

ASK THE ADVISERS

The views and opinions expressed in "Ask the Advisers" are solely those of Keith Singer.



Singer Wealth

Keith Singer, JD CFP™

Keith Singer

Singer Wealth

2 Locations:

1515 S. Federal Highway, #211,
Boca Raton, FL 33432

20900 NE 30th Avenue,
Suite 600, Aventura, FL 33180

Phone: 561-998-9985

Website: www.singerwealth.com

Email: Keith@singerwealth.com

The Comeback of Index Annuities

For the last decade, amidst historically low interest rates, attractive index annuities have been hard to find. Index annuities provide the opportunity to appreciate in the years the stock market is up but not lose in the years that the stock market is down.

That sounds pretty good in theory, most index annuities that followed the S&P 500 have had very low caps because interest rates were so low. A cap is a limit on how much you can make in the good years. A typical cap on the S&P 500 over the last decade was around 5% for an annual term. You would make whatever the S&P 500 index made but not more than 5%. That means if the S&P 500 finished the year up 12% you would earn 5% interest.

If on average 2 out of every three years are up, you would expect to make a little over 3% per year. However, now that interest rates have gone up and so have the caps on index annuities. Currently there are index annuities that are offering 13% caps on the S&P 500 index.

For the 10-year period ended in 2021 this would have averaged 9.77%. Even in a poor performing decade like 2000-2010 when the stock market was down this index annuity would have averaged almost 6% per year. That is because with index annuities there are no down years and the index resets at the prior term's closing value for the purpose of determining the next term's gains.

Even in a bad decade where the index has four down years it still would have 6 up years. An index annuity with a 13% cap would have provided an 8.3% annual rate of return without investment risk. Although short-term treasuries are now yielding over 4%, they still aren't keeping up with inflation. Therefore, we have been using index annuities as a bond replacement and as a safe place from which our clients can take their income in the years that stocks are down.

Source: Yahoo Finance

To receive the weekly email version of Mr. Singer's column, email the word Column to Caitlin@Singerwealth.com.

Singer Wealth Advisors is an SEC registered investment advisory firm. Investments involve risk. Insurance company guarantees are subject to the financial strength and claims paying ability of the issuing company. Please discuss with your financial and tax professionals prior to making any investments. Past performance does not guarantee future results. This material is provided for informational purposes only.