

## **NEW RESPECT FOR VARIABLE ANNUITIES**

*Many dismissed them ... until stocks plunged in 2008-09.*

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For most of the 2000s, variable annuities got no respect. Here's an example: in January 2008, a SmartMoney.com piece stated the opinion that "[variable] annuities only make sense for a tiny fraction of the population. The rest of us should be buying plain old mutual funds."<sup>1</sup>

Less than a year later, mutual fund investors watched the S&P 500 go into a 39% freefall. As they reached for aspirin, many variable annuity owners saw their account values go up by 6% or more in 2008.<sup>2</sup>

If you happened to put some money in a variable annuity in the 2000s, you may look back and applaud your decision today. For years, the rap on variable annuities was that they were too expensive. Back in the 1990s, their fees were often near 3% of the account balance, while mutual fund fees were commonly half that or less.<sup>2</sup>

Then insurers started offering new perks with variable annuities. First came the "death benefits" stating that heirs of an annuity owner could get at least the original invested principal minus any withdrawals. Then came the "living benefits" - guaranteed minimum income benefits (GMIBs), guaranteed minimum withdrawal benefits (GMWBs) and guaranteed lifetime withdrawal benefits (GLWBs) for annuity owners. As the Great Recession hit, some of those that thought variable annuities were overpriced now felt they were underpriced, and we saw a new wave of interest in them.<sup>2,3</sup>

**Variable annuities have their disadvantages.** Their "guarantees" are only as strong as the insurance company making them. Additionally, if you're retired and want to cash out and take a lump sum from a variable annuity, you're not going to get the "guaranteed" amount. You'll get the sum that remains in your funds. Yes, you can receive the higher "guaranteed" amount, but you won't get it at once: the insurer will pay it out incrementally, usually at about 5% per year.<sup>2</sup>

**Maybe it's time for a second look.** The concept of "guaranteed" returns is pretty attractive these days. While variable annuities are complex investments and not for everyone, many of the retirement-minded among us are taking a new look at their potential.\*\*

\*\*A potential annuity investor should consider investment objectives, risks and charges, and expenses of registered annuities or other securities offered by prospectus before investing. The prospectuses for these products contain this and other information about the investment company, and can be obtained from your financial advisor. Please read the prospectuses carefully before deciding whether to invest.

All annuity guarantees are based on the financial strength and claims-paying ability of the issuing insurer, who is solely responsible for all obligations under its policies. Generally, annuities have contract limitations, fees, and charges, which can include mortality and expense charges, account fees, underlying investment management fees, administrative fees, and charges for optional benefits. Most annuities have surrender charges assessed during the early years of the contract if the contract owner surrenders the annuity. Withdrawals of annuity earnings are taxed as ordinary income and may be subject to surrender charges plus a 10% federal income tax penalty if made before you reach age 59 1/2.

Withdrawals reduce annuity contract benefits and values. Any guarantees are contingent on the claims-paying ability of the issuing insurance company. Annuities are not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association. For variable annuities, the investment return and principal value of an investment option are not guaranteed. Variable annuity subaccounts fluctuate with changes in market conditions; thus the principal may be worth more or less than the original amount invested when the annuity is surrendered.

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#### Citations

- 1 [smartmoney.com/personal-finance/retirement/whats-wrong-with-variable-annuities-9512/](http://smartmoney.com/personal-finance/retirement/whats-wrong-with-variable-annuities-9512/) [1/30/08]
- 2 - [online.wsj.com/article/SB10001424052970204900904574302270919454880.html](http://online.wsj.com/article/SB10001424052970204900904574302270919454880.html) [7/24/09]
- 3 - [marketwatch.com/story/delve-into-details-of-annuities-with-guaranteed-living-benefits](http://marketwatch.com/story/delve-into-details-of-annuities-with-guaranteed-living-benefits) [11/28/07]