NATIONAL UNDERWRITER

Annuities – Alive & Well?

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Are annuities, of all types, still alive and well?

The answer depends upon who you are talking to or what articles you are reading.

Although total annuity premium has remained virtually unchanged the past few years, variable annuity market share has increased while fixed annuities have decreased. This is a normal occurrence during a bull market. However, the numbers have always reversed during stagnating or bear markets.

We tend to believe that our opinion is right and everyone else is wrong.

I frequently hear, "I only sell variables and would never sell a fixed annuity." Others tell me they would only sell fixed or indexed annuities. Some even say they will now only sell mutual funds. These are silly statements for any professional to make. There is no single right place for everyone to put their money. Where one invests should be based on the desires and needs of the investor, not the biased opinion of an agent, broker, or other financial advisors.

Here's a little story to prove the point; Joe and Helen, two of my best clients, have over $1 million in an assortment of non-qualified anuities. Some of them just reached their maturity date and with other companies offering higher rates, we decided to transfer the money.

We discussed moving 5% of their annuity assets, around $50,000, to an annuity that could respond to a rising market. I explained that their money could grow at a higher rate in a variable annuity, but they could also end up with a loss. If they chose an indexed annuity, the worst case scenario would be to simply end up with what they had started, plus a small profit. Helen then said, "I don't want any risk. I want a sure thing! I'd rather know I'm going to get 6% than end up with no profit."

Joe and Helen are not alone. Even with the stock market soaring, there are still millions of people putting billions of dollars in fixed annuities, because they also want a "sure thing."

One of my largest clients, a very prominent local attorney, recently told me, "I've got enough money that I don't care about getting richer, I just don't want to lose what I've got. That's why I put my money in fixed annuities rather than the stock market."

If I had told either of these clients, or a host of others, that I only sell variables or mutual funds, none of them would have bought from me.

The case can be made for a fixed account within a variable annuity, but they aren't nearly as flexible as a stand alone fixed annuity. Most fixed accounts have restrictions for moving money, i.e., the policyowner can only transfer 25% of the fixed account value into the variable accounts each year. So if someone thinks the market will go down and wants to wait to put their money in a variable account, they could start out with an assortment of fixed annuities that have 100% free withdrawal privileges every day, quarterly, or annually. Then move as much money into variable annuities as they desire.

The current hoopla over whether mutual funds are better than variable annuities, under the new tax law, is growing in intensity.

I say the ONLY correct answer is, "It depends."

Lets use Joe and Helen as an example again. They have decided to move to their large wheat farm that she recently inherited. There will be profitable and unprofitable years. For them, it doesn't matter if annuities are taxed as ordinary income or as capital gains. When they have a year with an operating loss, they will take taxable income from their annuities, resulting in zero taxes. If they have a profitable farming year, they can just let their annuities continue to grow tax deferred.

The key point is, annuity owners are in control of when and how they pay tax on their gains. Over the past 22 years, I've seen many cases that ended up with little or no tax.

Are annuities still alive and well? In my opinion, as well as that of millions of other people, the answer is "YES!"

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