

Six annuity misconceptions you need to know

Written by By Al Martinez Guest Columnist
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Annuities often come up as a topic of discussion when considering retirement savings. Yet, misconceptions abound, possibly causing unnecessary hesitation for potential investors. Here's a deeper dive into the most common misconceptions surrounding annuities:

1. High costs associated with annuities: Not all annuities are expensive. While it's true that variable annuities (securities-based annuities sold by security licensed professionals) may often come with higher annual fees between 3% and 5%—which includes various charges like management and insurance—the landscape of annuities is vast. Other types, such as fixed-indexed annuities, have lower costs. Choosing a plan that fits your needs is essential, and ensuring you're not overspending on features that aren't necessary for your financial goals.

2. Potential for monetary loss: The myth that all annuities put your savings at risk is widespread. This belief primarily arises due to the nature of variable annuities, which indeed fluctuate with market movements. However, other annuity types, like fixed or immediate annuities, are designed to protect against market volatility. It's crucial to understand the difference.

3. Inaccessibility to your money: Historically, once you invested in an annuity, accessing that money was challenging. This belief comes from older annuitized contracts. Modern annuities, though, offer more flexibility.

For instance, the Single Premium Immediate Annuity does turn your lump sum into an immediate income stream. Still, many current insurance providers' offerings balance guaranteed

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income with more accessible options.

4. Emergency funds are locked away: A common worry is the inability to access funds during emergencies. It's essential to understand that annuities are long-term investments. However, most fixed and fixed-indexed annuities permit up to 10% withdrawal annually without penalties. Some even provide greater access to long-term care requirements, ensuring you're covered during unforeseen events.

5. Death means loss for beneficiaries: There's a prevalent misconception that if an annuity owner passes away prematurely, the insurance company pockets the money, leaving beneficiaries with nothing. While this is a setup for some immediate annuities, most modern annuities ensure the remaining value is passed onto the heirs, safeguarding your family's financial future.

6. Complexity of annuities: Annuities may initially appear intimidating due to their perceived complexity. However, once you boil it down, their core purpose is simple: they shield against market downturns, ensure a steady income stream, offer long-term care options, and help establish a legacy. It's like driving a car—you don't need to be a mechanic to use it, but it's essential to grasp its basic functionalities.

Annuities are versatile financial tools designed to cater to various needs. Their main attraction is the security they bring to one's retirement strategy. As with all financial products, conducting thorough research and consulting with experienced, trusted professionals is imperative. Doing so helps make the most of annuities, ensuring a comfortable and secure retirement.

Al Martinez is a member of *Syndicated Columnists*, a national organization committed to a fully transparent approach to money management.

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