

# USING ANNUITIES TO OFFER PROTECTION WHEN MARKETS GO DOWN



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## **When the stock market is in flux, the fear of losing your hard-earned savings is real. Annuities can help you protect your money. It's called downside protection.**

An annuity is a crucial part of a retirement portfolio. There are all types of annuities based on your needs, including ones that are popular for providing protected retirement income. You buy an annuity from an insurance company and get payouts for a set number of years or for your lifetime.

But certain annuities are designed to help you protect your assets by limiting or avoiding losses. So when the stock market drops, you can be more comfortable knowing you are protecting your assets.

"With the ramifications of the coronavirus, people, especially those near retirement, are more concerned about making sure they don't lose what they've accumulated; that puts more focus on the asset protection side," says Michael R. Harris, a senior educational advisor with the Alliance for Lifetime Income who holds CFP, CLU and CHFC designations. "If I can make a little money, that's fine, as long as I don't lose any."

Say you're in your mid-50s. You know that in the future when you retire, you'll get Social Security retirement benefits, maybe a small monthly pension, and you've built up a nice pot of savings. With an annuity, you can protect your savings—and earn something.

Annuities come in different flavors, with many different features, including varying levels of downside protection. Here's what to look for if you're seeking to shield your nest egg.

## **IF YOU DON'T NEED SIZZLE, JUST DOWNSIDE PROTECTION**

With a fixed annuity, you put in money for a certain amount of time and get a set interest rate. You get the fixed interest rate for the term of the contract, the number of years you pick as the length of the annuity. The insurance company guarantees your full principal. That's ensuring downside protection.

At the end of the term, say five years, you get your money back plus interest. You can end the contract, renew it, or buy a new annuity. "There's not a lot of sizzle to buying a fixed annuity," Harris says. That's just fine for some folks. These are the most conservative types of annuities.

Is there a way to protect your money but get a better upside potential? That's where indexed annuities come into play.

is negative, you don't lose the principal investment you put in, but you may get no earnings, depending which options you choose in the contract. The earnings potential is spelled out in the contract. Usually there is some limitation in the earnings that the annuity permits, which is based on a cap or participation rate.

Does this mean a fixed annuity is better? After all, the fixed annuity promises a fixed interest rate. That's right, but remember there the upside is limited to that fixed rate. Instead, with an indexed annuity, you have the opportunity to make more than in a fixed annuity. "The indexed annuity consumer has a spark of optimism. 'I can still make something, but I'm not willing to lose money.'"

If you're bullish or optimistic that the stock market will go up, but still want protection in case it goes down, an indexed annuity might make more sense. If you're nervous and less optimistic, you might not want to be linked to an index, so a fixed annuity might be more appropriate.

Some people elect to buy both types of annuities, a fixed annuity and an indexed annuity, to complement each other. Another approach is to buy an indexed annuity that lets you put money in different buckets in the same contract. In each bucket, you decide where you park your money and for how long. One of those buckets can be fixed. So you could have one contract, with money in one bucket getting a fixed rate of interest, and money in another bucket with earnings tied to an index. That way you know you're going to at least earn something.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company.

Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½.

Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.