Why Fixed Annuities Get A Bad Rap

Fixed Annuities Features That Don't Make The Headlines

By: Jeff Affronti

Annuities are far too often referenced as having long term and high surrender charges, fees, large commissions and being low on liquidity. This is a terribly unfair and broad overview. Often the references are not even based on fixed annuities or the authors will heavily mix variable annuities and fixed annuities together without distinguishing the differences. It causes some risk adverse clients who would truly benefit from the insurance to have a negative opinion when hearing of annuities. I have even seen this mindset from advisors, especially in the CPA world by simply telling clients annuities are bad for the same reasons as above or no reason at all.

Every situation is different, however not looking at a fixed annuity when it may very well be the best for the situation just because "annuities are bad or problematic" is not giving full fiduciary responsibility in my opinion. The fixed annuity option should be given so the risk adverse client has another place to consider for safe guaranteed accumulation or income.

So, why the bad reputation? The guarantees on a fixed annuity can offer protection of 100% of premium, ROP. Even in the "worst case", highest surrender annuities, the premium is 80% or more guaranteed from day 1. It is not like any owner could lose 100% of their premium as in certain investments based on product performance. The thing is, over my 18 plus years in the fixed annuity business, most headlines I see about annuities are trying to show them in a bad light or are just so misguided they miss any of the positive benefits the annuities offered.

So what can be done? The insurance industry itself has not tried enough to right this wrong. I have suggested to many top representatives of the top carriers to start telling the fixed annuity story from the side of the millions of satisfied and repeat clients. I have asked them to publish the fixed returns clients have received over the the decades; how the values continue to grow and never go backwards. I would love to see in The Wall Street Journal, just once, the top carriers compare the number of failed insurance companies fixed annuity policies and the dollars lost to bank failures and investment company failures. I want them to show what a client would have as a return over the last 30 years by just buying the highest yielding MYGA (multi-year guaranteed annuities). Then have them compare that to all other bank and investment products in the same risk category. I would like to see this comparison add the fees paid on those other products as an additional yield to the return on the MYGA which have never had fees. Yet, this has not and is not happening! Why are the top insurance companies all so scared to tell this story? I do not know! I cannot get a good answer to this or why fixed annuities are treated so poorly by the financial world after taking care of so many of the risk adverse clients for so long, I am calling on the insurance companies like NY Life, Voya Financial, The Standard, Lincoln Financial and Genworth Financial to get the word out about how great traditional fixed annuities have been for so many people.

Dispelling some top negative myths of the fixed annuity:

1. **Myth:** Annuities have long and very high surrender charges: **Fact:** Some do have 15 or more year surrender charges others have no surrender charges. Currently a client can get a 3 year rate of 2.00% guaranteed on matching 3 year surrender charge. Personally, as an agent I see no reason to go for a 15 year surrender charge in this historically low rate environment. The longer the surrender period the higher the starting surrender percentage will be. Most surrender charges decline each year and have no charges at the end of the term.
2. **Myth:** Annuities pay large commissions: **Fact:** Most annuity commissions are paid one time at issue. Fixed annuities with no commission are available and are mostly used by fee based advisors. A competitive 5 year MYGA may have as much as a 2.50% commission. In simple terms that comes to 0.50% per year. Longer 10 year surrender fixed index annuities (FIAs) can get as high as 8.50% or 0.85% per year. These commission are built in to the product pricing before rates are set and are often less than fees paid on investment products. If a product has a 1.00% fee that is 5.00% over 5 years or double the annuity commission.
3. **Myth:** Annuities have little liquidity: **Fact:** Most annuities will allow at least interest withdrawals and many other have a 10% annual free withdrawal provision. I do know of products that allow 15% annual free withdrawals. Pretty liquid for a retirement product.

I am going to keep telling the story of the SAFE and GUARANTEED options available in fixed annuities as a positive option for the risk adverse client and their retirement savings.

Jeff Affronti
Marketing, illustrating, building fixed annuities since 1995.