NASDAQ

Annuities Can Be A Great Way To Invest Safely

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In times of market mayhem, annuities can be a safe way to invest your money, especially if you're eying retirement.

An annuity is a financial product sold by financial institutions, such as an insurance company. It is designed to accept and grow funds from an individual and then pay out a stream of payments upon annuitization.

It's a great way to grow your money without much risk.

"I think if you really look at it, those investments are safe money investments," Kirvan Financial President Rob Kirvan said in an interview with RTTNews. "You cannot lose one penny of principle, so when you're looking at it from that perspective and you're gaining a 4 to 6 percent return, I think they're very valuable to have as part of a portfolio for sure."

Your investment is backed by policy holder reserves, which means that every dollar of principle that they bring in via annuities must have a reserve requirement. Most companies hold 5 to 7 cents on every dollar."

Kirvan said, "So if I put $100,000 in, no matter what happens in the marketplace, no matter what happens with the insurance company, they have to guarantee that principle."

The risk may not be great, but the chance of a payout is still there. Over the last 12 years, fixed income annuities have outperformed the S&P 500, Kirvan said.

This could make annuities an ideal investment for someone close to retirement age that's looking to secure their hard-earned dollars for the rest of their life. Kirvan said annuities are "100 percent" a good investment for those closing in on retirement.

"[For] many retirees or pre-retirees, their biggest concern is the money they saved up over a lifetime, they don't want to lose it," he said.

"They just went through 2008, they just went through 2002, and they're not very happy with sustaining those losses. For a percentage of the portfolio putting it into an annuity product is a very safe investment and one that will pay the yield they're looking for."

While they are a good idea for older folks, Kirvan said that in general, younger people might want to look for something with a higher reward for their risk.

"I think younger people in general should look for a higher return," he said. "When you're younger and in your 30s and 40s, you're able to lower cost average, so it doesn't matter if the market [is] up or down."

Kirvan said fixed annuities can be bought in terms from one to 20 years, with the most common usually around 10. Most institutions allow withdrawals of 10 percent per year.