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Volatile Markets Add Luster to Dull Choices

Nervous Investors Flock to Annuities, Other Insurance Products, But a Stable, Low-Growth Strategy Carries Its Own Risks

By M.P. MCQUEEN
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Market turmoil is prompting more people to buy stodgy insurance products like immediate fixed-income annuities and whole-life insurance in what can sometimes be a misguided flight to safety.

Insurance companies say sales of such products, which offer the security of guaranteed payouts, are accelerating in line with rising investor anxiety. At New York Life Insurance Co., sales of immediate fixed-income annuities rose an unusually strong 19% in August from a year earlier, the company says. MassMutual Financial Group also reports a pickup in sales in July and August. And companies say that sales of whole-life insurance, which offers predictable savings along with a death benefit, also have gotten a boost from recent market volatility.

OUT OF THE STORM

Some investors seeking security are buying insurance products with guaranteed payouts. Here's what to consider:

• Immediate fixed-income annuities can help smooth retirement with a regular monthly check for life.
• Some planners say a retirement portfolio should contain no more than 40% of immediate fixed annuities.
• Over the long term, inflation can erode returns, and the products tend to underperform stocks.

Industry officials say this summer's market gyrations have spooked some small investors, especially recent retirees and those nearing retirement. They've watched nervously as their 401(k)s and other investments have undergone some gut-wrenching swings. That has sent some people searching for security.

"We always see renewed interest in fixed annuities and whole life when these things happen," says Chris Blunt, senior vice president at New York Life, which markets some products with AARP, the retired persons' group. "People are looking for some guarantees."

H. Anthony Neidig, a retired professor in Cornwall Manor, Pa., says he used 40% of his savings to buy four immediate fixed-income annuities this summer after his financial planner warned of a possible economic slowdown. "We were looking for something with guaranteed income" after having suffered substantial losses during the stock-market downturn in 2001, he says.

Mr. Neidig, 83 years old, says the annuities generate $4,000 a month and have survivor benefits for his children. He says he intends to leave the balance of his investments, mainly stocks and bonds, for his wife and children.

But some financial planners say the guarantees come at a high cost. With fixed annuities and whole-life insurance, there's a risk that inflation will erode the value of the returns over the long term. They also caution against putting too much of your assets into fixed annuities, because some growth investments, such as stocks, are necessary. And once funds are invested in an annuity, they generally can't be tapped for any other purpose, such as emergency funds.

Investors also need to be careful about what they are buying, as some insurance agents have been known to push investors into unsuitable products that pay the agent higher commissions. Some insurers and agents have been charged with steering elderly investors into unsuitable deferred annuities, which promise a payout at a future date even though the client may need the money much sooner.

"Deferred annuities are where the agents can make lots of money, so that is where the abuses occur," says Ed Long, director of legal programs for Healthcare and Elder Law Programs, a nonprofit group whose Web site, annuitytruth.org[1], is aimed at educating older people about annuity scams.

Still, insurers and some financial planners say immediate fixed-income annuities can help smooth retirement by providing a regular check each month similar to a traditional pension plan. Other companies that sell these products include **American International Group** Inc., **MetLife** Inc. and **Hartford Financial Services Group** Inc.

Immediate fixed-income annuities are contracts in which an insurer promises to make equal periodic payments, generally for life, in exchange for a lump-sum investment. The payouts are set by actuaries according to age, gender and premium. To support the contracts, insurers generally invest mostly in long-term bonds and mortgages, whose recent yield gains have helped to boost annuity returns. A 65-year-old male who buys an immediate fixed annuity for $100,000 from New York Life this month, for instance, could receive an annual payout of 8.28%, or about $8,280 a year, up from 7.86% in January, the company says. That return includes both interest and the partial payout of principal.

The contracts are only as reliable as the financial stability of the company issuing them, so customers should purchase annuities and life insurance only from companies that are highly rated by agencies such as A.M. Best, Fitch Ratings, Moody's and Standard & Poor's.

Some Tips for Buying Immediate Fixed Annuities

- **Shop Around.** Compare returns on each policy, closely read prospectus and contract terms; get help if needed. Be mindful of fees, surrender charges and commissions.
- **Check the Ratings.** The return offered on the policy should be weighed against the safety rating of the company; choose only a top-rated company.
- **Diversify.** Consider spreading the risk among more than one insurer to the maximum limit of $100,000 guaranteed by state guaranty associations.

Sources: annuitytruth.org, annuityshopper.com

Some Tips Regarding Whole-Life Insurance

- **Don't buy** whole-life insurance if you won't keep it at least 10 years.

Consumers should compare annuities based on their return
and the company's safety rating, and should study the contract and prospectus carefully. For a comparison calculator, try www.immediateannuities.com[2], an online broker. But determining how much an annuity costs is difficult. Insurers earn their money largely on the difference between the return you are guaranteed and the amount of money the company earns on its investments over time. And insurers generally don't disclose expenses for administrative fees and other charges, saying this information is proprietary because it is included in their actuarial formulas.

Fixed annuities generally don't belong in a retirement plan while a person is still accumulating assets, most planners say. However, it can make sense for a new retiree to shift assets from other fixed-income investments like bond funds into an immediate fixed annuity to provide a monthly income sufficient to cover basic expenses. Some planners suggest no more than 40% of an individual's total investable assets should be placed in an immediate annuity.

Immediate fixed annuities are best-suited for conservative retirees who don't want the obligation of actively managing their finances and who have a low risk-tolerance, planners say. One alternative: Put several years' worth of spending into a money-market fund and invest the rest in a balanced portfolio. Another option is to set aside a portion of your portfolio in Treasury bonds and live off the interest income. Planners say these strategies are low-cost and keep more of your money liquid, but may present a risk of outliving your assets.

Another product that has seen sales spurt recently is whole-life insurance. These policies also provide forced savings and predictable returns, as well as a permanent death benefit. But premiums can run into thousands of dollars a year. And return on savings can be relatively low; New York Life says its current rate of return on a whole-life policy is 3% to 4%.

Some whole-life policies, however, are useful in estate planning. The policies remain in force as long as the premium is paid, unlike term insurance, which provides coverage for a specific number of years. Some small-business operators also use whole-life policies to ensure business continuity.

Nicole Curreri, 56, the sole proprietor of a kitchenware business in Savannah, Ga., recently purchased a whole-life policy from MassMutual to benefit her two grown daughters. The $100,000 policy costs her about $2,500 a year, she says. Ms. Curreri says she wanted to provide a guaranteed death benefit if she were to die prematurely. "They would have time to sell intelligently and not hold a fire sale."

Jim Hunt, life actuary for the Consumer Federation of America, an advocacy group, says most individuals are better off with term life insurance, which can provide a larger death benefit for less money. He says 30% to 40% of cash-value policies are dropped in the first 10 years before they become good investments. Mr. Hunt runs a Web site, evaluatelifeinsurance.org[3], where consumers can request an evaluation of policies they own or are considering purchasing.

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