

Is It Time to Exchange Your Annuity?

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Swapping your current annuity for a new one could boost your retirement income and potentially lower fees.

By JB Beckett

Many of us spend decades working in the hopes that one day we'll be able to afford to retire. However, outliving retirement savings is a growing concern for Americans, especially in today's economy. A 2024 [poll](#) conducted by Greenwald Research found that 79% of Americans believe there's a retirement crisis, up from 67% in 2020. Of those who participated in the poll, 55% are worried they won't be able to reach financial security in retirement and 73% said recent inflation has added to their fears. To combat these fears, many people purchase CDs, stocks and bonds, or contribute to 401(k)s and IRAs to build a nest egg that can stand the test of time. But another option is annuities.

Multi-Year Guaranteed Annuities

If you've purchased a product like a multi-year guaranteed annuity (MYGA), sometimes called a CD annuity, you'll have the option of renewing the contract once the term ends. However, if the interest rates have dropped, renewing the contract may not be your best option. Replacing the MYGA with another MYGA or even a fixed indexed annuity might make more sense.

For example, let's say you own a MYGA that was issued on February 1, 2020. The product guaranteed 2.75% annual interest for six years. A similar MYGA issued today might offer 5.25% guaranteed for five years. If the cost to surrender your annuity is 5%, do you buy a new annuity at today's rates or wait a year when there is zero cost to make the switch but run the risk that rates may be lower than they are today?

Some people would not switch for 5%, but many are doing something just like that—paying 5% and buying a new annuity with a much higher rate. Others are locking in

today's rates for longer periods of time. Here's what a recent retiree did: She was concerned that she could no longer get 5% CD rates for 9 months as she did in 2024 (that same institution is now offering a CD for 3%). Since she doesn't need the funds for 36 months, she will opt for a 5% annuity, sometimes referred to as a CD annuity, for 36 months or more, from an insurer with an "A" rating from a professional rating agency.

Another advantage is tax deferral. In the previous example, if a CD was paying 5% and an annuity was paying 5%, assuming a combined 30% state and federal income tax brackets, the 5% CD would have a net yield of 3.5% ($5\% \times (100\% - 30\%)$). Conversely, the tax-deferred annuity will earn a net yield of 5% and the earnings plus interest on the earnings will continue to grow income tax-free until withdrawn. This is sometimes referred to as triple compounding.

An evolving annuity market may lead you to consider exchanging your product for something newer that didn't exist when you bought your existing annuity. Insurance companies are continually creating new products to address the needs of the consumer while ensuring their products are competitive in the marketplace. Annuities sold in 2009 may look very different from those on the market today. And newer products may include features that weren't available to you in 2009.

Variable and Fixed Indexed Annuities

Today, many in-force variable annuities are being given a critical look. Most variable annuities include a guaranteed lifetime withdrawal benefit, a benefit that guarantees an amount as a lifetime payout. However, some fixed-indexed annuities today can offer significantly higher guaranteed lifetime income benefits with lower fees. Would you consider refinancing your variable annuity with a fixed indexed annuity guaranteeing a 25% greater lifetime income benefit and lower fees? Would you do so if your cost to surrender was 5%? Many annuity owners are buying that higher annual income payout despite the cost of surrender. How much is more guaranteed lifetime income worth to you?

Another option is exchanging a fixed-income annuity purchased years ago with a newer version of the same product in today's higher interest rate environment. While higher interest rates do not benefit people who need to borrow money, they can benefit savers. Case in point: A 75-year-old today who is looking to draw \$25,536 in guaranteed income from \$300,000 deposited into annuity A in 2019. That same annuity with today's higher interest rates will guarantee over \$38,000 per year in six years with the same benefits guaranteed for life.

However, the decision to exchange your annuity should not be taken lightly and may even have financial consequences. Unfortunately, it's not as simple as cashing out and moving on to another savings product. One of the drawbacks to an annuity is the surrender fee. If you surrender the annuity during the surrender period, you could be required to pay an early withdrawal charge. Some annuity companies offer deposit bonuses, some over 20%, which can offset or exceed these charges.

The process of exchanging any annuity has several steps, allowing you, the annuity owner, to evaluate your current annuity product against your current needs and goals. The objective is to substantially benefit you with a suitable replacement. If that cannot be done, the annuity should not be exchanged. A seasoned independent financial professional with annuity experience can help with that review.

The exchange of annuities is a supervised and documented process. The financial professional must work in your best interests and document your needs, what your own, and how the exchange will substantially benefit you. The issuing annuity company then reviews all of this and approves or disapproves the proposed exchange. Exchanges of annuities, old for new, are treated very carefully by financial professionals and the annuity carriers involved.

If you're thinking about exchanging your annuity, ask yourself the following questions:

1. How much will the exchange cost me?
2. How will the change in the surrender period and terms impact me?
3. Are the features of a new annuity worth the cost?
4. Does the new annuity offer more interest-earning or income potential?

Adequately planning for retirement involves a consistent evaluation of your portfolio. If you have questions about your current annuity or believe you need to exchange yours, be sure to consult with a financial adviser. They can help you determine whether your current annuity is still working for you. If not, they'll be able to help you find a savings vehicle that aligns with your specific goals and needs in retirement.

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JB Beckett has been an adviser for 24 years and leads Beckett Financial Group, a specialized financial firm that helps individuals and businesses in the Retirement Red Zone build tax-smart retirement income blueprints, allowing them the freedom to overcome their concerns about inflation, market volatility and taxes in order to retire sooner.

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