deferred contracts, the account value.

DIA
Deferred income annuity. Bought now, income begins at a chosen future date.

Exclusion ratio
The portion of each annuitized payment treated as return of principal, and therefore untaxed.

FIA
Fixed indexed annuity. Interest credited on an index formula with a 0% floor.

Free look
A window after delivery, typically 10–30 days and mandated in nearly every state, to cancel and have your premium returned. On variable and market-value-adjusted contracts the amount may be adjusted.

Free withdrawal
The amount you may take each year with no surrender charge. Often around 10%.

GLWB
Guaranteed lifetime withdrawal benefit. A rider paying lifetime income while retaining account access. Typically about 1% a year.

Guaranty association
State-level backstop if an insurer becomes insolvent. Coverage limits vary; not FDIC insurance and not a reason to buy.

Illustration
A projection of contract values. The guaranteed column is contractual; other columns are hypothetical.

Market value adjustment (MVA)
An upward or downward adjustment to your withdrawal value based on how interest rates have moved since issue. Applies in many fixed contracts, in addition to any surrender charge.

MYGA
Multi-year guaranteed annuity. A stated rate locked for a term. Also called fixed-rate deferred.

Non-qualified
Purchased with after-tax money, outside an IRA or 401(k).

Participation rate
The share of an index's gain used in the crediting calculation.

QLAC
Qualified longevity annuity contract. A DIA inside a qualified account, with special RMD treatment within IRS limits.

Qualified
Held inside a tax-advantaged retirement account.

RILA
Registered index-linked annuity. More upside than an FIA, with a defined band of downside.

Rider
An optional contract add-on, usually with its own annual cost.

Sequence-of-returns risk
The risk that poor returns early in retirement do permanent damage because you're withdrawing into them.

SPIA
Single premium immediate annuity. A lump sum converted to income beginning within about a year.

Spread
An amount deducted from index gain before interest is credited.

Surrender charge
A declining penalty for withdrawing more than the free amount during the surrender period.

1035 exchange
A tax-free transfer from one annuity contract to another under IRC §1035.

Annuity.org

BEFORE YOU CLOSE THIS

If you only remember four things

1. **An annuity is insurance, not an investment.**
Judge it against the job it was hired for — turning savings into income that doesn't stop — not against the stock market. If your goal is maximum growth, this is the wrong tool and you should not buy one.

2. **The category is five products, not one.**
"Annuities have high fees" is true of some and false of others. Before you agree or disagree with anything you read about annuities, find out which family is being described.

3. **Solve for your gap, not for a round number.**
Worksheet 1 on page 21 produces the one figure that matters: the monthly shortfall between your essential expenses and the income you already have guaranteed for life. If it comes out at zero, you may not need an annuity at all.

4. **The twelve questions on page 23 are the whole ballgame.**
Especially numbers 2, 3, 10 and 11 — total annual cost, the surrender schedule, how the person recommending it is paid, and what they compared it against. Write the answers down.

This guide argued against annuities in about as many places as it argued for them, which was deliberate. A document that only tells you when to buy something isn't much use when the honest answer is to walk away — and for a fair number of readers, it is.

Keep this file. The three worksheets are designed to be printed and written on, and page 23 is worth having in your hand for any conversation about a specific contract.

APPENDIX

Sources & important disclosures

SOURCES

1. LIMRA, "Final U.S. Retail Annuity Sales Set New Sales High, Totaling $464.1 Billion in 2025," U.S. Individual Annuity Sales Survey, 2026. Total and product-level sales figures and year-over-year changes. The "other / not separately reported" line is the residual between reported product categories and the reported total.
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7. Annuity.org, "State Guaranty Associations and Annuity Protection Limits," and the National Organization of Life & Health Insurance Guaranty Associations (nolhga.com). Coverage limits and the prohibition on using guaranty coverage as a sales inducement.
8. National Association of Insurance Commissioners, "Annuity Suitability and Best Interest Standard." Model Regulation #275, revised February 2020, and the four producer obligations. Adoption reached all 50 states in April 2025.
9. Annuity.org, "Annuity Free Look Period." State mandates and the treatment of variable and market-value-adjusted contracts.
10. Internal Revenue Code §72 and §1035. Early withdrawal penalty, earnings-first ordering for non-qualified withdrawals, exclusion ratio, and tax-free exchange treatment.

IMPORTANT DISCLOSURES

Educational purposes only. This guide is for general education and does not constitute investment, insurance, tax or legal advice. It is not a recommendation to purchase, hold or sell any annuity or other financial product, it is not a suitability or best-interest determination for any individual, and nothing in it should be relied upon as personalized advice. Annuity.org is not a broker-dealer or a registered investment adviser.

No product recommendation. Product families are described generically. No carrier or product is named, endorsed or recommended in this guide, and nothing here represents that any product is suitable for you. Contracts vary significantly; only the contract itself, and for registered products the prospectus, govern your rights.

No guarantee of rates or income. All rates, payout figures and fee ranges shown are as of the dates stated and are subject to change without notice. Advertised rates are not offers and may not be available to you. Actual rates, payouts and charges depend on the carrier, product, state, premium amount, age, gender where permitted, and options elected. Past or current rates do not predict future rates.

Guarantees depend on the insurer. All guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company. Annuities are not bank deposits, are not FDIC or NCUA insured, and are not guaranteed by any bank or federal government agency. State guaranty association coverage is a limited last-resort protection in the event of insurer insolvency; it varies by state, is not a substitute for evaluating an insurer's financial strength, and should not be considered in a purchase decision.

Market risk. Variable and registered index-linked annuities are subject to market risk, including possible loss of principal. Fixed indexed annuities limit credited interest through caps, participation rates and spreads, which the insurer may be able to change.

Tax matters. Tax treatment described here reflects general federal rules as of publication and may not apply to your situation. State tax treatment varies. Consult a qualified tax professional or attorney regarding your specific circumstances before acting.

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