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What Is an Assumed Interest Rate (AIR)?

Annuities are a common retirement planning tool. These insurance products can help protect you from the possibility of outliving your retirement savings.

If you are exploring annuities as a potential element of your retirement strategy, you've probably heard the term "assumed interest rate" (AIR). But what does it mean?

How Annuities Work

During its accumulation phase, an annuity is funded with premium payments. That money is invested and it grows. When you are ready to start taking payments, the annuitization phase begins. Retirees may choose annuities because they can provide a guaranteed income stream.

How AIR Works

How much could your annuity payments be? The payments are not guaranteed, and they can vary. Insurance companies determine the AIR on an annuity and use it to calculate the payments you may receive. AIR is like a target rate; it can help you understand how much your annuity is anticipated to grow.

Insurance companies may consider factors like your age when annuitization begins, the type of annuity and its value to determine AIR.

The higher the AIR on your annuity, the higher you can expect your periodic payments to be. For example, if you paid a \$100,000 premium for an annuity with a 5% AIR. The payments would be higher than if your annuity had a 2% AIR.

Keep in mind that annuities can underperform or overperform AIRs, resulting in fluctuating returns.

Planning Ahead

If you are planning to purchase an annuity as a part of your retirement strategy, it is important to understand how AIR might impact your retirement income. You can explore different annuity options with various insurance companies, and a financial advisor can help you understand what your retirement income could look like in the future.

Have any questions? Get in touch today.

Helping clients get back to the basics of building and maintaining wealth in a tax efficient way.



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