

Question: An advisor is recommending I invest \$100,000 in a variable annuity. Is this a good idea?

Answer: If the advisor has carefully and thoroughly reviewed your situation and has recommended a variable annuity for a small part of your overall money, it could be a good strategy for you. If the advisor hasn't spent a lot of time with you and has recommended nothing other than a variable annuity, the advisor hasn't done his/her homework and is probably out to make a quick buck.

First, let's explain what an annuity is. An annuity is a form of contract sold by life insurance companies that guarantees (guarantees are subject to the claims paying ability of the issuing company) a fixed or variable payment to the annuitant at some future time, usually retirement.

In a *fixed* annuity the amount of interest you earn is changed, usually annually, and is often slighter higher than a bank CD. In a *variable* annuity, the amount you earn will fluctuate based upon the market value of the stock and bond sub-accounts (mutual-fund like investments) you invest in. And the amount of the payout you receive will vary with the value of the account fluctuation.

Key considerations when buying an annuity are the financial soundness of the insurance company, the return it has paid on the annuities in the past, the annual cost, the amount of any surrender charges you would have to pay should you change your mind, and the level of fees and commissions paid to annuity salesman. The length of any surrender charge period is usually commensurate with the size of the commission earned. The higher the commission, the longer the surrender charge period.

Bill's Bottom-line: If a salesman claims that the ONLY solution to your financial problems is an annuity – run for the hills and find a new advisor.



Bill Losey, CFP®, CSA, "America's Retirement Strategist", has nearly 20 years experience in the financial planning industry and has been interviewed on the CBS Radio Network, CNNfn, FOX's "Hannity & Colmes", and Bloomberg Business Radio. Bill publishes *Retirement Intelligence*, a free weekly e-newsletter that reaches over 3,500 subscribers worldwide. He operates Bill Losey Retirement Solutions, LLC, an independent registered investment advisory firm and can be reached online at www.MyRetirementSuccess.com or by calling 1-866-786-2521.