

# FINDING COMPETITIVE RETURNS AND PROTECTION OF PRINCIPAL: HARDER THAN EVER, BUT IT CAN BE DONE

## Investing in Today's Economy



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It's an age-old question: where can you invest your hard-earned money that brings safety as well as competitive returns? Considering today's volatility in the stock and bond markets, the uncertainty of our economy, gridlock in Washington, and the fact that interest rates from banks are near all-time lows, you may be wondering if there is still any such place.

Fortunately, there is.

If your investment objectives include safety and competitive returns, or even tax-advantages and income, then annuities are well worth considering.

An annuity is a contract that makes payments to you at regular intervals based on specific contract terms. Here's how it usually works. With an annuity, an individual pays a single premium to an "issuer" (usually a life insurance or financial service company). The issuer then agrees to distribute the money back to the individual at an agreed-upon date, plus whatever earnings it has acquired. The main reason to buy an annuity contract is because it provides a regular stream of income, which most people use to help fund their retirement. Another benefit to annuities is that they are tax-deferred. In other words, you do not have to pay taxes on your money while it is growing inside the annuity – only when you start receiving payments from it.

Annuities can also be held within an IRA or Roth IRA (qualified accounts). Annuities bring no tax advantages in these situations, since IRA and Roth IRA accounts are already tax-deferred, but you still have the other advantages annuities provide, such as the guaranteed stream of income mentioned earlier.

Annuities come in several different varieties and are offered in many different places, giving you the freedom to choose the type that's best for you. Annuity contracts are generally available from life insurance and other financial services companies, and you can select from different types of annuities based on your specific goals.

Here is a brief summary of the various annuities available:

### **Traditional Fixed Annuity/ Multi-year Rate Annuity (MYGA)**

This is a simple tax-deferred annuity contract (policy) between you and the insurance company with a stated interest rate and guaranteed renewal rates. Again, you don't pay taxes on the earnings until you make a withdrawal or begin receiving income. Your annuity contract earns a competitive return that is very safe. In the case of MYGA annuities, the interest rate you receive is guaranteed for a set number of years (3, 5, 7, etc.) Upon maturity, you also have the option to renew your annuity if you desire. In such instances, you are guaranteed a minimum interest rate. Annuity owners can also decide whether to take withdrawals or a guaranteed life-time income that will last no matter how long you live.

### **Immediate Annuity/ Income Annuity**

A Single Premium Immediate Annuity, or Income Annuity, is also a contract between you and an insurance company. By paying a lump sum of money to the insurer, you are guaranteed to receive a series of payments over a period of time. The amount of the payment you receive is determined by both the current interest rate at the time your contract is issued and by choices you select from a wide variety of payment options. Once your contract is issued, your payments are fully guaranteed for the period of time you have chosen.

### **Fixed-Indexed Annuity**

In the mid 90's a new type of fixed annuity became available that has become very popular with many annuity owners. Fixed-Indexed Annuities use major market indexes as a gauge to determine the interest rate earned in the annuity. Since money is not actually invested in the index (market), you cannot lose your principal even if the index decreases in value. When the index goes up, interest is earned and credited to your account; when the index goes down, there is no loss in value and the crediting starting point resets for the next term. An additional benefit available with most Fixed-Indexed Annuities is the availability of income riders that pay an income for the rest of your (and/or your spouse's) life even if you outlive your principle – the original amount of money you invested. Some companies offer income riders that lock in a higher income level each time there is an increase in the index, which may help keep pace with future inflation. Fixed-Indexed Annuities can be an excellent alternative savings vehicle, a good choice for people who are planning to retire, or are already retired.

### **Long-Term Care Annuities**

Most people are genuinely concerned about the possibility of needing long-term care, so it's logical that a sound financial plan should include a method for covering the costs of it. This type of annuity is simply a traditional tax-deferred annuity with additional long-term care benefits that combines the protection of a fixed annuity and the need for long-term health care. In this type of annuity, the insurance company leverages the assets put into the annuity to create a larger pool of benefit dollars available for long-term care expenses should the need arise. With a Long-Term Care Annuity, payments for long-term care expenses are tax-free, ultimately allowing you to keep more of your own money instead of paying it in taxes.

## **Conclusion**

Annuities aren't always right for everyone, but they do offer many options and benefits for retirees and those preparing for retirement. Many people have found annuities to be an effective tool that helps provide the income, safety, and tax-advantages they need to fund their retirement lifestyle.

If you would like to know more about annuities and whether they are right for you, please feel free to contact me. I'd be happy to speak with you.

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