

ARE Annuities FOR ME?



financial fitness

By Erik Ford

If you have been invested over the last few months, the volatility you have experienced may have left you a little shell-shocked (not to mention the 2000 and 2008-'09 market periods). At the time of this writing, most of the COVID-19 driven sell-off has been recovered. However, we are

still experiencing higher than normal market volatility which is unsettling for the average investor trying to invest and plan for their retirement. An annuity may have a role in your portfolio and plan, or it may not, but knowing what it can do is worth understanding.

First, let's acknowledge that annuities have a bad reputation and justly earned. Traditionally, they carry very high fees and commissions. Past sales practices have been suspect. Annuities are also one of the most complicated financial products available to the average investor.

Understanding all the details of a contract can be a real challenge, even for a seasoned advisor. Annuities are not for every portfolio or every investor. In fact, they probably are only appropriate for a minority of investors. The approach we take is to define the need first that may be filled with an annuity or similar strategy rather than the other way around.

Because of their complexity, the rest of this article will generalize about annuities and focus on two key reasons to consider them and is not intended to do more than put it on readers' radar.

The first and easiest to understand is generating an income stream. This is the feature most people probably think of when they hear the word annuity, and in fact, that was the origin of the concept centuries ago. These payments may be for certain defined periods or for the recipient's life or joint lives. They may be fixed amounts or have triggers to change over time. Complexities aside, the role this feature provides is to create a pension-like payment stream for the annuity holder, providing a base level of income that cannot be outlived. The trade-off is giving up full or partial access and control to the investment funds involved. In certain situations, this trade-off is acceptable, even appealing,

because of the longevity and value protection it provides to a financial plan and portfolio.

The second purpose for which to consider an annuity is portfolio protection. Many variable, indexed or fixed annuities provide downside value protection in one form or another. In the case of variable annuities, it may be a trade-off with how you are able to access that value. This protection usually also has a significant rider charge attached to it. Given all that, it may provide a level of assurance for a portion of a portfolio that makes the trade-off acceptable. Index annuities and fixed annuities trade off downside protection, either limited or total, with upside limitations on many contracts. Again for those looking to limit portfolio risk, these trade-offs may be acceptable, even appealing. The choices available across contracts to achieve these goals increase every year and again are complicated, but for the right situation, they are an appropriate solution.

Annuities also provide tax-deferred gains similar to individual retirement accounts, which adds an additional benefit when used for taxable investments. However, as the income and protection features have expanded over the last 10 to 15 years, more IRA funds have been invested through annuity contracts because other objectives superseded tax deferral.

It is impossible to do more than scratch the surface of annuities in a short article. For example, investment alternatives within contracts, types of fees in contracts, available death benefits and other features could all justify articles of their own. As the financial advisory world has moved away from commission-based accounts, annuities are adapting by offering non-commission contracts designed for fee-based accounts and advisory relationships.

So while briefly (and I mean briefly) touching on why you might consider an annuity as part of your overall financial plan, I cannot emphasize enough that you look to define your need before looking for the solution and strive to fully understand any annuity contract you may be considering, how it works and what it costs, before deciding to go forward. They are not for everyone, but in the right situation, they can provide the financial and psychological benefits of protecting assets and income during a time when uncertainty is unusually high.

Investing involves risk. Depending on the types of investments, there may be varying degrees of risk. Investors should be prepared to bear loss, including total loss of principal.

Erik Ford is the owner of Ford Wealth Management LLC in Glen Ellyn, IL. He is a CFP® certificate holder as well as an Accredited Investment Fiduciary®.

Registered Representative. Securities offered through Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC.

Investment Advisor Representative Cambridge Investment Research Advisors, Inc., A Registered Investment Advisor. Cambridge and Ford Wealth Management are not affiliated.

Cambridge and Ford Wealth Management do not offer tax advice.

Independence
Integrity
Insight





Ford

Wealth Management LLC

Erik G. Ford, CFP®, AIF®

Financial Advisor



800 Roosevelt Road
Building B, Suite 413
Glen Ellyn, IL 60137

fordwealthmanagement.com
Office 630.545.2800
Mobile 312.804.9464
erik@fordwealthmanagement.com

Registered Representative. Securities offered through Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC. Investment Advisor Representative Cambridge Investment Research Advisors, Inc., A Registered Investment Advisor. Cambridge and Ford Wealth Management are not affiliated.

Rhea Lana's of West Chicago and

A CHILDREN'S CONSIGNMENT SALE
AUGUST 16-21



Upscale Resale

Find name brand children's clothes, shoes, baby gear, toys, and much more at 60-90% off retail prices.

2 Yorktown Center - Lombard
Outside the Yorktown Mall
Near McDonald's

christine@rhealana.com | 630-728-5255

WANT TO SHOP EARLY?

SHOW THIS AD
SAT., AUGUST 15
AT 7PM
YOU MAY BRING ONE FRIEND

wchicagoand.rhealana.com

LH LUKINS HOME NETWORK | d'aprile properties®



INVESTING IN YOU

Chris Lukins
Nina D. Fischel
Michele Evangelista
Tiffany Scherer

www.lukinshomenetwork.com
chris@lukinshomenetwork.com // (630) 956-4646

