The Annuity 99% of Clients Should Avoid (and One That's Better): Jane Bryant Quinn

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The personal finance commentator talks about the type of annuity she has a 'new respect' for and one that most clients should avoid

Jane Bryant Quinn's new book is "How To Make Your Money Last: The Indispensable Retirement Guide."
For many millions, Jane Bryant Quinn is the principal – and for some, the only – source of financial education. It's therefore a good bet that these consumers, at the least, will heed what the trusted personal finance commentator has to say about annuities — to which she devotes 35 reader-friendly pages — in her new book, "How To Make Your Money Last: The Indispensable Retirement Guide" (Simon & Schuster). The tome is No. 5 on The New York Times Bestseller List for the month of February.

It's naïve to assume that Quinn, who writes monthly columns for AARP Bulletin and AARP.org, would pass up the opportunity to caution folks against certain types of annuities; and she does so in both the book and an interview with ThinkAdvisor. (Generally, the veteran journalist has harsh words about "greedy financial salespeople [who] go after the retirement accounts of people in midlife and later," as she writes.)

Variable annuities with living-benefit guarantees get the red-flag treatment; in the book, Quinn brands them "sexy, confusing, high-commission annuities that financial advisors love to sell."

However, the personal finance expert, who penned a column in Newsweek for 30 years, reveals that, in researching the book, she “developed a new respect for immediate-pay annuities” and praises those from TIAA-Cref and Vanguard, in particular.

For her annuity chapter, she consulted with several industry experts, including Moshe Milevsky, finance professor at York University in Toronto; Wade Pfau, professor of retirement income at The American College of Financial Services; and Michael Kitces, partner in Pinnacle Advisory Group and author of the popular financial blog Nerd’s Eye View.

Quinn, author of bestseller “Making the Most of Your Money NOW” (Simon & Schuster 2010), has written for The Washington Post and Bloomberg.com. She is an Emmy winner who has hosted PBS telecasts and appeared extensively on CBS news programs. As a young reporter during the consumer movement, she wrote for The Insider’s Newsletter, published by Look Magazine.

ThinkAdvisor chatted recently with the New York City-based Quinn, 76, whose comprehensive new book covers changes in Social Security and health insurance. Toward the end, there’s a chapter called “Investing for Income: Not What You Think,” which talks about asset allocation, and stock and bond funds — and which, interestingly, is twice as long as the one with all the annuity pros and cons. Here are highlights from our conversation:

ThinkAdvisor: Annuities have taken a bad rap over the years. Are they starting to be seen in a better light?

Jane Bryant Quinn: I hope so. People are looking at their friends who have pensions and saying, “Gee, I wish I had a pension.” My answer is: “Well, you can buy yourself one.”

You write that financial advisors and stockbrokers are salespeople who want to sell their most expensive products so they can earn the biggest commissions. That’s a widespread image.

I understand that [some] people make their living selling commission products, but my job on the consumer side is to point these things out. This has been a running problem with annuity sales. I give the talks – I hear people stand up and say, “My 90-year-old mother was sold this annuity…”

You say that “fundamentally, annuities are not an investment even if they’re tricked out to look like one. They’re management tools.”

Yes. Their purpose is to guarantee that your money will last for life.

What advice do you have for advisors who sell variable annuities?

They should make sure they have a deep understanding of the product and know where consumers are confused. They should make very clear how much it costs – though you can’t find that out, in full, with a fixed index annuity – what the guarantee means and how good the market has to be over periods of time when you can get something [above] the guarantee. Explaining it fully ought to be advisors’ duty, though they would have fewer customers if they did that. But it’s also the customer’s duty to find out about the annuities from an independent source.

What type of client could be a good candidate for a variable annuity with living benefits?

Someone who understands the product and knows exactly what they’re getting – which, I believe, eliminates 99% of [consumers]. It would be for people who think the costs are low enough and their timeframe is long enough to have a chance of getting more than the minimum guarantee. But you’re not going to get anything much out of variable annuities with a living benefit as an investment because of their 3.5% — and higher — fees.

You point out that living benefits are paid with the consumer’s own money first – in other words, you’re paying yourself.

Yes. If you're using the guarantee, you're getting your own money back in 5% increments. You have to live well past life expectancy before you start using the insurance company's money. Most annuity buyers, in general, think they're earning a guaranteed 5% on their money. Usually they're shocked to discover that's not the case.

You write about confusion of nomenclature, noting that with fixed index annuities, such beclouding "makes it dangerous for the average person to stray into what amounts to the financial industry's worst neighborhood" and that FIA advertising "has been rife with misleading claims…" You say: "Stay out of expensive investments that tout 'no loss, all gain.' It's a snake pit down there."

All true.

Do you think the industry purposely obfuscates?

Well, look at equity index annuities. They were sold as being linked to the stock market and that you could make some market gain. But as soon as the regulators started [scrutinizing] that, the name was changed to fixed index annuities. So I'd say that was purposeful. There couldn't be a clearer case of being purposeful.

Why, primarily, do you like single-premium immediate annuities?
Immediate annuities are very good in certain cases. If you have plenty of money to live on for life, you don't need an annuity. Or if you receive Social Security and have a small amount of savings, I don't think you should buy an annuity because you might need that savings – you've got to have flexibility. But for people who think their money will last for life but then in, say, two years, they're not so sure and start worrying, that's a very good case for taking money out of the bond part of their investments and using it to buy an immediate-pay annuity. I'm hoping more people will take a look at those.

You write that annuities "can be cash cows for financial advisors who choose to put their own interests ahead of yours" — for example, FAs who encourage annuity switching. They earn a new commission — and the customer starts a new penalty period.

Switching is a very big problem in the industry. Your advisor tells you they've got a much better annuity that's just come out, so you should switch to it. Due to complaints from regulators, some insurance companies have been paying more attention to this. So I suspect some of it is being held down. Nevertheless, people need to be aware.

You argue that the majority of advisors know "almost nothing" about the rules for inherited IRAs. Should they be more knowledgeable?

A fee-only planner who takes care of estate planning and taxes ought to know that but might not. Certainly, I wouldn't expect a stockbroker, or [a rep] at a wirehouse or an insurance company to know these things. So I hope advisors will read my book, too!

You debunk the notion of consumers losing control of their money when they buy an annuity. A popular belief is that they do.

If the purpose is to use your savings to make sure your money lasts for life, an annuity is a very good choice. How much you put into an annuity is your option, depending on what you need in monthly income.

That's a difficult decision, though.

Some people feel more secure knowing they're going to have a higher income for life. And then you can control, and leave to your kids, your other assets, like a house or investments. But your primary duty to yourself is to make sure your money will last for life. What's the point of having control and running out of money?

Why do you suggest that people delay annuity purchase until they're between 70 and 80 years old?

Mainly to preserve your options. At 60, you don't know how things are going to turn out. By 75, you have a better feel for whether your money is going to last or not. You may discover you're doing just fine and don't need an annuity or that there's a sudden, serious [costly] health problem. You should try to go with your savings, Social Security, a pension – and then at a later age, if you feel you're going to run short, move some savings into an annuity. That would be a good time to improve your income.

Many clients think that their advisors are watching out for their best interest and abiding by the fiduciary standard, when in fact they're adhering to the suitability standard.

Yes. Otherwise why would they stay with them? There's a lot of research showing that even when consumers aren't sure their advisors are looking out for them, they stay with them out of politeness or fear of irritating them or not knowing where to move if they want to.

Surprising!

Some of the research shows that if an advisor declares his or her conflict of interest and then gives [obviously] bad advice, people are actually more apt to take that advice because the advisor appears to be honest. It's crazy.

Indeed, the advisor-client relationship is more psychologically complex than it appears.

People become very dependent on their advisors, and they don't want to think they're being misadvised. So even those who suspect they may not be getting the best advice, stay. I'm not saying that every single advisor who takes a commission is a bad advisor. There are some very good advisors. I'm saying that people don't always understand the conflict of interest they're facing.

Why do you tell readers to be wary of "senior specialist" designations?

Because many of them are courses in sales. They're not courses in understanding the product or knowing the right person for the product of knowing whether the person shouldn't be sold. You get awarded various letters after your name that say you're a specialist in investment products for older people, but that doesn't mean anything. However, some designations are definitely worthwhile and can be relied on, such as Certified Retirement Counselor (CRC) or Retirement Income Certified Professional (RICP).

Your views on robo-advisors?

They're possibly useful. They're low-cost and use index ETFs, which is my philosophy. So you're not going to get anything crazy. And Betterment has started doing a project to help people make their money last over their retirement and get a monthly check for life – though I don't know how it's going to work out.

What's your chief advice to consumers about annuities?

It's very difficult to get information about annuities that does not come from salespeople of some sort – wirehouses, insurance agents, financial advisors. What these companies [and people] do is sell. So the question is: When a consumer makes the purchase, how well informed is it and where does he or she get the information? I think it's quite hard to get it from the financial industry.