

# THE ARIZONA REPUBLIC

## Annuities: Should You Love Them or Not?

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The word “annuity” brings up all sorts of controversy, depending on whether one is tied to Wall Street or not. This article is the first in a series that will cover the annuity concept and hopes to bring factual research to this debate. Today’s article will concentrate on fixed annuities. Future articles will cover variable and indexed annuities. What is a fixed annuity? It’s simply a stream of payments for either a set period of years or for the rest of one’s life. One’s annuity earns interest and the principle does not vary with the fluctuations in the stock market. Normally, one is guaranteed to not lose principal.

Examples of the fixed annuity concept are: Social Security or old-fashioned defined benefit pension plans that government employees (such as teachers, police, firemen, and the military) receive upon retirement.

Who creates annuity products? Historically, it’s life insurance companies instead of Wall Street. Life companies have the computer systems and mindset to deal with life expectancies and mortality across large pools of individuals.

How did annuities become known to the public? Most historians credit the existence of the old-fashioned “teacher’s annuity”. If we go back 50 years ago, IRA’s and 401(k)’s did not exist. Many school districts did not participate in Social Security. So, to avoid millions of destitute teachers upon retirement, the concept of an annuity product was created and guaranteed by life insurance companies. By law, every state regulates annuities and there’s a mandatory state guarantee fund (paid by each insurance company) to protect one’s annuity principal.

One was guaranteed to have a lifetime stream of income upon retirement, based on the total contributions by the school district, state, and the teacher. The teacher could defer wages into the annuity and it would compound on a tax-deferred basis. In effect, it had the tax attributes of an IRA or 401(k) before these tax concepts were created by Congress.

There’s no rational basis to say that annuities, which secured the retirement of millions of teachers, is a bad concept. Would society rather have teachers begging on the street? Today, one does not have to be a teacher or government employee in order to purchase a fixed annuity, either as an investment for a fixed period of years, or to supplement one’s retirement.

Who does not like fixed annuities?

- It’s mainly Wall Street, who wants the public to invest in stocks, bonds, and mutual funds. Most company IRA and 401(k) plans are controlled by firms tied to Wall Street and one can only invest in Wall Street securities. Rarely is an annuity offered in a company IRA or 401(k) plan, as it would take money away from Wall Street.

- Individual investors who like market risk and are not happy with the safe returns of fixed annuities (which typically pay bank CD rates or 1% more). These investors often have the personalities that enjoy gambling in Las Vegas.

Who loves fixed annuities?

- It’s the person who avoided losing 20-60% of his money during the stock market crashes of 2000-2002 or 2007-2009.

- It’s the retired corporate employee who is glad an insurance company guaranteed his company pension plan for his retirement, unlike companies



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such as Enron, where the employees wound up with virtually no retirement funds upon its bankruptcy.

Conclusion: Given the drastic fluctuations in the stock & bond markets over the last 9 years, and the uncertain future economy, many Americans are rethinking their risk vs. reward profile. Whether a fixed annuity is right for you often requires to expert analysis of an unbiased advisor. After the recent Wall Street meltdown, millions of investors have realized that they really do want a guaranteed stream of income for retirement, rather than an uncertain future. Notice how we no longer have a political push for a new Social Security System, where your retirement income is based on stock market fluctuations inside your investment account.

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