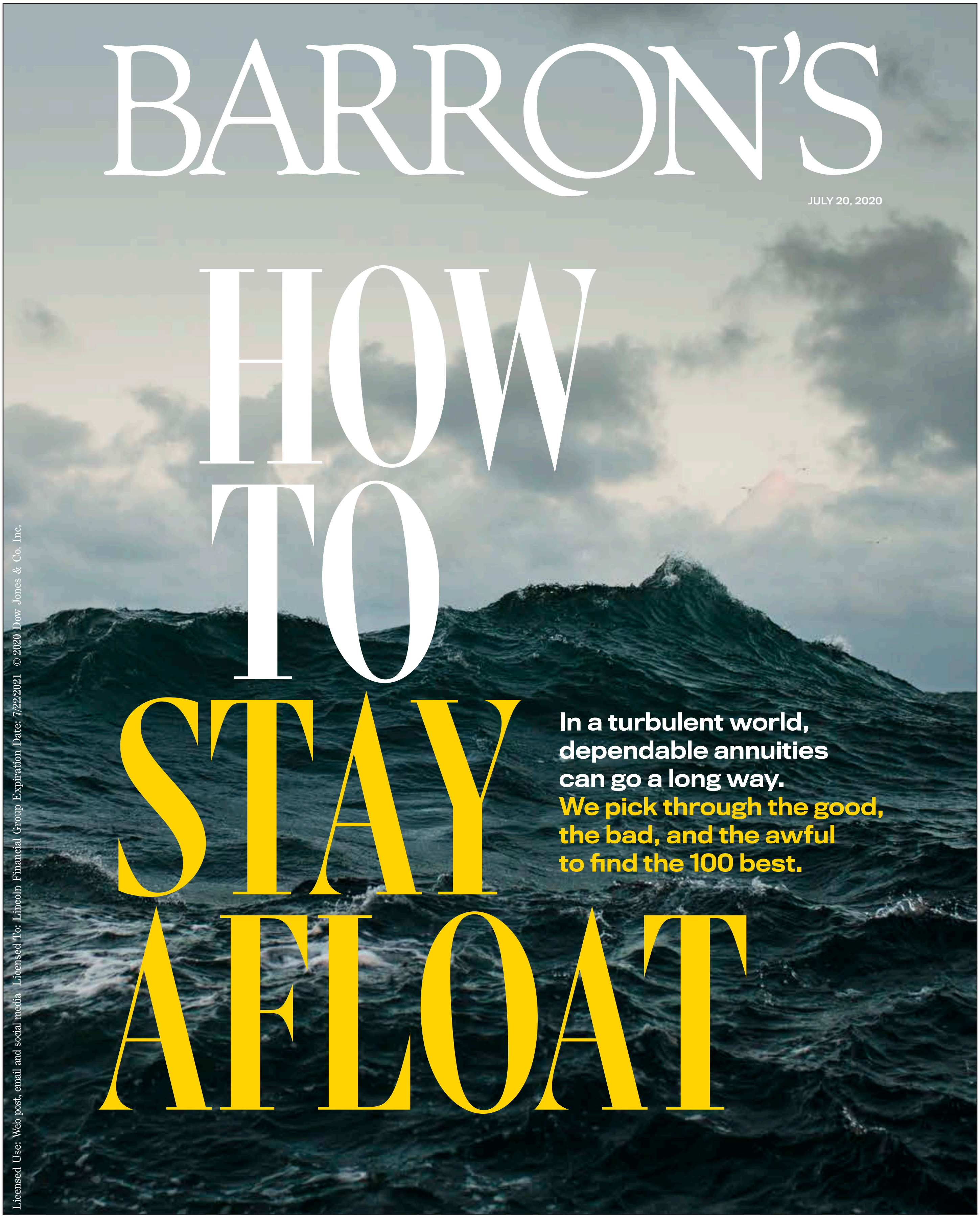

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DOW JONES

Finding an Annuity That's Right for You

Investment products backed by guarantees are better than ever. Here are the 100 best.

Story by **KAREN HUBE**

As the stock market tanked, rebounded sharply, and then settled into a pattern of volatility, the vulnerability of Americans' retirement savings has been laid bare. Many investors who dumped stocks during the March market meltdown are still sitting on the sidelines with diminished portfolios.

Low yields, meanwhile, make it impossible to rely on a sufficient income stream from traditional fixed-income sources. And hardships stemming from the coronavirus pandemic have forced many to dip into long-term savings, reducing the chance of retiring on time, or at all.

For nervous investors looking to tuck some guarantees into their portfolios against this backdrop of uncertainty—whether it be downside protection, a fixed rate of return with upside potential, or a steady income stream for life—more independent financial advisors (who don't get paid to sell products) are recommending a product they once eschewed: annuities.

"When you look at the probability of a financial plan's success with and without an annuity, it can be like night and day," says Shannon Stone, an advisor at DHR Investment Counsel in Oakland, Calif. "I've always had a negative view of annuities. People would come to us with annuities they were sold but didn't need. We are new at recommending them."

Indeed, annuities have long had a suspect reputation. They are complicated at a glance, and even more complicated when you look under the hood at the hundreds of iterations on the basic fixed and variable annuity structures. Fees can be high and either layered or hidden. And they have a reputation of being oversold by commission-motivated insurance agents.

What's more, many annuities recently slashed lifetime income guarantees and lowered caps on investment returns in a scramble to reprice products after the Federal Reserve cut interest rates to near zero in March, making them much less appealing for retirement savers and handing critics of these insurance-investment hybrids fresh fodder to caution investors to steer clear.

Best Annuities: Guaranteed Income, No Frills

Fixed-income annuities are tools that turn a lump sum into a lifelong income stream, either immediately or sometime later.

Single-life payouts for women are generally lower because their life expectancies are longer.

Rates and guarantees are down over last year in most categories due to the recent repricing, which has caused sales to skid after 2019 logged the best annual annuity sales in 11 years at $242 billion, according to Limra's Secure Retirement Institute, an insurance trade group that collects annuity data. Total sales in this year's first quarter were down 8% over the same period last year, even as a new retirement law was enacted late last year, opening the door to more sales of annuity products in workplace retirement-savings plans.

There are, however, many good annuities that can help shore up a retirement plan. For a look at the best of what the industry is offering, Barron's compiled 100 competitive annuities based on assumptions such as age, gender, size of investment, and time horizon. Results would change by tweaking any assumption, and contract quotes are updated frequently, especially in times of rapidly changing market conditions—so investors should screen for the best options according to their personal profiles and goals.

"You have to be sure to find the annuity that's the best tool for the kind of financial house you're trying to build or protect," says Russ Weiss, chief financial planning officer at Marshall Financial Group, a fee-only advisory in Doylestown, Pa.

Hot Product

There is one product that has bucked the recent bad-news trend: registered indexed-linked annuities. RILAs, the industry's newest innovation, have exploded in popularity in the past couple of years, thanks to a compelling trade-off that they offer to investors who are risk-averse but need growth—some protection on the downside in exchange for a cap on a linked stock index's performance.

Sales on RILAs rose 38%, to $4.9 billion, in the first quarter this year. "It's our most commercially successful product in the over 100-year history of Lincoln by any measure," says Will Fuller, executive vice president of Lincoln Financial Group, which launched its first in 2018 and has since issued a flurry of variations.

Industrywide sales of RILAs slowed when the pandemic escalated in the U.S. in March, but Limra forecasts that these annuities will be the only type to have an increase in sales this year over 2019.

The most popular RILAs are referred to as "buffer annuities" because they absorb some loss—typically the first 10%, 15%, or 20%—and the saver eats the rest. With a 10% buffer, if the stock index it is linked to has an annual return of negative 9%, the annuity holder is protected from any loss. If it is down 12%, the loss would be 2%.

Best Annuities: Downside Protection With Stock-Like Returns

Registered Indexed-Linked Annuities (RILAs): These annuities provide some loss protection and returns tied to an index on the upside, with limits set by caps or participation rates. Assume these contracts are tied to the S&P 500.

Buffer-Style: Protects against a certain percentage loss; investors are exposed to any losses lower than that. Assumes S&P 500-linked products.

	Company	Rating	Contract	Surrender Charge Period	Separate Fee	Protected Loss	Cap on S&P 500 Return
Commission-Based	Great American Life	A	Index Frontier 7	7 years	None	10%	18.50%
	Lincoln	**A+**	**Level Advantage**	**6 years**	**None**	**10**	**16.00**
	Symetra	A	Symetra Trek	6 years	None	10	16.00
	Allianz	A+	Index Advantage	6 years	1.25%	10	20.00
	Protective Life	A+	Market Defender II	6 years	None	15	13.50
	Lincoln	**A+**	**Level Advantage**	**6 years**	**None**	**20**	**11.00**
Fee-Based	**Lincoln**	**A+**	**Level Advantage Advisory**	**None**	**None**	**10%**	**17.50%**
	Allianz	A+	Index Advantage ADV	6 years	0.25%	10	20.00
	Lincoln	**A+**	**Level Advantage Advisory**	**None**	**None**	**20**	**12.00**

Floor-Style: Guarantees investors will not lose more than a certain amount.

	Company	Rating	Contract	Surrender Charge Period	Separate Fee	Maximum Possible Loss	Cap on S&P 500 Return
Commission-Based	CUNA Mutual	A	Members Zone	6 years	None	-10%	10.50%
	CUNA Mutual	A	Members Horizon II	6 years	1.50%	-10	18.00
	Protective Life	A+	Market Defender II	6 years	None	-20	30.00
Fee-Based	Allianz	A+	Index Advantage	6 years	0.25%	-10%	10.75%

Structured Variations: Promises downside protection and upside in tailored ways.

	Company	Rating	Contract	Surrender Charge	Separate Fee	Protected Loss	Upside
Commission-Based	Great American Life	A	Index Summit 6	6 years	None	Half of any loss	12.5% or 65% participation in index's annual return.
	Equitable	A	SCS Plus S&P Step-Up	6 years	None	10%	If the S&P 500's annual return is flat or positive, you get a 11% gain.
	Lincoln	**A+**	**Level Advantage**	**6 years**	**None**	**10%**	**If the S&P 500's annual return is flat or positive, you get a 7% gain.**
	Equitable	A	SCS Plus Dual Direction	6 years	None	10%	Negative annual index returns up to -10% give the equivalent positive return: -8% turns into 8%. Upside capped at 750% over six years.

Source: company reports

Best Annuities: Tax-Deferred Savings

Traditional Variable Annuities: These annuities are used for accumulating assets on a tax-deferred basis using a menu of underlying investments, much like a 401(k). There is a 10% penalty for withdrawing assets prior to age 59 1/2. These fees assume a $200,000 investment.

Company	Annuity	Annual Contract Fee	Avg. Expense Ratio on Subaccounts	Surrender Charge	Total Inv. Options (Total Alternative Options)	5-yr Avg. Annual Return for Best-Performing U.S. Growth Fund*
Lincoln	**Investor Advantage Advisory**	**0.10%**	**0.84%**	**None**	**148** [14]	**17.83%**
Jackson National Life	Elite Access Advisory II	$240	0.79	None	128 [11]	18.25
Nationwide	Monument Advisor	$240	0.65	None	366 [63]	21.43
Protective Life	SmartTrack Advisor	0.20%	0.72	None	124 [4]	16.95
Nationwide	Advisory Retirement Income	0.20	0.61	None	155 [15]	16.55
Fidelity Inv Life Ins	Personal Retirement	0.25	0.60	None	60 [2]	20.86
Transamerica	Vanguard Variable Annuity	0.27	0.21	None	19 [1]	14.75
Lincoln	**ChoicePlus Advisory**	**0.30**	**0.83**	**None**	**112** [3]	**17.59**

Note: AM Best Rating. *Through June 30, 2020. Source: company reports

Fixed Annuities With a Multiyear Guarantee: Used for accumulation, these contracts lock in an interest rate for a period. Assume a $200,000 deposit.

3-Year Fixed Rate	5-Year Fixed Rate	7-Year Fixed Rate
Midland National; LiveWell Guarantee; 2.4%	Global Atlantic-Forethought; SecureFore; 2.45%	Midland National; LifeWell Guarantee; 3.25%

Upside caps will be lower on contracts with more protection. For example, Symetra Life offers a 10% buffer with a 16% cap on the S&P 500 index's performance in its Symetra Trek annuity; Protective Life's Market Defender II annuity will buffer 15% and sets a 13.5% cap on the S&P 500's upside.

Now that RILAs have a toehold in the market, some insurers are launching variations to suit investor preferences in the current market conditions. For example, Equitable recently launched a buffer contract that triggers a specific rate of return simply if an index has a flat or positive return. Its S&P 500–linked contract offers a 10% buffer and an 11% return as long as the return isn't negative. A 0%, 5%, or 30% return on the index would all mean you get an 11% gain.

RILAs are the only type of annuity whose terms have sweetened lately—for example, in 2019, the cap on Symetra's 10% S&P 500 buffer was 12.5% versus 16% now.

Caps are typically reset every year, but some contracts lock them in for several years. It shouldn't be lost on investors that caps are higher when the likelihood of the market delivering a high return is low.

Trading some upside for downside protection isn't new—that's the premise of fixed-indexed annuities, the industry's hot product before RILAs picked up broad investor interest two years ago. But caps are much lower on fixed-indexed annuities than RILAs—about 4%, down from about 5% last year—because they are dependent largely on bond yields for what they can pay, and they guarantee 100% downside protection, while RILA holders share risk with the insurer.

"This doesn't mean one product is good and one is bad; it's all about your personal situation and how you want to turn the dials on annuities to get what you want," says Tamiko Toland, head of annuity research at Cannex, an annuity data and research firm. "When you get an annuity, you're getting a guarantee, and you have to pay for the cost of that guarantee."

Steady Streams

As for annuities used for income guarantees, payouts have come down sharply as they have become riskier and costlier for insurers to provide amid low interest rates and higher market volatility.

Consider the terms on the most basic type of income annuity, the single-premium immediate annuity, or SPIA, which turns a lump sum into an immediate stream of guaranteed annual income for life. Last year, the top-paying contract for a 70-year-old investing $200,000 and choosing the 10-year certain option, meaning the contract pays for 10 years even if the investor dies within the period, was $15,133 for a man and $13,813 for a woman. This year's most competitive recent offer is $13,559 for a man and $12,780 for a woman, both from CUNA Mutual. Payouts are lower for women because they factor in life expectancies, and women live longer on average than men.

Sales of SPIAs in the first quarter took the second-biggest hit of all annuity types—down 32% over past year's first quarter, according to Limra. Sales of plain fixed-deferred annuities, which work much like a certificate of deposit, were down 35%.

Income guarantees can also be paid out by adding riders on fixed-indexed annuities and variable annuities. These have underlying investments that can boost income above the guarantees when performance is strong—but, conversely, on some variable-annuity contracts, income can drop to a minimum guarantee that is significantly lower than the initial payout. This can happen if the contract's underlying investments perform poorly.

Peace of Mind

Like any insurance product, when risks flare up, annuities shine for those who have them. The stock market downdraft and subsequent volatility this year have been the nightmare scenario that many retirees hope to avoid, but Sue Blodgett, a 64-year-old single retiree from Orange, Calif., hasn't lost sleep. She credits that to her portfolio's secret sauce: a variable annuity that pays out guaranteed income no matter what happens to the markets or how long she lives.

"This has been huge," says Blodgett, a former director of finance at Boeing's defense, space, and security division. "It has given me security knowing I'm not forced to go to my investments for income when the market is down."

For savers who don't have an annuity but want to tuck some guarantees into their portfolios, some contracts can still be a good fit, says Loreen Gilbert, founder and CEO of WealthWise Financial Services in Irvine, Calif. "As rider payouts have been going down, the [RILAs] are a good addition by insurers," Gilbert says. "And I still think there are products out there on the variable-annuity and fixed-indexed annuity side that look attractive."

Beyond annuity features, investors are faced with yet another choice lately: whether to secure a contract through a commission-based sale or a fee-based advisor. Annuities have traditionally been sold through insurance agents and brokers on commission, but insurers have been launching fee-based contracts over the past two years to enable fee-based registered investment advisors to offer them to clients.

David Lau, founder and CEO of DPL Financial Partners, which compiles a universe of fee-based annuities as a resource for advisors, says some 3,000 advisors from 800 firms have signed on to access his paid services over the past two years. This reflects a remarkable shift among advisors, who have typically avoided annuities because of their complexities.

"I come from the investment side. I was never an insurance person," says WealthWise's Gilbert. "But I use annuities for my clients to hedge and protect—to safeguard retirement income and supplement Social Security. I don't know if a client is going to live to 105 or 75, so how else do we plan for that?"

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