



# The Capita Annuity Compass

## CORE BELIEFS AND GUIDELINES FOR SMART RECOMMENDATIONS

Annuities are powerful tools—but only when used precisely.

This guide exists to center your thinking and align our team around Capita's core beliefs, standards, and best practices for annuity recommendations.

Think of this as your pre-flight checklist. Before you recommend an annuity, ensure the facts match the philosophy. If a scenario exists outside of the compass, discuss it with the investment committee.

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# 55-75

**The age window in which Capita permits annuity recommendations. Exceptions must be approved outside this window.**

We believe annuities are most appropriate when clients are nearing or in retirement. Before 55, clients usually benefit more from liquid, growth-oriented strategies. After 75, the value of long-term guarantees diminishes due to reduced remaining life expectancy and potential liquidity needs. The cashflow needs will be more predictable and sequence of return risk is greater between 65 and 75 than between 75 and 85.

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# 10X

**The Min Income Gap Year X 10 is a good allocation guide.**

Rather than filling the total spending goal or the fixed income allocation, solve the smallest required income gap that clients can't reliably cover through other fixed income. Multiply this smallest income gap by 10 to get the appropriate minimum free withdrawal needed. This approach helps preserve flexibility and liquidity while still delivering peace of mind.

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# 20-30%

**The target portion of a client's investable assets to consider placing into FIAs (when using the min coverage year method)**

Diversification matters. Concentrating more than 30% of a portfolio into an annuity often reduces flexibility and long-term growth. Our guidance caps annuity usage to ensure the broader financial plan remains adaptive, liquid, and growth-capable.

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# 30-40%

**Maximum allocation to FIAs (when using the asset protection method)**

Asset protection is a valid goal, however, we must take care to not equate fixed income securities and FIAs. By limiting FIA use in protection-only situations, we help clients avoid over-insuring against unlikely outcomes. Even conservative portfolios benefit from modest exposure to liquid and interest-sensitive assets.

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# Not 100%

**Of conservative allocation to FIAs (when using the asset protection method)**

A portfolio with no bonds (only Stocks and an FIA) eliminates several benefits to the client. 1. Rebalancing between equity and fixed income markets within a brokerage account. 2. Ability to alter the portfolio risk level through asset allocation changes. 3. May limit marginal tax bracket management if all conservative assets exist within the FIA. 4. Unexpected withdrawals beyond the 10% free withdrawal amount are forced from risk assets.

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0%

**Recommended use of annuities in Roth IRAs, non-qualified accounts, or trusts.**

Roth IRA growth is too valuable to be limited to lower rates of return and lock-up periods. Non-qualified accounts lose access to favorable capital gains treatment. Trusts complicate annuity ownership. Annuities eliminate the opportunity for a stepped-up basis upon death. Annuities don't belong in these statuses unless a rare planning case calls for it, such as a 1035 exchange of after-tax cost basis within a life insurance policy.

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>95%

**Of annuity cases should be solved using FIAs without an income rider.**

Simple is better. FIAs without income riders offer asset protection, bond-like returns, and lower internal costs. The bells and whistles of income riders are typically unnecessary and costly unless a guaranteed income stream is explicitly needed or wanted.

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<5%

**Of annuity recommendations should use SPIAs (Single Premium Immediate Annuities) or FIAs with income riders.**

There's a time and place for guaranteed income. However, multi-stream income strategies require more overall capital to produce the same cash flow, reducing the portfolio's possible growth allocation. When a defined, essential income gap exists that cannot be closed through other means, these tools can be valuable—used sparingly and with clear documentation.

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## Not For Growth

**Annuities should not be used as a primary growth bucket.**

Growth strategies belong in tax-efficient, liquid, and market-exposed investments. While FIAs can provide modest growth, that's not their purpose. Using annuities for growth dilutes upside potential and introduces unnecessary complexity.

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## Principles Before Products

**Simplicity, flexibility, cost-efficiency, return potential, and risk profile must guide every annuity decision.**

Our belief system isn't pro-annuity or anti-annuity—it's pro-precision. Each annuity recommendation must be rooted in holistic planning and held to the same fiduciary standards we apply to all solutions. These principles help protect both our clients and our advisors.

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## The Right Tool The Right Way

**Annuities are neither a silver bullet nor taboo.**

When applied correctly, they can meaningfully strengthen a retirement plan. This guide exists to ensure every annuity you recommend serves the plan, not just the moment. Keep these beliefs top of mind—and ask the right questions before ever placing the product.

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### Replacement Rule of Thumb

# 4%

As a general guideline, use the implied rate of return to assess whether replacing an existing annuity makes sense. If the rate is above 5%, replacement is generally difficult to justify. If it's below 4%, a replacement may offer meaningful improvement. In the 4% to 5% range, it's important to review the numbers carefully and help the client understand the potential trade-offs.

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