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Rising Annuity Rates Benefit Retirement Portfolios, AnnuityAdvantage Data Reveals

A good substitute for bonds and CDs, offering safe income without most of their drawbacks

MEDFORD, OR--(Marketwired - February 01, 2017) - Annuity rates have gone up a bit recently, according to AnnuityAdvantage's database of 290 fixed annuities from 35 insurers. They currently pay up to 3.40 percent for a 10-year annuity, up to 3.15 percent for a five-year contract, and up to 2.10 percent for a three-year annuity.

Financial planners recommend splitting your investments among equities and fixed-income investments, usually bonds. But bonds aren't the only choice.

Fixed-rate annuities provide safe income, but without most of the drawbacks of bonds and bond funds, says Ken Nuss, CEO of AnnuityAdvantage, an online annuity marketplace.

"Annuities can substitute for bonds for part of your fixed-income allocation," he says.

Issued by insurance companies in exchange for a premium deposit, fixed annuities share many similarities with bonds, Nuss says. Like bonds, multi-year guarantee annuities earn a set rate of interest for a set period, usually three to 10 years.

But there are some key differences between bonds and fixed annuities, which have more guarantees and lower risk.

"You can lose money in bonds," Nuss says.

The market value of a bond fluctuates with changes in interest rates. If rates go up and you sell a bond prior to maturity, it will be worth less than its original cost. With an individual bond, you can avoid this problem by holding it to maturity.

But investors in bond funds don't have that option. If rates spike up after you buy a fund, the value will decline. "Especially with a long-term bond fund, you may never recover your full principal," he says.

Owners of individual bonds (except Treasuries) also face default risk. A company or municipality may run into financial problems and fail to make timely interest or principal payments. A default means you could lose part or all of your investment.

In contrast, an annuity is guaranteed by the issuing insurance company. State regulators constantly monitor the financial strength of insurers. State guaranty associations provide an additional level of protection, he says.

"With fixed annuities, the insurance company bears the underlying investment risk, shielding annuity owners from both bond market volatility and default risk," Nuss says.

Bonds normally pay earnings every six months. With most individual bonds, you can't reinvest interest so that it can grow and compound.

Bond funds let you reinvest your dividends automatically, but the price per share varies as interest rates change. You may have a gain or loss on reinvested dividends when you cash in the fund, he says.

Fixed annuities let you reinvest interest earnings without risk. Reinvested earnings earn the same rate as the base annuity, so the yield is guaranteed. Contract owners who need income can choose to receive interest earnings monthly, quarterly or annually.

Interest from corporate bonds and Treasuries is taxable in the year it's received. Annuities are tax-deferred.

"All interest earnings left inside the contract grow and compound tax-deferred until withdrawn, a significant tax-planning benefit. You can wait until retirement, when your tax bracket is likely to be lower, to start receiving payments," Nuss says.

Many corporate and municipal bonds are callable. "When rates are high, it may look like you nailed down a great deal," he says. "However, a few years later when rates are lower, the issuer may call the bond back and you'll have to reinvest the proceeds at a lower rate."

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Annuities can't be called. The interest rate is set for the duration of the guarantee period.

Annuities offer the ability to create a guaranteed lifetime income stream via annuitization. It's the only financial product that offers this option.

There are a few downsides to fixed annuities.

First, they have less unpenalized liquidity than bonds and bond funds. You can always cash them in, but you'll pay a penalty for early surrender. Second, interest earnings withdrawn prior to age 59½ may be subject to a 10 percent IRS penalty.

"Because they have less liquidity than bonds, you probably wouldn't want to put all of your fixed-income investments in annuities," Nuss says.

But there is some liquidity. Many fixed annuities let you withdraw up to 10 percent a year penalty-free. They're thus more liquid than CDs, which have stiff penalties for early withdrawals, he says.

Based in Medford, Oregon, AnnuityAdvantage is a leading online provider of fixed-rate, fixed-indexed and immediate income annuities. Its team sorts through the array of annuity options to provide each client with product offerings custom tailored to their specific situation. Every annuity offered is filtered, screened and analyzed for client suitability.

For more information, see https://www.annuityadvantage.com or call 800-239-0356.

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