

Are Delayed Annuities a Good Buy?

Steven Podnos 9:29 a.m. EDT April 19, 2016



I'll make you read down some for the answer. But first, understand that we are talking about delayed annuities here, not immediate annuities. The latter is a contract directly between you and the insurance company, with an agreement to pay you (usually) an income for life.

In contrast, delayed annuities involve you giving an insurance company money now and then having it (hopefully) grow either with fixed interest (like a CD) or with exposure to mutual funds. This process is tax deferred and asset protected in most states.

When you take the funds out, any growth is taxed as ordinary income. Special "riders" can be added to these annuities to guarantee an income (usually 10 years or more in the future) and/or to guarantee a death benefit. These riders are usually quite expensive and add 1-3 percent a year to what are already high costs.

If you buy one of these annuities from anyone other directly from a no-load brokerage such as Vanguard or Fidelity Investments, you are likely paying a giant commission to the nice broker showing you the policy.

So, are they good investments? No way. If they don't have the riders guaranteeing income later on, they are just a very expensive form of an IRA (individual retirement account). As any gains inside the annuity are eventually taxed as ordinary income rather than capital gains (how they would be taxed outside an annuity), the benefit of tax deferral is markedly eroded. If you are paying high commissions and internal fees (as you probably are), you don't have a chance to succeed. If they do have the riders, then they are a reasonable "pension" equivalent. Ignore the sales pitch of bonuses and high returns-by the time you figure in the internal high costs and the loss of the use of your money for many years up front, you are getting at best a low single digit return over many years.

At least it is a positive return.

Again, outside of delayed annuities without sales charges (think Vanguard, Fidelity ,etc.) no one would ever buy these if they understood them.

I'll close with the warning about having annuities inside an IRA.

The major benefits of annuities (as noted above) are tax deferral and asset protection.

Guess what, IRAs offer exactly the same benefits without having to pay the unreasonable commissions and other fees. If someone wants to put your IRA funds into an annuity, run away.

Steven Podnos MD CFP is a fee-only planner in Brevard County. He can be reached at wealthcarellc.com or Steven@wealthcarellc.com.

Read or Share this story: <http://on.flatoday.com/1Sq8UBQ>