

In Response to the “Savage Truth”!

Have you ever read an article on financial advice and walked away more confused? If you had read the article written by the well respected writer, Terry Savage, that was printed in the Sun Times on April 14, 2011 you may have started scratching your head in wonderment. The title was “Considering an annuity? There’s always a catch”

In that article, Ms Savage was replying to a person age 53 with \$220,000 in an IRA earning 1.5% and doesn’t have a retirement plan at work. She asked for thoughts on placing money into a “balanced allocation annuity”. Ms Savage made some great points but probably left that person more confused and unsure. The information in that article didn’t paint a fair picture of annuities so that a good decision could be made.

First of all, a “balanced allocation annuity” could either be classified as an Indexed Annuity or a Variable Annuity. Both are tax-deferred vehicles that have the option to allocate your funds according to your risk tolerance. The article never explained the difference. Each of them has certain benefits, guarantees and potential downsides that you need to be aware of before you invest.

Ms Savage pointed out that surrender periods of annuities can be lengthy. To be fair, cd’s have surrender charges if you withdraw your money early. All annuities have surrender charges and they are different in length for each product. This doesn’t mean it is a bad thing.

Annual fees were also a point of contention and Ms Savage claims that the high fees in a balanced allocation annuity would prevent a person from matching market performance. This may not be true in all cases. There is risk involved in all investments and every investment vehicle produces a different result. Low fees are no indication of better results.

Ms Savage failed point out that these high fees and surrender charges may allow the annuity company to provide a death benefit guarantee of principal. Other investment vehicles like mutual funds do not offer this benefit. This could be important when the stock market heads south again. Isn’t it important to protect to your downside risk for you and your family?

The article intimates that a better alternative would be to move a portion of the IRA money into a stock mutual fund with a “no-load” company because it avoids commissions and Ms Savage states you will have a growth of principal. What’s wrong with that statement?

With any mutual fund investment, past performance is no guarantee of future results as returns are different with each individual mutual fund. Just because a fund is “no-load” doesn’t mean it will outperform a similar fund that pays commissions to a broker. Either

you invest the time to do the research yourself or you obtain the services of a financial professional with knowledge in that area.

Either way, fees have nothing to do with performance as you can gain or lose money either way. However, understanding the differences will help you to make the right choice for your situation.

The last point is, if there is a catch to an annuity product, why has Ms Savage purchased annuities herself? Interesting enough, Ms Savage, with the assistance of a respected annuity expert has researched and purchased annuities for her personal portfolio but seemed to only point out more negatives than positives in her article. Didn't she recommend to buy a financial product without commissions?

How can a trusted columnist paint such a skewed picture without presenting the positives? Scratch head! There are many factors in making financial decisions. Always seek the advice of a trusted advisor with experience that will give you all the facts to consider. Annuities don't have a "catch" but they do have provisions that need to be understood.

An annuity may be or may not be the right product for everyone. However, you should base your decisions on your situation, resources, risk tolerance and liquidity needs. With all articles you need to double check all the facts for pros and cons.