

# Is It Time to Take Another Look at Fixed Annuities?

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One of the most important considerations for your finances, is what portion of your money should be used for “risky” investments to maximize growth potential and what portion should be kept “safe” to ensure preservation of capital when the markets get turbulent. This foundational consideration is about finding the right balance, taking into account long-term financial goals.

For the risky portion, it is typical for advisors to recommend stocks and stock mutual funds. For the safe portion, a typical recommendation is money market accounts, certificates of deposits or - perhaps the most common choice - bond mutual funds.

However, for many investors, there is a lesser known but better alternative than bond funds: a fixed annuity. Why is it better? Because a fixed annuity can provide you with a similar rate of return than as a bond mutual fund, with greater safety.

**Safety first** - Advisors typically recommend investors place a portion of their money in assets geared to ensure protection of principal. As investors get older, they often place a higher portion of their assets into nonstock vehicles that offer increased safety to help ensure that they stay on track for a secure retirement. Bond mutual funds are a common asset for advisors to recommend as a safe option, with most such funds offering a low single-digit current yield.

What many investors don't realize, though, is that bond mutual funds are quite risky to buy when interest rates are low. If interest rates go up, the value of your bond mutual fund holdings may decrease substantially — the exact opposite of what investors expected when they were looking to find a safe place for their money.

Fixed annuities can provide superior safety. That's because both investors' original premium and any credited interest are contractually guaranteed to be protected from loss.

**Areas where an annuity can outperform a bond mutual fund** - While an apples-to-apples comparison may not be possible, there are a few key ways in which a fixed annuity differs from a bond mutual fund:

**Safety** - A bond mutual fund's value fluctuates every day, and the value can decrease at any time. In fact, this can be one of the more frustrating aspects for investors, as many purchase a bond mutual fund for safety of principal, only to learn that the value can drop. A fixed annuity has a contractual guarantee not to lose value and can provide investors with peace of mind that they truly are protected from risk.

**Earnings** - The growth of a fixed annuity is often comparable to a bond fund, but it is more predictable. Consider that a bond fund can have a year where its dividend income is more than offset by a loss of principal value, whereas a fixed annuity is guaranteed never to lose value. Because of this, a fixed annuity's earning pattern can be more attractive to investors.

**Tax treatment** - A bond mutual fund generates dividends every month, whether investors like it or not, and thus it generates taxable income even if the fund loses value during the year. Bond fund capital gains and losses would be eligible for capital gains tax treatment, but investors aren't buying bond funds for capital gains, as such gains would likely be minimal. With a fixed annuity, taxes are deferred until funds are withdrawn, so investors have more control over their taxation. For many investors, as long as they don't plan on taking withdrawals until after age 59½, the taxation of a fixed annuity can be very attractive.

Most financial advisors, even those who strongly favor stocks for large portions of their investors' money, recommend bond mutual funds and other assets geared toward safety of principal to their investors. For that “safe” money, a fixed annuity purchase should be something that advisors frequently recommend.