



7 Reasons I'm Not Fond Of Annuities

Think seriously about the products you recommend and how much your clients understand them.

I ONCE TOLD OUR FIRM'S CLIENTS THAT THE ADVICE WE DON'T give them is sometimes just as important as the advice we do give. That was in response to someone who asked my opinion of a hybrid investment product that Wall Street was touting at the time. In our firm's newsletter, I explained that if we don't talk about certain investments, it doesn't mean that we aren't aware of them; it means we don't recommend them. And then I provided a list of 13 products and strategies that clients will not hear me recommend.

One of the items on that list might annoy some advisors:

It's annuities.

At Edelman Financial, my colleagues and I are simply not big fans of these products, which have morphed dramatically over the past couple of decades.

Helping clients establish retirement income that they won't outlive is a service that's much in demand at our firm—as I'm sure it is at yours. However, we cringe at these brand new wrappers called QLACs or longevity insurance.

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Yes, I realize that many financial advisors love to sell annuities to their clients. So many, in fact, that whenever I mention the topic or field a call from a listener during my radio show, I usually get a nasty phone call or e-mail from some advisor or wholesaler demanding that I explain my contrarian view.

So, OK. Here are seven problems I have with annuities:

1. Cost

Annuity products today tend to be far more expensive than alternative choices. Sure, there are low-cost variable annuity products available, but I don't think those are the products being touted at free-lunch seminars, nor are they attracting the majority of the assets that are flowing into the category.

An additional cost is taxation: Profits from these products don't enjoy capital gains rates or pass tax-free at death.

2. Income Is Not Inflation-Adjusted

A client might be content with the income he or she initially receives from an annuity, but let's see how happy that client is in 10 or 20 years—after inflation has taken its toll. I wonder how many advisors selling these products simply figure that they'll have quit the business by the time the client starts to express dissat-