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### RETIREMENT

## Ask an advisor: Annuities, what are they good for?

By [Nathan Place](#) December 20, 2022 4:44 PM



# Financial Planning

Welcome back to "Ask an Advisor," the advice column where real financial professionals answer questions from real people. The topic can be anything in the world of finance, from retirement to taxes to wealth management — or even advice on advising.

This week, we're taking a different approach once again: The question comes not from an advisor or client, but from yours truly, *Financial Planning* retirement reporter Nathan Place. Here's my question:

*Of all the topics I cover in my beat, few are as polarizing as annuities. The products provoke strong feelings, both positive and negative; advisors seem to love them or hate them.*

*At first glance, annuities don't seem that controversial. Sold by insurance companies, they provide a pension-like income to the purchaser during retirement. And in recent months, they've been booming: In the summer of 2022, annuity sales [reached \\$80.7 billion](#) — their highest quarterly total ever recorded. This shattered the previous record, which had been set just one quarter earlier.*

*On the other hand, many consider annuities excessively complex and expensive, or complain that they're "sold" to clients rather than demanded by them — sometimes without the client's full understanding. The products' defenders counter that today there are plenty of cheaper, simpler annuities, and the hidden fees of yesteryear are an outdated stereotype. And the debate goes on.*

*My question is simple: Where do you stand on annuities? Are they ever a good option for clients preparing for retirement? Does it depend on certain factors, like the age of the client or the type of annuity? Or are these products just no good?*

Here's what advisors wrote back:

## Not my first choice

David Bize, certified financial planner at [First Allied Securities](#) in Oklahoma City:

I think most annuities are overly expensive, so I don't recommend them. However, some people think their peace of mind is worth the reduced return due to extra expense. No financial advisor in their right mind can say that a deferred fixed annuity with multiyear guaranteed interest is not a good fit for conservative clients who would otherwise purchase a bank CD.

## A four-letter word

Rick Raybin, certified financial planner and CEO of [Lifetime Capital Group](#) in Burlingame, California:

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When developing a financial plan for a client, I always look to provide for longevity risk. Similar to the benefit gained from increased monthly payments retirees get when delaying social retirement payments until age 70, having a reliable stream of payments that you cannot outlive can help retirees later in life when they are otherwise unable to find needed resources.

However, the costs, often hidden, are too much. In the current interest rate environment, fixed annuities pay too little to keep up with inflation, and we can create equivalent payment streams at a lower cost. For those enticed by variable annuities with features like minimum returns, the costs are often hidden and always excessive. Similar to fixed annuities, the equivalent of variable annuity performance can be obtained at much lower cost.

Last but not least, most annuity products are commission-based and often sold to buyers who do not know what is reasonable or realistic or how it will limit their financial future.

## Don't go to extremes

Kashif Ahmed, certified financial planner and president of [American Private Wealth](#) in Bedford, Massachusetts:

Yes, annuities are polarizing. And it's because advisors love to dig in and not budge from entrenched positions. The annuities conversation has been balkanized!

Much like some commentators who are on a crusade against a particular fee structure, some people feel they need to become carnival barkers against them, simply for exposure and visibility. And on the other side are those who claim an annuity will solve every problem for every client. And that's the problem I have with them: *how they are sold*. And yes, they are sold. I have yet to come across anyone who proactively asks for an annuity.

