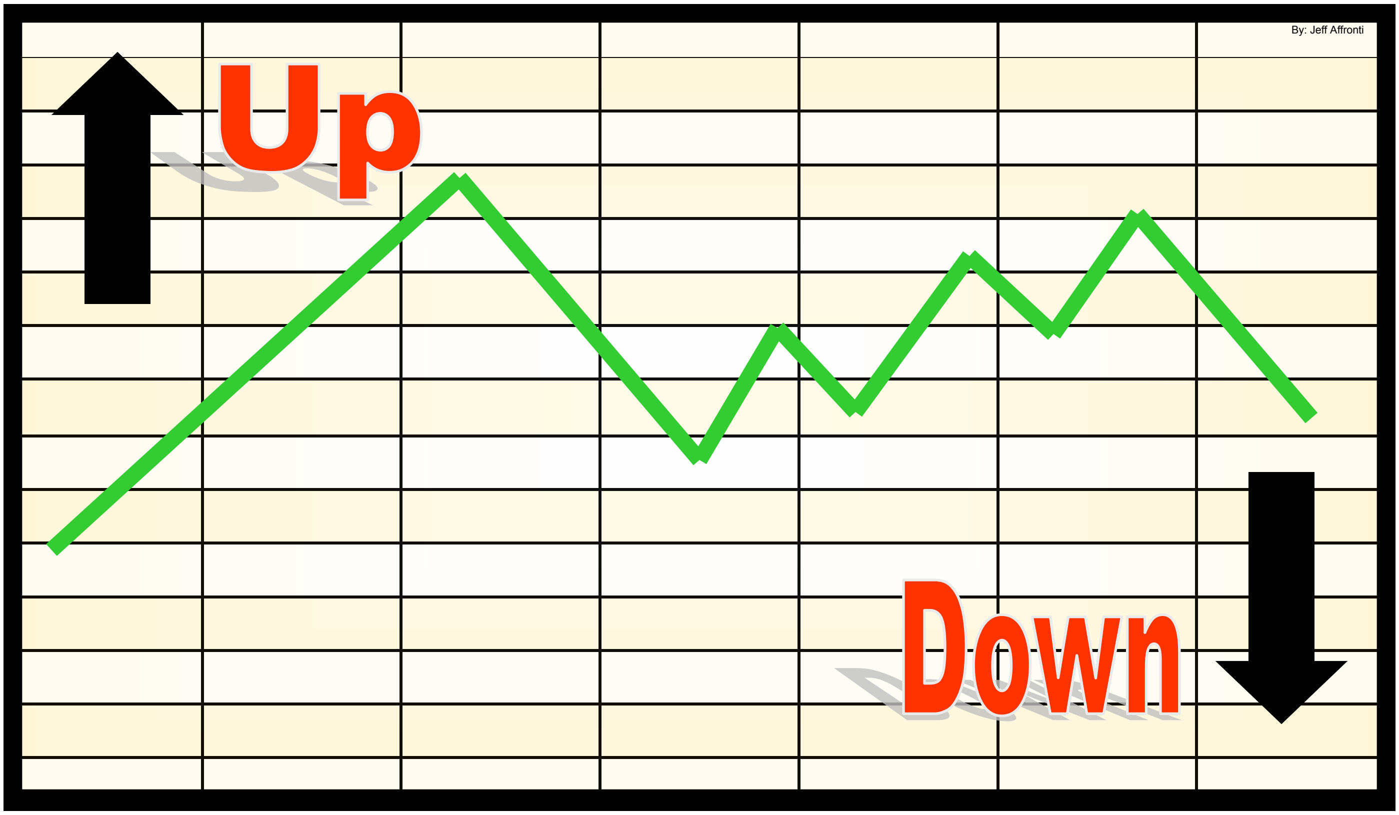

By: Jeff Affronti—August 25, 2015

Ups & Downs Come & Go & The Fixed Annuity Owners May Never Even Know!

The market volatility over the last week is a great example of why risk averse retirees find fixed annuities appealing. A fixed annuity for a worry free financial future may not be as exiting or offer as much potential as more risky options; however, not needing to worry if the market will recover or drop to a new low maybe worth its weight in potential. Global factors that cannot be predicted could have a substantial impact on the US economy and markets. The risk averse client is looking to mitigate these risks while still having a competitive rate of return. Below are three types of fixed annuities and how they can protect a nest egg from market ups and downs.

Fixed Indexed Annuities (FIA) can be great insurance products for clients who want a shot at aggressive returns without downside risk of premium. The FIA has crediting methods that can lock-in gains each year. Once the gains are locked, the market index is reset. Large corrections can be an advantage to FIA owners that have a crediting method that reset annually. The bigger the market correction the more likely the FIA will hit its cap/potential in future years. Basically, in a down year the FIA owner will hope for a major drop, as zero is the floor, a 40% correction can be a good thing for the FIA owner.

Multi Year Guarantee Annuity (MYGA) is great because it goes up and compounds every year guaranteed. Coupled with the fact that MYGAs never give back gains a retirees savings will grow to a level that can be predicted to the penny!

Single Premium Immediate Annuity (SPIA) is the insurance product built to provide lifetime income. A guaranteed payment for the client set at issue that will not reduce. A retiree managing their own retirement income may have to reevaluate the distribution percentage they take if the market has a huge correction. A retiree who suffers a 10% or greater loss of their nest egg in the first year of retirement may have some grave choices to make. I have seen these situations first hand. The client may have enough today to guarantee the income they need using a SPIA. In a year from now they may not! If a client is taking 6.00% off a $1,000,000 nest egg and they also suffer a 10% loss they would only have 84% of that nest egg left after just one year. To get that same income in year two they would need to take more than 7.00% of the nest egg. The SPIA will protect against a lose of principal while potentially saving stress and a hasty reorganization of assets.

Owners of fixed annuities may not even realize when the market has big drops for multiple days. They know that they are protected! This is time that they are glad that they made the decision to place their nest egg in a guaranteed insurance product.

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