AnnuityAdvantage

Contact Info
1.800.239.0356
info@annuityadvantage.com

Page Source: **https://www.annuityadvantage.com/annuity-type/variable-annuities/**

Variable Annuities

Primary Benefit: Grow Your Money

Secondary Benefit: Guarantee Future Income

A variable annuity is a contract where all of the premium deposits are invested in variable subaccounts subject to market fluctuations, as opposed to a principal protected fixed interest annuity. The available subaccount options function very similar to an assortment of mutual funds that the investor can choose from, but they also have an insurance component, sometimes called an annuity wrapper.

The reasons why a person would choose to purchase a variable annuity rather than mutual funds directly, usually include the tax benefits and contract features provided by the annuity wrapper. Just like all annuity products, non-qualified variable annuities provide the opportunity for tax-deferred growth when funds are left to grow and compound inside the contract. Additionally, many variable annuities offer optional riders, for an added cost, that provide living benefits that may be helpful when preparing a retirement income strategy.

However, it is an unfortunate fact that many variable annuity riders are sold in such a way as to imply that the rider will protect investors from loss, and that with the addition of these riders their funds will be, magically somehow, insulated from market risk. This is simply NOT true. No matter what a variable annuity salesperson tells you, when you purchase a variable annuity, your funds ARE subject to market risk, which sometimes may include significant losses.

The value of a variable annuity contract is based upon the performance of the investment subaccounts that you select. These subaccounts fluctuate in value with market conditions and the principal may be worth more or less than the original cost when you decide to surrender the policy. With variable annuities, the individual annuity owner bears ALL of the investment risk. As a general rule, seniors and retirees should be reducing their investment risk as they grow older.

By contrast, with fixed annuities, the issuing insurance company assumes all of the risk and contractually guarantees the investor's principal as well as a reasonable interest rate as defined in the contract.

Other Concerns with Variable Annuities

Fees, Fees and More Fees – One of the big drawbacks of variable annuities are the amount of fees that get charged against the investor's account. There are investment management fees that typically range between 1.00% and 3.00%. There are mortality and expense risk charges, which according to Morningstar, average 1.35%, as well as administrative charges that usually run somewhere between 0.10% and 0.50% per year. Not to mention the additional charges incurred if optional riders are added. Putting this into perspective, if you owned a $100,000 variable annuity, and your fees totaled 3.70%, your account would be charged $3,700 every year. These fees come right off the top and are incurred even in down years, when the value of your principal is declining.

No State Guaranty Association Coverage – Every state has a Guaranty Association to help pay the claims of financially impaired insurance companies. Fixed annuities have coverage under these Guaranty Associations (up to certain limits), but variable annuities do not.

Complicated Fine Print – Variable annuities are sold by prospectus. A prospectus is a legal document, required by the Securities and Exchange Commission, which provides details about a variable annuity that is being offered for sale to the public. The problem is that a variable annuity prospectus can be extremely long; it is not uncommon for them to be hundreds of pages in length. Also, for the average investor, or even an investment representative for that matter, they are very complicated and difficult to understand.

At AnnuityAdvantage, we only offer principal protected, guaranteed and insured fixed annuity products. Consequently, the material presented in this article, and elsewhere on our website, regarding variable annuities is for informational purposes only. We are focused on educating and informing consumers regarding their annuity purchase options and assisting them in acquiring the most appropriate fixed annuities for their individual needs. We are NOT directly involved in the securities industry, nor do we market or sell variable annuities.