Annuities provide solid retirement income base

VANCOUVER

The annuity is an excellent foundation for a client's retirement income, says **Teresa Black Hughes**, Senior Financial Planner at Vancouver-based **Solguard Financial Ltd**. Solguard's professional specialties include retirement income planning.

Fixed annuities are best understood as one of a series of options for an individual's total retirement income, executed through a binding contract between client and issuer. They provide a predetermined income with the size of the payment a function of several factors including value of the original investment, prevailing rate of interest and the age and sex of the customer.

Fixed annuity sales still represent a small proportion of the total annuity market when compared with sales of variable annuities, or segregated funds. But in the post-crisis financial world, they appeal to investors.

Interest appears likely to continue increasing according to Ms. Black Hughes, suggesting several reasons. Shell-shocked baby boomers have greater concerns than previously about fixed income, as well as lowering the risk level of their portfolios. They also need to simplify their financial situations.

"They want to reduce things that have a lot of noise about them so it's just a choice to reduce some of that," she suggests. By noise, she means the complex details surrounding products. Instead, retired clients want their affairs predictable and simplified. A life annuity, which provides regular cash flow and does not fluctuate, offers a comfortable situation for clients.

Ms. Black Hughes has several strategies and talking points for discussing annuities with clients. She may draw a parallel with defined benefit pension plans, pointing out that the similarity in both cases is that the client has committed money to maintain a promise for a future payment. "Like the pension, you don't see what's going on behind the scenes by the pension manager or the insurance company, or how they're going to manage that money to make it happen for you," she says.

Teresa Black Hughes

In another strategy, she may suggest products such as guaranteed investment certificates for a retired individual's one to five year time horizon, corporate bonds for the individual's five to ten year time horizon and annuities for the longer period horizon.

Dispelling misconceptions about annuities is also a part of the sales process. These include addressing a fear that the provider keeps the principal amount on the plan holder's decease by pointing to the death benefit guarantee.

She also suggests applications of annuities unrelated to retirement, such as structuring income for an adult child. "A life annuity can be a great tool when people have spendthrift children and they want to have money designated for these children," she says, pointing to the life guarantee.

In a hypothetical scenario, a 50-year old adult child could receive guaranteed payments for forty years, she points out. In another application, grandparents or parents may want to provide an income for children without directly giving them the capital. In that case, the life annuity becomes a kind of legacy.

Ms. Black Hughes defines the appropriate time for buying a fixed annuity as when an individual crosses into his or her early 70's, a period she terms "the sweet spot" since at that stage they still have reasonable life expectancy, may find it easier to adjust to long-term decisions and may have become less concerned about having a large amount of flexible money available.

Other timing factors also affect the decision. For example, depending on the size of the Registered Retirement Plan mandatory payout, it may provide the financing for an annuity. Generally, she sees the ideal time to begin the annuity conversation with a client as five years in advance of the potential annuity purchase.

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