



## How to Invest in Annuities

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Despite sometimes getting a bad rap, annuities can form part of a retirement savings strategy to plug potential income gaps not covered by Social Security or a 401(k).

The extended period for low interest rates has created a vacuum of products for retirement as traditional products like bonds and certificates of deposit aren't paying much yield, says Adam Watts, managing partner with EAM Partners.

That backdrop has helped annuity products proliferate as they can offer higher yield as well as principal protection, Watts says.

**"People have not saved enough," says Scott Mann, president of Mann Financial Group. "People are scared."**

Essentially, annuities are a contract between a buyer and a financial company where the investor puts in money and is guaranteed a certain amount of money to be paid out. Annuities offer tax deferral, and many offer principal protection.

Types of annuities include traditional fixed annuities that pay a fixed interest rate and offer a lifetime income guarantee, immediate annuities and variable annuities. Some allow you to get market-type performance while guaranteeing a rate of return and offering principal protection. They can also offer death benefits to beneficiaries.

But they can also entail high fees and have a reputation as being high-commission products that brokers may push even if not be the best fit for a particular customer. And while some annuities can be simple, others are complicated, making it tough to know exactly what you're getting.

**Mann says annuities have left some with a bad taste because the customers may have been sold a product that's not a good fit, or they are too old for annuities to really benefit them or they don't have enough personal liquidity and are left without cash when they need it.**

**And it's also important to pay attention to the financial strength of the companies providing the annuities. Mann likes Midland National Life Insurance Co., American Equity Investment Life Holding Co. (ticker: AEL), Great American Insurance Group and Allianz Life Insurance Co. of North America.**

**But for people who have adequate liquidity, annuities can be the right tool to fix that income gap in retirement, he says.**

**"We can hate the word annuity," Mann says. "But it becomes what type of annuity? Nothing else is going to work like that."**

**He likes fixed-indexed annuities with a guaranteed income rider. These are fixed annuities that are indexed to the market that earn interest plus potentially more based on how an index performs.**

These products have become popular since 2012 as they allow for competitive earnings from investing in an index strategy, but they also provide a floor of protection, says J.P. Steele, partner with Index Methodologies.

Custom indexes allow customers to build a portfolio of annuities in stock and bond indexes, Watts says.

LIMRA Secure Retirement Institute, a retirement-industry research firm, in August forecast indexed annuity sales will exceed \$60 billion this year, up from \$54.5 billion last year. The total U.S. annuity market in 2015 was \$236.7 billion.

"For eight consecutive years, indexed annuities have enjoyed significant growth," Todd Giesing, assistant research director with LIMRA, says in a statement. "Based on current sales trends, existing economic conditions and the imminent regulatory changes, we expect indexed annuity sales to accelerate in the second half of the year."

The institute expects those gains to be erased as sales fall 30 to 35 percent next year because of a U.S. Department of Labor rule imposing new requirements on financial advice.

But "as companies acclimate to the new regulatory environment, our expectations are for indexed annuity sales to experience growth in 2018 and beyond," Giesing says.

"We believe the demand for principal protection and investment growth with an option for guaranteed income from future retirees will spur innovation – both in distribution and product design," Giesing says.

Critics of fixed indexed annuities say they can be complicated and potentially illiquid, says Jimmy Lee, CEO of the Wealth Consulting Group. Investors need to make sure they understand the formulas of what they can expect to make on the upside, Lee says.

Also popular are variable annuities that offer products similar to structured notes and provide downside protection as well as upside participation with different market indexes, Lee says.

While they don't offer 100 percent guarantee on the principal, investors do get to participate in an index on the upside, he says.