Index Annuities Are Bonds… Plus More

Bonds: The Traditional ‘Safe Money’ Choice

Bonds are traditionally used as a safe, fixed rate asset in an investment portfolio.

As retirement approaches, conventional wisdom is to shift to a greater concentration of bonds to decrease risk.

Many people end up in bond funds that further diversify risk and return by actively trading multiple classes of bonds.

But do you fully understand the risk in a low-rate environment?

The truth is, if interest rates rise, bonds lose value. The bond can perform perfectly well and you can still lose a bundle.

Now, it’s true that you can wait to term and get your yield, but a bond that is ‘underwater’ is completely illiquid because you WILL lose money if you sell and reposition your money.

And bond funds rarely hold individual bonds to maturity, so the risk of loss is even greater, because the fund manager might prune holdings and leave you with losses.

I don’t at all mean to be misleading. Bonds and bond funds can be a very useful way to protect assets while receiving income in the form of interest or coupon payments.

But is it the safest place to be when we expect rates to rise?

There IS a solution

Yes, fixed index annuities provide conservative growth and asset protection to a greater degree than bonds in our current market.

I like to think of index annuities as **bonds plus more…**

….. Bonds plus more safety

….. Bonds plus more yield

….. Bonds plus more flexibility

Lets look at each of the ‘Pluses’ in more detail

Index Annuities Are Bonds… Plus More

Index annuities are bonds + safety

Insurance companies invest primarily in bonds, so the base asset behind the annuity contract is essentially the same as the bond you would buy….

…plus the reserves of the insurance company.

The insurance company itself issues you a guarantee and they bear the risk of bond devaluation based on changes in interest rates, which results in a guarantee of principal.

In sum, you get the Bond… Plus more safety, in a contract where you **cannot** lose money!

Therefore, Index Annuities Are Bonds Plus More Safety

Index annuities are bonds + yield

Insurance carriers that issue index annuities use your premium to buy bonds that yield interest income, and then use that interest income to buy options in a stock market index.

The market index options purchased by the insurance company are what drives the yield. If the market does well, the contract owner captures a portion of that market rise.

Most caps and participation rates suggest that the potential gains far outpace yields on bonds of similar duration. In recent years, renewals and actual contract statements bear this out (*Much depends on the crediting method selected, so your mileage may vary)

But in sum, you have more upside potential than by holding the bond itself…

Therefore, Index Annuities Are Bonds Plus More Yield

Index annuities are bonds + flexibility

Bonds are only a flexible investment if you can sell them. But the price you'll get could be higher or lower than what you paid depending on the rate environment at sale time. This could be good or very bad, but you won't know until it happens.

Now, if an unforeseen emergency forces you to sell, that crisis may come at a time when you'll be forced to take a loss. It's not really the kind of flexibility most people want in retirement.

Index annuities come with a free withdrawal clause that allows 10% or more of the account value to be taken without penalty. In addition, most contracts allow for full access to the funds in the case of major life emergencies including terminal illness, long-term care and death.

Unlike bonds, you have flexibility and no risk of loss whatsoever when a loss would hurt the most.

Therefore, Index Annuities are Bonds Plus More Flexibility

Summary- Bonds… Plus More

In summary, please let me repeat that I believe bonds to be a suitable retirement vehicle for many people.

The problem is that in today's market environment bonds do not offer the overall benefits most retirees need for the safe side of a portfolio.

Index annuities are an option that provides more safety, higher yield potential, and the flexibility a person needs to make a retirement income strategy really work….

If you want more safety… more yield… more flexibility, then think Index Annuities instead of bonds.

Index Annuities Are Bonds…. Plus More!

All the best,

Nathaniel M. Pulsifer and Bryan J Anderson

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About Annuity Straight Talk:

Annuity Straight Talk is based in Northwest Montana and serves safety-conscious investors nationwide, with sensible and smart safe money solutions in tailored, one on one strategic plans.

We help our clients build financial solutions that avoid volatility and risk of loss, while leaving clients in control of their money. Learn more at AnnuityStraightTalk.com