

The Time is Right...for Fixed Index Annuities

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I wouldn't think that annuity agents need to be prodded to recommend annuities...however, given the recent media attention and shifting regulatory landscape, I think it would helpful to reinforce why *now is the perfect time* to recommend fixed index annuities. Positioned properly, fixed index annuities make a lot of sense as part of the conservative investor's portfolio.

Most financial experts will agree that a portion of an investor's retirement funds should move, increasingly, to safer, more conservative investments as the investor grows older. To me, safety means protection of principal. So what are the "principal-protected" choices for today's conservative investors? From my perspective, I only see four primary choices: bonds, CDs, fixed interest annuities, and fixed index annuities. Among these four choices, the fixed index annuity stands out as the best option in today's stock market and interest rate environment.

Bonds can provide good diversification away from the stock market, and can generate income, but they do not protect your principal unless you hold them to maturity. To get a decent return, you have to go (very) long term with individual bonds -- 10 or more years. A long-term bond may be fine for income, but principal protection from a bond may require too long of a wait for the older investor (remember, bonds fluctuate in value once they are issued and may be worth more or less than their face value until maturity...at which time the face value is paid). Let me put it this way, selling a bond before its maturity date could result in losses well in excess of those incurred by surrendering a fixed index annuity early! Studies have shown that every 1% increase in interest rates can cause a long-term bond's value to go down by 10%. So, if rates have gone up 2% since a long-term bond was issued, it is possible for that bond to lose 20% in value. If the investor then needed the money invested in the bond, he or she could incur a real loss of 20%. Now here's a very good question. Where are interest rates today? Are they expected to go down any further? Probably not. What's the next likely move for rates? What will they likely do as we emerge from the current economic slow down? Rates will start to go back up. What will that do to bonds issued today?

Because of the downside risk associate with bonds, in my clients' investment portfolios, I use them for income and to temper stock market volatility. I don't consider them a way to protect principal. (When the bonds sold by stockbrokers today go down over the next couple of years, will DateLine show up to "Catch a Stockbroker?")

The next choice for principal protection is the traditional Certificate of Deposit. Yippee. Current CD rates are between 3% and 4%. That's lower than inflation. Enough said.

The third choice for principal protection is the traditional fixed interest deferred annuity. Again, yippee. Fixed annuity interest rates are still in the 4% to 5% range. Not bad, but they are still not my first choice for trying to outpace inflation. Perhaps when fixed interest annuity rates start getting above 6%, they will become a more viable option.

So, I'm left with my fourth choice -- the fixed index annuity. This choice makes a lot of sense to me to help protect a portion of the older, conservative investor's retirement assets. I prefer shorter term contracts in the seven to ten year range. I never use "spread" products and will use either a monthly point-to-point or an annual point-to-point crediting method. One of my favorite strategies is to use two index annuity carriers: one with a monthly point-to-point and one with an annual strategy. Though I won't use an insurance company unless their Comdex rating is above 75, clients like to see their principal-protected funds diversified as well. (Even if the basket is made of **titanium**, they still don't like to put *all* their eggs in it!)

I also think the time is right for the fixed index annuity, because just about everything that *can* be done *is* being done, to stoke our lagging economy (actually, I don't think our economy is in such bad shape...but that's another subject). So, I think that the appreciation and growth that is going to occur over the next several years will be on the equity side...meaning that we need our interest, growth, appreciation (whatever you want to call it) to come from being tied to the equity markets, as opposed to getting a few percent of fixed, guaranteed interest that doesn't even keep up with inflation.

As part of an overall retirement plan that includes other investment options, I think that the fixed index annuity can be a very effective tool for an agent to use to help his/her client achieve their retirement objectives.

About the Author: David D. Holland is an independent financial planner/investment adviser/annuity agent in Ormond Beach, Florida. In 2007, David teamed up with industry veteran, Mike Mastowski, to establish Retiree Adviser Marketing Corporation (RAM). RAM provides independent agents with access to high quality annuity products and helps them expand their services to include real retirement advice. RAM also gives agents the opportunity to access David's marketing and planning system – the same system which allowed him to achieve \$30 million in personal production for two years in a row. The RAM System includes: A Proven Seminar System (slides, script, invitation, prospect interview questionnaire and seminar training video), a Prospect Marketing Video and a Client Planning System. **To get more information about RAM's services, agents are invited to call 888-422-7007 or visit www.retireeadviser.com.**