

Talk of the Town

The Truth About Annuities



James D. Stillman

Do you have an opinion about annuities? Do you know what an annuity actually is and what it does? Do you know when and why an annuity should be used? Are annuities good or bad? Questions, questions, questions! Well, here's an absolutely truthful answer to the "are annuities good or bad?" question. Are you ready? Here it comes. You better sit down. The answer to that question is a resounding "YES"! Yes, annuities are both good and bad. They have pros and cons. JUST LIKE ANY OTHER INVESTMENT OR SAVINGS VEHICLE. Sorry folks, but nothing is 100% perfect.

An annuity is simply a contract between you and an insurance company to provide guaranteed income. You can decide if that's good or bad. With Social Security in trouble, pensions quickly becoming a thing of the past, and market volatility - you be the judge if guaranteed income is good or bad for your specific situation. By the way, no insurance company has ever not met its contractual obligation to pay income to contract holders. That's a pretty impressive track record that can't be denied.

Folks, here's what really peeves me off and is a disservice to the public: people making blanket statements about annuities or any other investment or savings tool. That drives me nuts! Have you ever opened up the Charlotte Observer and seen a full page ad that states "I HATE ANNUITIES, AND YOU SHOULD TOO"? Well, those ads are done by a multi-billionaire who gets paid to invest your money in the stock market (and he's lost people's money plenty of times doing so, by the way). Does that mean that everyone should invest in the stock market? Of course not. Does that mean that all annuities are bad? Of course not. All investment vehicles and insurance products are simply tools. We must use the correct tool for the job, it's really that simple.

Can you imagine hiring a carpenter to add an addition to the house, and he shows up with only a hammer? Well guess what, if you only have a hammer, then everything looks like a nail! The carpenter needs a hammer, a saw, a tape measure, etc. An investment advisor needs stocks, bonds, mutual funds, CDs, savings accounts, life insurance, and annuities to effectively address the needs and goals of their clients. There's no such thing as "one size fits all" when it comes to financial planning, and no investment or strategy is right for everyone.

Annuities should primarily be used for INCOME PLANNING STRATEGIES. The simple fact is that annuities are the only investment tool that can provide guaranteed lifetime income. There are various types of annuities that can be chosen. I don't have the space to go over them in detail,

but here are the basic types of annuities and a few "key words" to think of for each type:

Immediate – Think pension. You give the insurance company a sum of money, and they guarantee a stream of income.

Fixed – Think CD. Rolls up at a certain "declared rate", and then provides income at a later date.

Variable – Think Mutual Fund. Invests in "sub-accounts" (mutual funds purchased through an insurance company), then provides variable or fixed income at a later date.

Fixed Indexed – Think a combination of a fixed & variable. An FIA links to an index like the S&P 500. If markets go up, then you can earn interest. If markets go down, then you earn zero. All interest earned is "locked in" each year, then income is provided at a later date.

Hybrid – Think living benefits (riders) added to your annuity. Income, death benefit, or long term care riders can be added for additional protection.

As you can see, annuities can provide a lot of very important benefits for retirees. But should everyone use them? No. Are they great for other folks? Yes. So, don't give me this blanket statement junk about whether annuities are good or bad, because it all depends on the situation and goals you're looking at.

As always, if anyone would like additional information, any of our free reports, or a free 1 hour consultation, then just give us a call at the office or shoot us an email. I've also just recently come out with my new book "Finding Safe Harbor in Retirement". If you'd like a free copy just let us know, and don't forget to listen to "The Safe Harbor Retirement Planning Show" each week on WSIC radio 1400AM and 100.7FM Wednesdays at 8:00am & Saturdays at 10:00am.

Until next month,

James D. Stillman

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