PREMIER
WEALTH MANAGEMENT, LLC
Caring for you and your future

Commentary

CRAIG PULLIAM CFP®, AIF®, CLU®, REBC | MICHAEL R. COMSTOCK CFP®, AIF®
WWW.PREMIERCARES.NET

"Annuities Aren't Always a Bad Choice"

The second of two Commentaries about annuities.

Last month, we cautioned that annuities can be very complex, misunderstood, and are sometimes unsuitably sold to confused customers. This month we'll talk about some of the unique features and circumstances that can make buying an annuity a reasonable consideration.

- **Income You Can't Outlive:** Company pensions that pay lifetime income to workers cover less than 1 in 6 workers (Bureau of Labor Statistics), and that number continues to decline. Annuities offer the owner an option to convert part of your assets into an income stream that will pay out over your lifetime, however long it may be.
- **Mitigating the Risk of a Big Loss:** With some annuities (Fixed Index Annuities, FIAs, for example) you receive a guarantee that your annuity balance will never be assessed a loss due to market activity (at worst, you'll receive 0%, even if the stock market's down -20 %!). You will, however, be limited to the amount of *growth* that you're credited. You might get something like a maximum of 6.5% (varies by product) regardless of how high the index it's linked to goes.
- **The Math of a Guaranteed "No-Loss":** This is an illustration only. Let's say the stock index your FIA is linked to has returns over 5 years of +8, -6, +15, +11, and +3. Your annuity would credit you with: +6.5, 0, +6.5, +6.5, +3 (using a 6.5% cap as an example). That's an average compounded annual return of 4.88% for the annuity and an average compounded annual return of 6.7% for the stock index.
- **Avoiding Disaster?** What's got to concern any new retiree is stopping saving, starting to withdraw assets and then stepping right into the jaws of a prolonged bear market. You've got $2 million saved, and you're taking out $6,000/month, and then you see portfolio drops of -18% followed by -12%. Your $2 million is now closer to $1.3 million at the end the 2nd year of retirement. Putting some money in an annuity that has a minimum of 0%, or even annuitizing and getting a steady supplement that doesn't vary *might* make you feel a little better.
- **A Reminder of What You Forego:** Almost all people who annuitize take a fixed payment that will not inflate, so the purchasing power erodes over time. Growth in an annuity is taxed at your income tax rate when you take it out; and if you die with a balance, the basis is not "stepped up" (as it is with a non-retirement investment account). When you annuitize you give all your annuity money to the company in exchange for their promise to pay you income. And, don't forget, there's often a surrender charge for 5-10 years once you sign up for an annuity (not during the annuitization, though).

- **Who Might Consider an Annuity:** Maybe you just hate the volatility of the markets, maybe you want to hedge against a bear market right after you retire. Or perhaps you'll have less anxiety knowing your monthly essentials are covered (by social security and annuity income). If so, an annuity may be worth a look. We don't think they're right for more than 15-20% of your assets in most cases. For most of us, we still need our portfolio to grow (keep pace with inflation), so some exposure to equities is necessary.
- **Ask Questions:** If you think an annuity might be right for you, shop around (we can help). Look for low-fee annuities with no surrender charges (or at least nominal). Ask how the agent/advisor is compensated (get this in writing), and what his incentive is to continue to help you through the years. Understand that there are different types: such as fixed income annuity (which might be truly fixed, or tied to an index and therefore will vary!); variable; and immediate (wherein you put the money in an immediate annuitize for your monthly payment).
- **Another Approach:** You're retiring and are concerned about a bear market decimating your nest egg. You and your spouse need $9,000/month for all expenses (basics and discretionary); and let's say you'll get $4,500/month from social security. From your $2 million portfolio take three years expenses (the $4,500/month shortfall after social security), plus money for emergencies and put it in cash . . . that's $200,000 in cash, and draw it down. Invest the rest for modest growth (maybe 60% in stocks), don't touch it, then replenish your cash at the end of three years. In most three year rolling periods (historically) you'd be way ahead (Morningstar hypothetical), while keeping all your money accessible.

Yes, we're skeptical of annuities and the manner in which they are sold, but they can make sense for some people. You've got to do your homework and ask a lot of questions before buying. They are complex . . . we have barely scratched the surface in these last two Commentaries.

You should be concerned about income that'll last your lifetime, and how to preserve your lifestyle in the face of gyrating markets. There are a lot of options to consider, so let us help.

*Fixed insurance products and services offered through CES Insurance Agency.
**Guarantees extend to the claims-paying ability of the issuer, and guarantees do not apply to the value of the subaccounts that will fluctuate with market conditions.
***Annuities are long-term, tax-deferred investment vehicles designed for retirement purposes. Variable annuities are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information, can be obtained from a financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Craig Pulliam and Michael Comstock are CERTIFIED FINANCIAL PLANNER™ professionals practicing at 112 Westwood Place, Suite 310, Brentwood, TN. They own Premier Wealth Management, LLC. Advisory services offered through Commonwealth Financial Network, a Registered Investment Adviser.
We can be reached at 615-777-2125.
Back issues of our Commentary may be found at www.premiercares.net