

Try variable annuities as investment vehicle

At long last the credible financial press has caught on. A recent Wall Street Journal article was titled "Long Derided, This Investment Now Looks Wise. Thanks to guarantees, variable annuities paid even when stocks didn't." The article leads off with the following profound comment "One of the best investments of the past decade was one of most derided. ..."

So why have things changed? Economic, market, and demographic factors have caused public perception to change. Right at a time when an aging population needs stability, potential for growth, and access to income the markets have become incredibly volatile. For the investor who wants these features and protection for beneficiaries (death benefit), the variable annuity emerges as one of the available options.

Let me take a moment to explain variable annuities. Variable annuities, which are long-term investments appropriate for goals such as retirement, contain both an insurance and an investment component. Any earnings accumulate tax

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deferred and, upon withdrawal, are taxed as ordinary income. If you withdraw money from the annuity early (as defined by the contract) you may be subject to surrender charges and if you make withdrawals prior to age 59 1/2, a 10 percent tax penalty may also apply. The underlying investment subaccounts are subject to fluctuation and may lose value. Annuities are subject to fees and expenses. If you choose to add an optional guarantee feature, commonly called a rider, you may also be subject to additional fees as well as restrictions or limitations. All guarantees are based upon the claims paying ability of the issuing insurance company.

One concern is that variable annuities with these optional guarantees can be incredibly complex. Per-

haps the problem is compounded because some financial advisers do not fully understand them. They may find it difficult to completely explain all the moving parts which make these investments work so well. A lack of understanding of these complexities would make it very difficult to explain and use the product appropriately.

Historically, a common concern has been the internal expenses. Pundits rightfully point out that often total expenses amount to as much as 3 to 4 percent. In a world where advertisers like to quote long-term returns of the "market" at 9 to 10 percent, these expenses stand out as a huge drag on your potential future performance. However, the reality is that this is not a 9 to 10 percent world. It is a minus-40 percent, plus-30 percent, minus-20 percent, plus-50 percent, etc. type world.

When your life savings are fluctuating at that pace, the expense picture is very different. Who wouldn't they: 1.) Pay an incremental cost of 1 to 2 percent for the opportunity to earn a guaranteed lifetime of income based on the value of their

account back in October of 2007? 2.) Want to ensure that when their account advances in value, they can protect those gains from future market drops? 3.) Want to use a true advance and protect strategy guaranteed by one of the big name, top rated insurance companies? However, due to their complexity I encourage you to get advice from an adviser with proven competency with sophisticated products to determine if a variable annuity is appropriate for you. For those of you who remain skeptical of the economic recovery, the political climate, and your financial future this might well be worth your consideration.

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**NOTE: Optional guaranteed income riders carry limitations such as minimum holding periods and age restrictions.