

The Truth About Annuities
Author: Jim Retter

The age old question is “How do I get the most out of my money?” As we know, there are probably a hundred different answers to that question. When people find the missing pieces that coalesce all of their retirement strategies, they are quick to preach it to everyone else, when in reality, retirement plans are simply not a one-size-fits-all solution. Perhaps the most common suggestion is an annuity. And I know, for many of us when someone says the word “annuity” they’re ready to run for the hills. These financial tools have so much variety, that to suggest a particular plan to anyone would be the same as suggesting that you’ve found them the perfect pair of shoes, but without knowing their size, use, or even their need them for. So today I’d like to sit down, and explain the whole truth that comes with annuities: the downsides everyone knows, the benefits you might be missing. The financial vehicles come with both pros and cons that you may not be aware of.

Pro: It’s out of your hands. The money you have in an annuity is tax deferred, which can be a huge help come tax season. If you keep your money in one of these accounts for a predetermined period of time, that money will not be taxed until after it is time to withdraw it.

Con: It’s out of your hands for while. The money you have in an annuity may not be 100% liquid for some time. As I mentioned earlier, these plans have great variety. For some plans it’s five years, and for others it’s ten. Many plans allow you to withdraw in case of an emergency. However, it can be difficult to withdraw if you need it before it is liquid for non-urgent reasons. It’s there until the clock ticks down. [1]

Pro: Avoid market losses. There are types of plans that are immune to market turmoil. Money in an annuity may have a set rate of return, so if the market experiences extreme volatility, your money is protected. This is an excellent answer to investors who are not looking for huge gains, but to safely grow their money over time.

Con: Not designed to experience market gains. The same element that protects you from market losses also prevents you from seeing great market returns. If you’re an investor that would want to see some of the fruits of a bear market, then you may be out of luck in an annuity. I have seen some amazing returns in an annuity, but the truth is that they aren’t typically aimed to capture these gains. Returns in one of these plans are consistent, but may be limited. [2]

Pro: Expect income you can never outlive. Many annuities are designed with the idea that after you become eligible to see your money, you can expect a steady income for the rest of your life, as well as your spouse’s. One of the key elements of retirement planning is prioritizing income for as long as you need it, and it is easy to do that with the income riders that come with these types of investments. These tools allow you to have pension like income you can never outlive.

Con: It’s a bit of a wait before you see any of it. While there are some annuities that allow you to access money day one, many are tailored so that you’ll receive more the

longer you wait. You need to be able to provide a large investment up front and be patient enough to not see the return back from it for a length of time. [1]

Annuities come in many shapes and sizes, and it's important to be able to pick one that best suits your needs. Many people have been offered these types of investments that don't enhance their retirement plan at all, and may have even harmed it, but annuities have also provided secure returns with safe money for others and it's important to explore and see what's right for you.

All written content is for informational purposes only. Opinions expressed herein are solely those of Cloud Financial and our editorial staff. Material presented is believed to be from reliable sources; however, we make no representations as to its accuracy or completeness. All information and ideas should be discussed in detail with your individual adviser prior to implementation.

Insurance products and services are offered through Cloud Financial, Inc. This content is for informational purposes only and should not be used to make any financial decisions.

References

[1] <https://www.fidelity.com/annuities/what-are-annuities>

[2] <https://www.annuity.org/annuities/>