

Two reasons to reconsider your aversion to annuities



ROB CARRICK > PERSONAL FINANCE COLUMNIST

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Members of the annuity fan club would not need much real estate for their meetings.

A local Tim Hortons would do, or maybe someone's backyard. Annuities are well worth a look if you need secure retirement income for life, and they do have a small following. But when was the last time you heard someone talk about annuities at a family gathering or party? Investment properties, crypto, dividend stocks, even guaranteed investment certificates have generated significant buzz at times. With annuities, it's radio silence.

Let's look at two reasons to give annuities more consideration, starting with interest rates. Rates have a big influence on the level of annuity payouts, which is good news right now. Interest rates in the bond market ticked higher recently, and this has improved annuity payouts.

The lifelong payout from a sample registered \$100,000 annuity bought for a 65-year-old woman increased to \$6,364 annually in November from \$6,296 in October, numbers supplied by insurance adviser Rino Racanelli show. Annual payouts for a comparable annuity bought for a male aged 65 increased to \$6,727 from \$6,670. Both of these annuities would have payments guaranteed for 10 years, even if the annuitant dies. In that case, the beneficiary or estate receives payments until the end of the guarantee period.

GIC rates haven't budged in response to the rise in rates in the bond market – in fact, GIC returns seem to be edging ever lower. Annuities are bucking that trend.

There are some reasonable objections to annuities – you can't change your mind after a few years and sell, and you may not get full value if you die shortly after buying and didn't choose a guarantee period. Also, annuities are cumbersome in that they must be purchased from an insurer and can't be integrated into your other retirement investment accounts. By the way, annuities are suitable for a portion of your retirement savings, not the whole thing.

One unreasonable objection to annuities is that they generate high commissions that can sway the judgment of financial advisers. It's not true. Mr. Racanelli said the typical commission structure for annuities, paid by the insurer to the seller, is 3 per cent of the first \$100,000 and 1 per cent to 2 per cent of additional amounts. By comparison, an equity mutual fund would pay a training commission of 1 per cent annually for the selling adviser and their firm to share.

We probably reached peak annuity last year, when interest rates were at a high point. But payouts are still competitive compared to the low-rate era of the 2010s, and they come with zero drama. That's worth noting at a time when the shares of dividend-investing stalwart BCE Inc. are being thrashed by disappointed investors.

Editor's note: This article has been updated to clarify that the annuity payouts stated are annual, and not monthly amounts.

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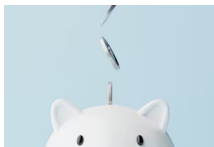
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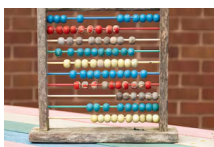
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