ANNUITIES! FACT? OR FICTION?

I hope the headline grabbed your attention, that is exactly what I intended it to do. Why? This subject is probably one of the most asked about yet misunderstood, nay, misinformed in the financial industry (in my ever so humble opinion). With that said, there are as many opinions by both financial professionals and consumers (who normally form their opinion based upon financial media or past positive/negative product experiences) as there are annuity products. So who's right? Well, just like so many things in our world today there is probably a little truth buried somewhere in all of it. The problem is opinions tend be agenda driven by non-fiduciary sales professionals in the financial services industry and consumer opinions tend to be emotionally driven rather than by facts and logic. So, today I want to attempt to help clear the air as best I can with the small amount of space available here. What are the facts versus the fiction on this topic? Let's explore a few that come up quite often.

FICTION #1: Annuities are just too expensive.
FACT: First of all, what kind of annuity are we talking about? There are variable and fixed annuities and many different types of each respectively. Some believe variable products (which transfer investment risk to the annuity owner) are terrible because of high fees (typically 2+% before investment fee's depending on riders and such), steep early surrender penalties, limited investment options, longer contract terms and so on. Some think that fixed annuities of various types (whether they be immediate or deferred, fixed rate or indexed) have some of the same problems (although they are much less expensive in the fee/cost category typically). The bottom line is any product can be expensive if used improperly. It is important to have your advisor do a cost benefit analysis for you. They should explain things such as how a recommended product is in your best interest in your plan specifically. What will your fees be vs an alternative? Does the advisor earn a commission – how is that good or bad? What's their process of discovery for finding the right product fit? To summarize, in context, there are no bad products per se' just bad application of products. If the product (of any kind) doesn't fit the need it should be left alone.

FICTION #2: Annuities are great for income in retirement but that's about it.
FACT: I would say that this statement is partially true. It is true that annuities are designed primarily for income and with the advent of some of the newer lifetime income riders they have become even more flexible and attractive for such. However, the notion that variable annuities and stock or bond markets directly are solely the place to go to meet the needs of a retirement plan are simply outdated. Especially given the market risk inherent in those areas. Alternatively, fixed indexed annuities are not just used for income any longer and don't necessarily need the risk exposure of the market to perform quite well. Fixed products can be designed for instance as individual bond replacement strategies, they can be laddered and much more. For example, it is not uncommon anymore to use fixed indexed annuities alongside a solid investment plan to diversify various risks. This is not to say that all fixed annuities are good for such things nor that the ones that are good perform well all the time (because products are constantly changing and evolving for various reasons), but then, neither do the debt and equity markets. It's true not every retirement plan needs an annuity and specifically fixed and fixed index annuities typically will not return (in the long-term) an equivalent ROR as the stock market. However, as Roger Ibbotson, PhD and Professor Emeritus of Finance at Yale concluded in his recent study on fixed indexed annuities with Zebra Capital Management, LLC, "*FIA's have many attractive features as both an accumulation investment and as a potential source of income in retirement*." Annuities, particularly fixed indexed annuities, are not just about income anymore.

FICTION #3: The insurance company will keep my annuity money if I die during the income phase.
FACT: This can be true or false. If you are utilizing annuities for income in a traditional fashion through annuitization, it is possible depending on the payout choice you make and the date of death of you and your beneficiary that this could happen. However, with the variety and flexibility of products today, the likelihood of this happening is almost non-existent with a knowledgeable advisor.

There is so much more to consider when it comes to these products but our space here is limited. I hope these few have been helpful. Please give us a call with your questions, we are always excited to make new friends. Remember, a plan should always precede a product. If not, you're just getting sold. Blessings to you.

WOOTTON Financial Group Inc
2040 North Loop 336 W, Suite 125
Conroe, Texas 77304
(936) 449-5952
www.woottonfinancial.com