Annuity Misconceptions

Some people hear the word "annuity" and run in the opposite direction. To be honest, I probably would be running with them if these 4 misconceptions were, well… not misconceptions. But, they are and I'm going to tell you why.

For starters, back in the day, annuities used to cater to a specific type of consumer, which might be a factor contributing to these misconceptions I'm about to share with you. But times have changed. Over the past decade, insurance companies have "supercharged" these products with several new features and options that many different types of retirees find attractive and suitable in meeting their unique retirement needs.

Misconception #1:
"I'll give up control of my money if I buy an annuity."

This might have been true back in the day when you couldn't start some cars by the push of a button before even entering it. But, there are several cars today that offer that feature. Not every car offers that feature, but you have the option to buy one that does.

It is the same thing with annuities today: there are annuities with which you lose control of your money (immediate annuity), but you have the option to buy one that doesn't (fixed index annuity). There are annuities today that allow you to "turn the car on by the push of a button," so to speak. Many people in the financial world call it **"committing annuicide"** when referring to giving up control of one's money in their annuity. It comes from the term **"annuitization,"** which starts the payout phase of your annuity, in return for the commitment of your paid premium(s) to the insurance company.

But retirees have options today

There are annuities that still offer that guaranteed* lifetime income that all retirees seek, but, at the same time, also offer the option to pull their money out if need be.

Annuities today also offer added benefits that provide a guaranteed* rate of return to create that guaranteed lifetime stream of income which won't decrease when the market performs poorly.

So, to chase this misconception completely away once and for all, annuities today offer consumers an exit strategy at the same time that it offers a guaranteed* lifetime income stream. This is the only type of annuity that we would recommend.

Misconception #2:
"Annuities are too expensive."

If you purchase the wrong type of annuity this could very well be true. The new Fixed Index Annuities (FIA) have NO fees unless you purchase the income riders with higher guaranteed returns.

There is a no cost to buying the protections that these FIA annuities offer, such as investment returns guaranteed against market declines and growth based on some index (S & P 500 as an example). They come with NO cost guaranteed income riders. But there will be a cost for guarantees of a higher rate of return that can be turned into guaranteed monthly income checks that you receive no matter how long you live or how poorly the markets perform. These costs, usually less than 1%, are considerably lower than many fees paid to mutual fund companies for buying their products, which have no guarantees.

Our clients who have purchased annuities with lifetime withdrawal benefits are breathing a lot easier right now than those who haven't. Their asset base is up (wasn't affected by declines in 2008), and they know they're going to get their promised level of income based on the guaranteed rate return offered by the rider, even if the market doesn't recover anytime soon.

Most people would gladly pay the same fees as the mutual funds charge if they could get some guaranteed rate of return, no losses, and a guaranteed income stream for life. But the rider cost is much lower and is often only charged if the market goes up.

Misconception #3:

"Annuity riders that protect against market volatility aren't worth the money."

First, with the Fixed Index Annuity (FIA) you get the protection against market volatility WITHOUT any cost. These annuities protect you from losses at any time while providing growth potential based on an index (S & P 500 as an example).

The carnage in the stock market over the past decade has shown that its not long-term average returns that matter, but the sequence of the actual returns. Many people who just retired or were planning to do so in the next few years have suffered such major hits to their retirement portfolios that they are in jeopardy of not having enough money to see them through retirement. You may be able to choose when you retire, but you can't choose where the market is going to be when you retire.

Even if you have protected your assets from decline, you must also be ready to generate income from those assets. This is where many people fail to plan properly. With the guaranteed income rider, this problem is solved. This rider guarantees a certain return on your money that can be used to provide a guaranteed amount of income for life. Yes, there is a cost for this rider, but I guarantee you it will be worth it. Imagine having it today and getting 5% to 6% annually on your balance, while fixed income products are providing less than 1% returns.

Misconception #4:

"When I invest in an annuity, I no longer get to invest in the stock market."

It's true that with the typical Fixed Index Annuity, you forego exposure to the stock market. That is the whole point – avoid the volatility. Well, that and having the guaranteed income rider.

If you want stock market volatility, a deferred variable annuity offers investment options that can include substantial exposure to the stock market. The big difference between getting that exposure through a mutual fund and getting it through an annuity is that the annuity can provide some tax advantages. We don't recommend these types of annuities for two reasons: they can go up or down (volatile) and they have high fees, which often eat up most of your profit in the good years and increase your losses in the bad years.

NOTE: People often question using annuities inside a qualified account (IRA) to gain tax advantages since the IRA already offers these same tax advantages. We are not doing it for the tax advantages (although we won't give them up,) as much as we are the guarantees, such as the guaranteed rate of return to be used for the guaranteed lifetime income stream and the guarantee against losses. These two features make them worth their weight in gold.

It is a shame when we start discussing annuities that people immediately tune out. Insurance companies have some of the best long-term financial planning people in the world today. They are designed to protect against the risk of financial loss. They are covered by the State Insurance Protection Association (http://insurance.illinois.gov/General/guarantyfunds_facts.asp), which protects clients against losses similar to the way the FDIC does for banks. Why not take advantage of this and transfer some of your risk to them. Especially since they will provide us with guarantees that we can really use.

For more information on how one of these Fixed Index Annuities could work for you, contact:

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Note: Annuity guarantees rely on the financial strength and claims-paying ability of the insurer.