The Ukrainian National Association Forum

Insurance MATTERS...

by Irene Jarosewich

Fixed annuities: separating the wheat from the chaff

The concept behind an annuity is simple: you pay money in advance to receive money later in the form of a specific payment. With fixed annuities, the only type offered by the Ukrainian National Association, the money paid in advance grows through compound interest; taxes on this earned interest are deferred, so your money grows more quickly.

The principle of paying upfront to receive set payments later on is the basis for much retirement planning. For example, Social Security payments are a type of government annuity. During the years you work, you pay into the Social Security system. When you retire, in return, the federal government pays you a certain sum each year. Pension plans for most state and municipal government employees are government-managed annuities. Depending on the number of years worked and salary, a certain amount is then paid annually during retirement.

Traditional corporate pension plans (known as defined benefit plans) function like annuities, and people who own their business or are self-employed have always purchased annuities individually to fund their own retirement.

For many reasons, annuities have lately been receiving increased attention. People are living longer, most companies do not offer traditional pension plans, Social Security payments alone are not enough to live on and will probably decrease even more in the future. Baby boomers nearing retirement age look for ways to preserve their money, people dissatisfied with the swings of the stock market look for security, and changes in the way we are choosing to live in retirement all fuel the current interest in annuities.

With the increased attention comes increased information – much of it good, some of it bad. Sorting through the information can be tedious, so today we offer some perspective on fixed annuities to help sort the wheat from the chaff.

• Fixed annuities are expensive

Compared to what? Compared to losing retirement savings in the stock market? Compared to keeping your money in CDs, where you earn less interest and still pay taxes? Risk also is expensive, especially when you are older. With a fixed annuity, the insurance company or fraternal, such as the UNA, carries the burden of risk so that you have peace of mind.

As for management fees, not all annuities are equal. UNA annuities offer high interest during the first year, low entrance amounts, and no annual maintenance fees. Because they can be bought for terms of three, five, seven and nine years, UNA annuities are very flexible. As a fraternal that serves its members, the UNA offers terms that are much better than the terms offered by many other insurance companies.

• Why pay for someone else to do it when you can do it yourself?

The argument goes something like this: "Insurance providers that offer fixed annuities usually invest your money in U.S. Treasury notes, bills and bonds and you could do the same thing yourself."

When reading such advice, I think to myself, "Silly me, of course, that's exactly what my widowed mother should be doing. She has all this free time now that she has been retired for 15 years. She should just go online and Google TreasuryDirect.gov on her little iPad, tap in her account number and when she needs some cash, just sell some of her T-bills. Gosh. Why didn't I think of that? Yesiree. That's a really good idea. Next time I call Mama, I'll be sure to tell her."

Exasperation aside, advice that claims that widowed retirees can buy and sell T-bills on their own when they need cash in their retirement and thereby save some money in fees is rooted either in ignorance or in arrogance, or in both. Those who provide such advice could not have had any experience with the real vulnerability felt by many elderly who feel relief knowing they will receive a secure income from a secure company they trust, such as the UNA.

• Fixed annuities miss gains in the stock market.

Hmm… well … tell that to the folks who entered retirement in 2008.

Fixed annuities grow through tax-deferred compound interest. There may not be stupendous gains, but also no stupendous losses. Most importantly, with fixed annuities, there is no loss of initial capital. Furthermore, purchasing an annuity early in life and benefitting from decades of compound interest may not be rapid or awesome growth, but it is guaranteed growth. In the race between the tortoise and the hare, annuities are the tortoise.

Besides, the main purpose of fixed annuities is not gain, but guarantees – a guarantee that your money is secure, that it will grow, even if slowly, that you will not pay taxes on your gains until you take out your money, and most importantly, that you will actually receive your money. All retirement plans should include some investments that outpace inflation, but not at the expense of discarding the safety of an annuity.

• What if I run out of money before I die?

Outliving retirement funds is a scary prospect for anyone, regardless of whether the funds are in an annuity, an IRA or some other form of retirement savings. However, there are numerous ways to receive annuity payments. One option is to receive all your money within a limited period, such as, for example, within 20 years, or the more broad "Life Only" option, which you cannot outlive. With the "Life Only" option, the insurance provider structures payments so that you have the option of receiving payments until you die. Accounting for appropriate life expectancy, including personal family history of longevity, is important for proper retirement planning.

• The insurance company that holds your fixed annuity could go bankrupt.

Not likely. More likely is bankruptcy by a bank (after all, that is where the word bankruptcy comes from), the stock market could tumble and the real estate market collapse. Of all the risks out there for your money, an insurance company going bankrupt is among the lowest. Insurance firms, which include mutual companies and fraternal associations such as the UNA, are heavily monitored and regulated. Choosing an insurance firm wisely is important, and although annuities are not insured by the federal government, most states have insurance funds that guarantee annuities for up to $100,000. UNA annuities are guaranteed by the UNA itself since, by law, the UNA must set aside a reserve on all annuity business.

With more than a century of service as a fraternal benefit society, the UNA continues to live by its motto – The UNA and the Community: Partners for Life. To find out more about how UNA products can help you, contact the UNA Home Office at 1-800-253-9862, the UNA sales staff directly at 1-888-538-2833 or find your local UNA branch secretary through the UNA website at www.ukrainiannationalassociation.org. Find the full series of "Insurance Matters" articles on Facebook.com/Ukrainian National Association or on the UNA website under the "Latest News" link.