Talk of the Town

Annuity Myths - Part 3

James D. Stillman

In April, I wrote an article about the different types of annuities and mentioned six common annuity myths that we hear on a fairly consistent basis. Last month we tackled the first three annuity myths, so this month we'll discuss the remaining three myths.

A) "Fixed and Fixed Indexed Annuities are not regulated": Folks, this one is really very simple. This myth is simply not true, and you should run from anyone that says it is! They are either blatantly lying or wildly uninformed, period. Neither one of those options is good when it comes to someone giving financial advice, right? These types of annuities are not regulated by the Securities & Exchange Commission (SEC), but are strictly regulated by state insurance commissioners, as well as federal regulators. We work with both securities and insurance at our firm, and I can tell you that the annuity regulation is every bit as tough as the securities regulation, if not even more so. And, to be honest, I'm not so sure why people hold the SEC in such high regard, since they couldn't even catch Bernie Madoff, for goodness sake!

B) "Fixed or Fixed Indexed Annuities can never make money": Again, this is simply not true. Let's be perfectly clear - fixed and fixed indexed annuities are not designed to compete with market investments when it comes to potential returns. Annuities are not a growth focused strategy. They are designed to protect your money and get you a "fair rate of return", as well as provide you with guaranteed lifetime income. So, you trade off some potential return for guaranteed safety and income. In many cases, that's a very reasonable trade off. We've personally seen returns that range from 0-35% in a given year using Fixed Indexed Annuities. The higher end of that range is definitely not the norm, but growth is possible with annuities – how much growth you can expect is dependent on the indexing strategies chosen, caps/spreads, and market conditions. But what's this "fair rate of return" I mention? In my opinion, in this market environment, I'd say between 3% - 6%. Most folks that we work with say that if we can get 3% -4% and not go backwards, then they'll be okay. "Safe growth" is possible, but you have to be realistic about what that means and how it fits into an overall portfolio.

C)"Annuities are always sold, and never bought": With the evolution of annuity products and strategies, anyone that would make that comment is just out of touch, uninformed, and not up to speed when it comes to proper retirement planning in this new age of longer life expectancies and increased market volatility, period! Typically, we hear this from old school "stock jockeys" that just don't know any better and haven't taken the time to learn something new and how to apply it. There, I said it! Venting again, but now I feel better! Again, the key is education when it comes to these matters. Annuities aren't "pushed and sold" any more than any other financial or savings product is. You go to an advisor looking for potential solutions to help you achieve your goals and you are presented with the products or tools that would be a good fit. What's wrong with that? I wouldn't consider that "being sold" on something. You're simply getting what you asked for.

So, there you have it. Hopefully our readers have found these past few articles educational and helpful. Be sure to tune in to "The Safe Harbor Retirement Planning Show" every Saturday at 10am and Wednesday at 8am on WSIC AM 1400 & FM 100.7. Also, feel free to check out our website for a ton of information, lists of our free reports, our uploaded radio shows, to request a copy of my book "Finding Safe Harbor in Retirement" or a free consultation, or to sign up for any of our upcoming seminars.

And, as always, remember: The purpose of the money dictates where you put it!

Until next month,

James D. Stillman

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