DallasNews.com
The Dallas Morning News

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A new idea for gaining high yield

09/29/2002

Some people think of him as "Mr. Annuity."

I don't. To me, Danny Fisher is the Morningstar of fixed-income annuities. If anyone in the country has a larger database with more history on fixed-income annuities, I haven't heard of it.

In the September issue of the Dallas-based *Fisher Annuity Index*, his monthly publication, he lists data on nearly 900 fixed-income annuity contracts offered by more than 100 insurance companies.

Mr. Fisher doesn't deal with variable annuities, the kind where mutual funds are wrapped in an insurance contract that provides tax deferral. Nor does he deal with immediate annuities, the kind where you give your principal to an insurance company in exchange for a guaranteed lifetime income. Instead, he deals exclusively with fixed-income annuities, the ones that offer a tax-deferred yield supported by the general account of the insurance company.

In that universe, a relatively new product resembling a bank CD is one of the highest yield offerings available.

'Last chance'

Today, fixed-income annuities may be the "last chance" for secure investment yield. While the yield on the average one-year bank CD is now down to 1.49 percent, the yield on the average one-year CD-like fixed annuity is 3.29 percent.

Yes, you read that right: 3.29 percent.

That's more than twice as much as the average bank CD. Similarly, the average yield on five-year CD-like fixed annuities is 4.09 percent. That's significantly better than the 3.45 percent yield on the average bank CD.

The comparison with Treasury yields is even more dramatic. Recently, for instance, two-year Treasuries were yielding 1.9 percent while a two-year maturity fixed-rate annuity was yielding 3.09 percent. The yield advantage over Treasuries continues throughout the maturity range – a 10-year Treasury yields 3.77 percent while a 10-year annuity yields 4.73 percent.

One word of caution here: These yields are highly fluid and will be different by the time you read this. In addition, I'm citing averages. Some are higher, some lower. What you can count on is that annuity yields don't fall as fast as Treasury yields.

Something new

If you haven't heard of a CD-like fixed annuity, don't feel bad. They're a relatively new development that is rapidly displacing traditional fixed-rate annuities.

You won't miss the traditional kind too much. Some were good. Some weren't. In some, the marketing brochure and salesman offered a feast that the fine print turned into dry crumbs. The CD-like fixed annuity – which Mr. Fisher says started to take off in 1999 – is a simple product designed to function like a bank CD.

"The guarantee period matches the surrender penalty period," Mr. Fisher said. "What you see is what you get. They run from a day [in maturity] up to 10 years – but 90 percent of what we sell is five-year contracts."

The interest is compounded daily as with bank CDs, is tax-deferred until withdrawn (unlike a bank CD or Treasury obligation), and the contracts now offer the option of regular monthly checks. Basically, he says, the insurance industry has cut commissions and offered a more attractive deal.

A look at Mr. Fishers' database gives an indication of how quickly the new CD-like product is displacing the more uncertain, higher commission product. In 1997, only 32 of the 127 companies in his database offered CD-type annuities. By early September, only 102 companies were offering fixed annuities – but 65 of them were offering CD-like contracts. Similarly, in 1997 only 21 percent of all fixed-rate annuities were CD-like contracts. Since then the proportion has doubled to 41 percent.

I asked Mr. Fisher if there was anything more liquid than a one-year contract.

Mr. Annuity's picks

Yes, he told me, several behave like money market accounts. While they don't offer checks and may limit the number of withdrawals, you can deposit money in these accounts and make withdrawals at any time. The process takes about two weeks. The accounts earn at a 3 percent annual rate.

Readers who would like to see his current top picks for CD-type fixed annuities can send a stamped, self-addressed envelope to: Top 10, The Fisher Agency, 13140 Coit Road, Suite 102, Dallas, TX 75240-5790. The full database is available in print ($25) or on CD-ROM ($50) from Fisher Publishing Inc. The toll-free phone number is 1-800-833-1450.

COMPARING YIELDS

The average CD-like fixed annuity currently provides a higher yield than the average bank CD or comparable Treasury obligation at all levels of maturity.

Maturity	Top yield banks	Average bank CD	Treasury	Average CD-like annuity
Money market	2.75%	1.27%	NA	3.00%
1 year	3.03%	1.49%	1.62%	3.29%
2 years	3.60%	2.10%	1.90%	3.09%
5 years	4.80%	3.45%	2.83%	4.09%

SOURCES: Bloomberg, Banxquote, Fisher Annuity Index

Questions of general interest will be answered in future columns. Write Scott Burns, The Dallas Morning News*, P.O. Box 655237, Dallas, Texas 75265; faxed to 214-977-8776; or send e-mail. to SBurns@DallasNews.com. Check www.ScottBurns.com*