



Why I love my fixed annuity

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By Peter L. Heimdahl

This summer, a few misguided financial pundits have questioned the wisdom of buying annuities. Their concerns don't hold up in the real world.

I have diligently saved money for retirement in a 401(k) plan and in post-tax vehicles for almost 30 years. With a sneaking suspicion that my stock and bond fund returns have been meager, I recently completed an analysis of my investments.

I was appalled to see how miserably they have performed.

Let's face the sad truth: The vast majority of Americans do not have the ability or the discipline to manage their stock market investments.

I made the same mistake, over and over, that most individual investors make: I placed my money in the hot stock/bond funds of the moment. It is nearly impossible for the average investor to resist chasing high returns. The result is that we buy high, then panic and sell low when the formerly hot fund goes bust.

Given how much money I lost in my 401(k) stock funds (they still haven't recovered from the 2000 crash), had I placed all my savings in a fixed annuity averaging a 5 percent return instead of in stocks, I would be almost \$200,000 ahead.

Fortunately, I did purchase a fixed annuity almost 10 years ago. Through regular deposits, I channeled virtually all my non-401(k) savings into it and the balance ballooned to \$230,000. Granted, the interest rate is not spectacular, but it is respectable, varying from 5 percent to 6.5 percent.

I'm not hitting home runs, but I am getting solid base hits month after month, year after year, decade after decade. With the power of compounding, it adds up to big-time money.

Plus, the annuity further shines because it is tax-deferred. Sure, certificates of deposit are finally offering attractive rates. But I will immediately owe enormous taxes on the interest. For a single person, it doesn't take much income to fall into an onerous top marginal federal tax rate, which, when combined with state income taxes, would decimate my earnings by almost 40 percent.

But with my annuity, when I retire, the power is in MY hands to choose when and how much to withdraw to keep my taxes in a low bracket. And with the withdrawal options available, I could even have a guaranteed lifetime income, if I so choose.

Annuities have been disparaged for their surrender fees. This actually is stabilizing for people like me. It thwarts impulse buying by lessening the temptation to yank annuity money and send it to the risky funds regularly hyped by financial pundits.

Another great thing about my fixed annuity is the prudent care my annuity company -- American Equity Investment Life Holding Co. of West Des Moines -- takes with its investments. Unlike many stock fund companies, it doesn't invest my money in mysterious and risky financial vehicles; virtually all its assets are in U.S. Treasury securities and investment-grade bonds.

Curiously, annuities are perceived as a "senior" product. Typical buyers are in their 60s. As a result, most workers are unlikely to find a fixed annuity as an option in their 401(k) plans.

However, I believe that the smartest financial strategy for young people is to put any non-401(k) savings into a fixed annuity as a major stabilizing anchor. Young people should max out their 401(k) -- fine, cross your fingers and put it in stock funds. Then put a few months' living expenses in CDs. All other post-tax savings should go into a fixed annuity.

I love my annuity, and as the earnings pile up over the coming decades, the savvy young people who bought annuities will love theirs, too.

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