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Trigger good returns

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For those who like to keep their money protected from market losses, the recent rise in interest rates has created some interesting opportunities. One attractive option is an index annuity that uses a trigger-crediting method. What that means is that you receive a fixed return in the years the S&P 500 index is not down and zero interest in the years the index is negative.

Currently, we are seeing certain contracts offer trigger rates of more than 8%. For example, if the first year the S&P 500 is up 2% for the year, your account would be credited with the trigger rate. If the S&P 500 is negative the account value stays the same. Over the last 40 calendar years including 2022, the S&P 500 has been negative seven years – or 17.5% of the time. If 80% of the years you are making 8%, that is a 6.4% expected return without investment risk.

There are also index annuities that will allow you to earn 50% of the gains of the S&P 500 price index without any investment risk. In that scenario, if the S&P 500 earned 2%, the contract would be credited with 1% interest. However, in a good year where the index was up around 30% like in 2019 and 2021, the contract would have earned 15% that year while remaining safe in the big down years. This method has one of the higher upsides for index annuities as it would have averaged 7.6% per year for the 10-year period ending in 2021.

The most competitive index annuities can be a nice tool for reducing sequence-of-return risk. In the years the stock market is down substantially, investors can tap into their index annuities if they want to draw income without having to sell their equities at a low. Or, they can use penalty-free withdrawals from their annuities as dry powder to invest additional funds in a down market. Having money that you can access as you need it regardless of market conditions can be extremely useful.

Source: Yahoo Finance