The Ideal "Safe Haven" for Retirees

FIAs Pay Interest Tied to Stocks Without The Risk

by Thomas K. Brueckner, CLTC

Ask most retirees how they feel about the recovery in the stock market these days, and be prepared for an earful.

With the S&P 500 having finally reacquired valuations not seen since March of 2000, many retirees have had little to celebrate for most of the last 13 years. From October 9th, 2007 through March 9th of 2009, the index had lost 57% of its value, the most precipitous decline since the crash of 1929.

Of the 5 major brokerage firms on Wall Street in 2007, 3 are long gone. Nationally, median home prices are still down nearly 20% after the largest one-year decline in 35 years, and we clearly remain in the throes of what even Warren Buffett predicts will be a "long and deep" economic recovery.

In an attempt to fund bailouts, stimulus packages, and an expanding budget, the Treasury and the Federal Reserve have now *tripled* the U.S. currency supply, and the Obama administration is sitting atop a 2013 budget deficit of $1.2 *trillion* dollars, *nearly four times the record 2008 deficits* we reached under his predecessor. Our national debt stands at over $16.5 *trillion and growing*, even as many European nations are retreating from the same profligate spending that now threatens their common currency. All told, retirees still have plenty of reasons for caution if not alarm.

Yield With Safety

In spite of these concerns, many over-55 investors are no longer deterred. A savings vehicle first introduced nearly 20 years ago, has produced some truly astounding returns since then, *without any market risk whatsoever*. These products are known as Fixed Index or "Hybrid" Annuities, and they have taken in over $400 *billion* since their introduction, most of it rescued from volatile equities by older investors who can no longer afford the risk that today's turbulent markets pose.

FIAs are a tax-deferred savings vehicle, which pays market-linked *interest*—not dividends or capital gains—interest that, once credited, cannot be lost to a retreating market. In a year when stocks are up, the FIA owner is credited interest proportional to those advances. If that same index (S&P 500, Nasdaq, DJIA, etc.) declines the following year, your original principal, *plus all prior year's gains*, are retained and cannot be lost to that decline. It's a "Heads-you–win, Tails-you-never-lose" design whose popularity has grown tremendously in recent years, breaking previous sales records with every passing quarter. Consider that ten years ago, there were 17 companies offering FIAs nationally. In 2006, there were 37 such firms, and today there are nearly 70 such insurers, many of them household names, offering a total of over 470 different products throughout the country.

While FIAs are not designed to out-perform an extended bull market, the last decade was so volatile—*two* +50% declines in 10 years—that it hasn't been hard for even a mediocre product to appear stellar by comparison. Among our own branch offices, our clients have experienced contract-year yields in the 5 to 9% range during advancing markets—as well as the occasional 10 to 18% gain—while holding those credits during even the worst bear markets without a loss. Our favorite products are no-load, no-fee (fully 100% of your money goes to work for you right away), are offered through highly-rated, century old insurance companies (with State-mandated capital reserve requirements), and offer at least 5 - 7 different market indices from which to earn market-linked interest each year. Having an advisor with both an annuity and an equities/market background is also a plus, as annual reallocation meetings are recommended to help you take advantage of the opportunities offered by a changing economy and surging indices.

A Stellar Record

What about consumer satisfaction? Surely clients have found *something* to complain about in the eighteen years that FIAs have been available. Last year, the website of the *National Association of Insurance Commissioners* (NAIC), the 50 state regulators whose staffs oversee and approve FIAs for sale, reported only 1 consumer complaint for every $121 *million* placed into FIAs, about one complaint for every 2,225 sales, *or a complaint percentage of less than* $5/100^{ths}$ *of 1%.*

A Word to the Wise

Don't expect to be introduced to FIAs by your stock broker or mutual fund representative: Chances are their broker/dealer discourages them from offering you an FIA because such firms prefer to charge management fees on at-risk assets. There is an enormous conflict-of-interest being exposed today—between an aging retiree population (for whom excessive risk is inadvisable) and self-interested brokerage firms with an eye on trail commissions—that has caught the ire of both regulators and class-action law firms. The latter are seeking redress on behalf of retirees whose broker kept too much of their money at risk for too long—in spite of the existence of safe-money alternatives like FIAs—amid the worst markets of the last 80 years. Sadly, many a talented and knowledgeable broker has been held hostage to an employer firm that forbade him from offering more age-appropriate products to his/her aging retirees.

Sell Amid A Rally

Perhaps you've been told you're still a "long-term" investor at the age of 73. Perhaps your broker has beguiled you with the pretense that "you haven't lost money if you haven't sold…" *Really*? One could surmise that the former stockholders of Enron, WorldCom, and Lehman Brothers would dispute such nonsense: Even if they still own the same number of shares, they're worth far less now that those firms are insolvent. And when was the last time you met with that same broker after a bull-market *gain*, only to have him dismiss your praise as undeserved since "you haven't really *made* money until we sell…"?

Bonus Anyone?

Finally, for the undecided, the wishful thinkers, and the verklempt, FIAs offer another benefit. One way of getting back some of what you've lost in the markets, is with an up-front premium bonus—of 5-10%—payable at contract inception, provided you sign up for a longer term.

Impressive yield potential, tax advantages, modest annual liquidity, premium bonuses, lots of happy consumers, an end to management fees, *and all gains retained* during the most volatile decade in market history: No wonder retirees have left the stock market in droves.

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