

*Buyer Beware***ALL ANNUITIES ARE NOT CREATED EQUAL**

by Vincent R. Barbera, CFP® | Financial Advisor

A new class of combined investment/insurance contracts is making a big splash. To the consumer who has been beaten up by the volatility of the market over the last couple of years, a product promising guaranteed returns sounds like sweet music. We have concerns about the appropriateness, the marketing and (in certain cases) the safety of some of these contracts. Let's start by clarifying some terms:

Immediate annuities, where you exchange cash for a stream of future monthly income payments, are among the safest financial vehicles around. We believe they can be an excellent choice for retired individuals who are looking for safe and predictable income.

Variable annuities are regulated as securities. We have concerns about the use of variable annuities as the sole or primary vehicle to build funds for retirement, and we have not invested new client funds in a variable annuity in a decade, but we do know several smart and ethical advisors who include variable annuities as part of their accumulation plans.

Equity indexed annuities (sometimes called *fixed indexed annuities*), despite their link to the stock market, are not regulated as securities. Their guarantees are secured only by the general funds of the insurance company. They combine different types of benefits (market-linked growth, guaranteed principal, lifetime income) in ways very difficult to understand. Why are they sold so aggressively? Because they pay higher commissions than almost any other financial product — as much as 12% of the dollars invested.

We are not yet persuaded that it is a good idea to combine something insurance companies have done well for centuries (project mortality outcomes and pay lifetime income) with something they have done badly for only a few years (predict market risks and manage portfolio volatility). As *Chief Investment Strategist* Jim Hemphill

says, “Think of AIG’s credit-default swaps unit in London, which got risk wrong by two orders of magnitude, lost \$150 billion, and almost crippled the world financial system.”

If there’s one thing that we should have learned over the past two years, it is that we should be skeptical of any claim of a high-return, risk-free investment. There is always a risk-reward relationship. In order to achieve a higher rate of return, you have to be willing to incur greater risk.

If you’re considering an investment product that promises guaranteed returns with no downside risk, please bring it to our attention. We are here to help you make decisions that will benefit your financial well-being. *We believe that there are meaningful options available depending on your specific situation and need. However, as we’ve said again and again, in the current market environment there is an enormous amount of noise.*

Signs of a potentially deceptive practice or product. Beware if a salesperson:¹

- Encourages you to borrow money or cash in retirement funds to invest.
- Pressures you to invest immediately.
- Promises quick profits.
- Says that the disclosure documents required by federal law are just a formality.
- Sends materials with typos or misspellings, or materials that are not printed on letterhead.
- Uses words or statements such as: “guarantee,” “high return,” “limited offer,” or “safe as a CD.”

¹ Consumer Action website (www.consumeraction.gov)