



INVESTMENT PERSPECTIVE — FOURTH QUARTER 2025

Financial fiduciary – a person or organization which is legally obligated bound to act in the best interests of their clients, prioritizing the client's financial needs and objectives above their own. This fiduciary duty involves obligations of care, loyalty, and good faith, requiring them to avoid conflicts of interest and maintain transparency about their services and compensation. Unlike non-fiduciaries, who may recommend products that offer higher commissions, a fiduciary must recommend products and strategies that are truly in the client's best financial interest.

– Tipping our hat to the Who's Final Tour, Roger Daltrey on singing **Won't Get Fooled Again**

"I'm not gonna do the scream... I've done that scream for 55 years, and I've had enough of it. I don't even want to try it now; it's brutal on the vocal cords. I'm more into singing these days. At the age of 80, I think I deserve to be."

(Note this "tip of the hat" is also a reference to Scot's restrained impulse to scream in the presence of annuities)

Annuities: Complex Insurance Products You Don't Need or Want

This quarterly letter addresses annuities - a financial product that generates lots of attention and sales pressure from the financial services industry. An annuity is a contract with an insurance company where you pay a lump sum (or series of payments) in exchange for a guaranteed income stream, usually during retirement. Over the years numerous clients have inquired about annuities, accompanied by confusion. While investors are attracted to annuities for their alleged safety or "guaranteed lifetime income," annuities are one of the most complex and opaque investments in the financial services industry, generating substantial criticism from fiduciary *Registered Investment Advisors* (RIAs) like us.

One large RIA even declares, *"I Hate Annuities!"* Our analysis and skepticism are in sync: Annuities rarely align with what's best for most investors. On the surface, annuity contracts may appear attractive as a source for retirement income, but unfortunately, the allure of annuity guarantees can shroud significant disadvantages, such as high fees and strict withdrawal limits. Here we discuss the downsides of an annuity contract and then offer an alternative to saving for the future.

Confusing Complexity and Opaque Contracts

Annuities come in many forms - fixed, variable, indexed, immediate, deferred - each variety carries its own set of intricate rules, restrictions, risks, and nuances. Typical contracts run dozens of pages, riddled with technical language that even experienced advisors may puzzle over. Riders and add-ons multiply the confusion. Even sophisticated investors struggle to understand what they are purchasing, and how guaranteed income is calculated and maintained.

High Costs and Fee Drag

A defining feature of most annuities is their litany of fees. High up-front commissions, annual administrative costs, mortality and expense risk charges, extra charges for "riders," adjustments, etc. These products are typically presented with low transparency or explanation of the multiple fees and commissions. When all costs are tallied, variable annuities often exceed 3% annually, quietly undermining long-term returns and sabotaging compounding power.

Surrender Charges and Loss of Control and Liquidity

Unlike traditional investment accounts, annuities significantly restrict access to your principal. Withdrawals in the early years can trigger surrender charges as high as 7%, declining slowly over time. This lack of flexibility can be a

real pain point when unexpected expenses arise, or when a life change prompts a shift in financial priorities. We repeatedly stress the importance of liquidity in retirement - access to liquidity can be severely undermined with long-term annuity commitments. Potential annuity purchasers must understand that they are giving up ownership and control of their underlying assets in exchange for a stream of payments.

Overstated Guarantees and Real-World Results

“Guarantees” dominate annuity marketing, but reality doesn’t always live up to the sales pitch. Often, the income promised is simply a return of principal plus a low yield, spread over the years. Let’s emphasize **much of this guarantee is simply a return of your initial investment!** Many payments are also fixed, with little or no inflation protection unless you pay extra for that privilege. These so-called “guaranteed” payouts are only as good as the insurance company backing them, and sadly, we’ve seen some of them blow up. Also, some of the returns on these contracts are taxed as ordinary income—not the preferential capital gains rates of an ordinary brokerage portfolio.

Sales-Driven Conflicts of Interest

Another reason annuities have such a bad reputation in the advisory community is because of years of aggressive commission-laden, heavy-handed salesmanship. Many investors who bowed to intense sales pressure and who purchased annuities don’t really know what they own and regret the decision -- in too many cases, the real beneficiary is the broker, not the client. For advisors who value transparency and client trust, annuities are difficult to recommend unless a very specific client need can be addressed by no other solution. This is rare.

Our Belief

We do not recommend annuities. We loathe their structures and terms. As *fiduciaries*, we do not believe they are structured in the interest of clients. Buyers of annuities are often driven by fear outliving their savings, seeking “guaranteed” income. We don’t typically endorse fear-based decision-making under pressure from commission-based insurance brokers. Rather, we believe a better alternative is to structure a well-designed diversified portfolio of stocks and fixed income, tailored to a specific client’s needs. The result is a portfolio that, with well-managed withdrawals, can deliver consistent income, superior liquidity, lower costs, ownership control, and greater flexibility.

If you’re contemplating purchasing an annuity, stop. Let’s discuss your investment objectives and review the terms, costs, and alternatives. As *fiduciaries*, our loyalty is to your long-term outcomes, and we are happy to provide our perspective on either existing annuities or contracts which you are considering.

The fiduciaries at *Westbourne* thank you for your continued trust and partnership.

All The best,

Scot Labin, CFA - Chief Investment Officer
Joseph C. Wilkinson - Managing Director
David Cunningham – Founder

Jon Levin, CPA - IAR
Bruce Kromminga - Director of Operations
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