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The Best Annuities For Income *and* Growth

Sales of annuities are booming as investors chase their solid fixed-income yields and, increasingly, their potential to capture any stock market rally. Here's how to judge these hybrid insurance-investment products.

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These are boom times for annuities, which are providing retirement savers and investors with not only their hallmark stability during what has been a dismal year for both stocks and bonds, but also the richest benefits in more than a decade and, in some cases, the promise of major upside when stocks rebound.

Sales of these hybrid insurance-investment products have surged this year—as has historically been the case in down markets and rising interest-rate environments—because their principal protection and high yields relative to other low-risk investment options make them attractive fixed-income replacements. Consider a current 4.05% three-year guaranteed fixed-rate annuity paid by Midland National Life Insurance, compared with 2.9% for a three-year certificate of deposit or the current 3.22% yield on a three-year Treasury.

But what's different in the current bear market is that investors are also using annuities as stock replacements, turning to a newer type of contract called a registered indexed-linked annuity, or RILA, that is built for growth with a cushion under losses. Designed for retirement investors who fear losses but need stock returns to keep their nest eggs growing, RILAs provide various levels of protection on the downside—usually 10% to 20% of market losses—and a cap on the returns of an index such as the S&P 500, Russell 2000, or MSCI EAFE. The current caps allow for significant growth once the market perks up: Lincoln National Life Insurance and Symetra Life, for instance, offer S&P 500-tracking RILAs that will absorb the first 10% of the index's losses, while capping its returns at 20%.

"If you think of a 60/40 portfolio, the 60 isn't working and the 40 isn't working," says Steve Scanlon, head of individual retirement at Equitable, referring to the S&P 500's

Best Annuities: Guaranteed Income. No Frills.

Fixed annuities are tools that turn a lump sum into a lifelong income stream, either immediately or sometime later. Single-life contracts pay for one person's lifetime. Payouts are generally lower for women and couples than men because their life expectancies are longer. Joint-life contracts are for couples and continue to pay during a surviving spouse's lifetime.

Immediate-Income Annuities: Called single-premium immediate annuities, or SPIAs, these contracts turn guaranteed income on right away. Assumes a \$200,000 investment at age 70. Payments for joint life assume a man is 70 and his spouse is 65.

● **10-Year Certain:** If an investor dies within 10 years of starting income, payouts go to heirs for what's left of the 10-year period.

| | Company | AM Best Rating | Annual Income for Life | Annual Payout Rate | Total Income By Age 90 |
|--------------------------|------------------|----------------|------------------------|--------------------|------------------------|
| Single-Life Man | Penn Mutual Life | A+ | \$16,062 | 8.00% | \$321,240 |
| | Nationwide Life | A+ | 15,910 | 7.95 | 318,200 |
| Single-Life Woman | Penn Mutual Life | A+ | \$15,494 | 7.70% | \$309,880 |
| | CUNA Mutual | A | 15,099 | 7.50 | 301,980 |
| Joint Life | Penn Mutual Life | A+ | \$13,244 | 6.62% | \$264,880 |
| | CUNA Mutual | A | 12,925 | 6.46 | 258,500 |

● **Cash Refund:** When an investor dies, any remaining principal is paid to heirs in a lump sum.

| | Company | AM Best Rating | Annual Income for Life | Annual Payout Rate | Total Income By Age 90 |
|--------------------------|-----------------|----------------|------------------------|--------------------|------------------------|
| Single-Life Man | CUNA Mutual | A | \$15,032 | 7.50% | \$300,640 |
| | Nationwide Life | A+ | 15,020 | 7.50 | 300,400 |
| Single-Life Woman | CUNA Mutual | A | \$14,406 | 7.20% | \$288,120 |
| | Nationwide Life | A+ | 14,298 | 7.10 | 285,960 |
| Joint Life | CUNA Mutual | A | \$12,798 | 6.40% | \$255,960 |
| | Nationwide Life | A+ | 12,685 | 6.34 | 253,700 |

Note: Single life pays for one person's lifetime; joint life pays for both spouses' lifetimes.
Source: Cannex

nearly 20% loss this year and the bond market's 10% decline. "Meanwhile, annuities have gotten more attractive as solutions on both sides of the portfolio."

The ABCs of Annuities

Annuities are insurance products designed to protect ordinary investors against worst-case investment scenarios like steep portfolio losses and running out of money in retirement. They are tools for two basic purposes: to accumulate assets with downside protections, or to provide a steady stream of guaranteed income in retirement, like a pension.

The long menu of annuity types and features can be overwhelming. Even once you figure out which one best addresses your concerns, your work isn't finished. Some contracts are pricey and best avoided, while others have trip wires that could cause terms to change based on investor behavior or market performance. Understanding the terms is essential.

Still, annuities' popularity this year reflects how far inves-

tors have come in embracing these insurance products, whose costs and complexities have weighed on their reputation over the years. This past week, Equitable settled a case with the Securities and Exchange Commission, without admitting or denying the agency's findings, surrounding inadequate fee disclosures.

To help frame the various annuity categories, how they work, and the best offers these days, Barron's tapped Cannex, an independent research firm specializing in retirement products, as well as company data to compile a list of 100 competitive contracts based on common investor objectives and a set of assumptions, such as an investor's age and investment size. Because many annuities are designed to last for the long term, only contracts from companies with an AM Best financial-strength rating of A- or above were considered.

The accompanying tables are a snapshot of what has been a rapidly changing market, as insurers revise terms to keep up with rising interest rates and evolving market conditions. For example, in

the four months through June, Jackson National Life Insurance made 17 changes to different products' rates and caps. "We hadn't made changes in probably 18 months, so to make that many in four months is pretty material," says Alison Reed, Jackson's chief operating officer.

The most popular annuities this year have been plain fixed annuities, which, much like CDs, pay a fixed yield for a specified number of years, and fixed-indexed annuities, whose payouts are linked to the performance of a stock index. Both are used in portfolios as fixed-income replacements, and have been driving overall 2022 annuity sales toward an annual record.

Second-quarter total annuity sales were the highest on record at \$77.5 billion, according to Limra's Secure Retirement Institute, an insurance researcher in Windsor, Conn., which predicts total annual sales will top the record of \$265 billion set in 2008 and tally up to between \$267 billion to \$288 billion.

Plain fixed annuities with multiyear guarantees, or

Registered indexed-linked annuities offer downside protection ranging from 5% to 100% and potential double-digit upside.

MYGAs, are paying guaranteed fixed rates more than double last year's. The two top fixed annuities guarantee 4.05% and 3.9% for three years, compared with 1.9% and 1.8% last year for the same term.

"Stocks are down, bonds are down, crypto is down. They're all correlated. But a fixed annuity is up," says David Lau, founder of DPL, a commission-free annuities marketplace for fee-only advisors. "It gives you true diversification."

Investors have been favoring shorter-term fixed annuity contracts—typically three or five years—so if interest rates keep rising, they aren't locked in for the long term, says Kevin Rabin, senior vice president of retirement products at Symetra.

Fixed-indexed annuities, a variation on the plain fixed contracts, have also stirred renewed interest among investors, thanks to their full principal guarantees. On the upside, they tie a capped return to a stock index. Limra anticipated sales of up to \$57 billion for these annuities this year. Six months in, sales have already hit around \$37 billion.

For the first time, Barron's included fixed-indexed annuities as asset accumulators in our annual top 100 table. Until this year, low interest rates have depressed the caps on these contracts to levels that made their benefits questionable.

But caps on S&P 500-linked fixed-indexed annuities have more than doubled this year, to 9% from about 4% last year. The caps are more modest than those on RILAs because their principal protection is more generous than RILAs' downside guarantees.

The Upside of RILAs

RILAs are also taking in significant assets. Since hitting the market in 2010, these have been the industry's rising stars and fastest growers, up 61%, to \$38.7 billion, last year, according to Limra. This year's first-quarter sales were up 5%, but they lagged behind last year's first quarter, as some investors favor full principal protection with many stock indexes in a bear market.

"The reason to like RILAs is inflation," Lau says. "The only way to hedge inflation is

to have investments in the market, and these give you caps of around 20% on the S&P 500 and take some risk off the table."

RILAs offer either a buffer or a floor on the downside, and a long list of indexes for upside participation.

With a buffer, the insurance company absorbs losses up to a point, typically 10% or 20%. For example, with a 10% buffer, if the market is down 15%, an investor will only take a 5% hit.

A floor product has different risk exposure: With a 10%

floor, the investor, instead of the insurer, absorbs 10% of the loss and the insurance company eats anything beyond that.

"RILAs are the next step on the risk spectrum. First you have the MYGA, and fixed-indexed annuities are the next step," says Mike Downing, executive vice president at Athene. "If you look at the age ranges, the older tend to focus on the MYGAs, and the RILA space skews younger because there is more upside and more downside risk."

Iterations on the original RILA buffer theme have exploded. The plain-vanilla RILA has a 10% buffer and a cap on the S&P 500, but now there is a long and growing list of flavors and toppings. For example, you can choose from over a dozen indexes for upside, downside protection ranging from 5% to 100%,

Best Annuities: Deferred-Income Annuities

Called DIAs, these contracts pay out future income. The longer income is deferred, the higher the annual payouts.

● **Personal Pension:** Assumes a 60-year-old invests \$200,000 and turns income on at age 70. Any remaining principal at death is paid to heirs. Joint life assumes a married man and woman are ages 60 and 55, respectively.

| | Company | AM Best Rating | Annual Lifetime Income | Total Income By Age 90 |
|--------------------------|------------------|----------------|------------------------|------------------------|
| Single-Life Man | Integrity Life | A+ | \$25,017 | \$500,340 |
| | Mass Mutual Life | A++ | 24,603 | 492,060 |
| Single-Life Woman | Integrity Life | A+ | \$23,564 | \$471,280 |
| | CUNA Mutual | A | 23,389 | 465,778 |
| Joint Life | CUNA Mutual | A | \$19,719 | \$394,382 |
| | Mass Mutual Life | A++ | 19,597 | 391,934 |

● **Personal Pension as Longevity Insurance:** Assumes a 60-year-old invests \$200,000 and turns income on at age 80. Any remaining principal at death is paid to heirs. Joint life assumes a man is 60 and his spouse is 55.

| | Company | AM Best Rating | Annual Lifetime Income | Total Income By Age 90 |
|--------------------------|----------------|----------------|------------------------|------------------------|
| Single-Life Man | Integrity Life | A+ | \$66,028 | \$660,280 |
| | Symetra Life | A | 61,098 | 610,980 |
| Single-Life Woman | Integrity Life | A+ | \$58,705 | \$587,050 |
| | CUNA Mutual | A | 56,573 | 565,730 |
| Joint Life | CUNA Mutual | A | \$41,801 | \$418,010 |
| | Guardian | A++ | 40,152 | 401,520 |

● **Personal Pension Within IRA:** Up to \$145,000 of IRA assets can buy an annuity and be exempt from required distributions. Assumes a \$145,000 investment at 70, income at 84; what's left at death goes to heirs. Joint life assumes a man and wife are ages 70 and 65, respectively.

| | Company | AM Best Rating | Annual Income At Age 84 | Total Income By Age 90 |
|--------------------------|------------------|----------------|-------------------------|------------------------|
| Single-Life Man | Integrity Life | A+ | \$50,115 | \$300,691 |
| | Mass Mutual Life | A++ | 38,861 | 233,163 |
| Single-Life Woman | Integrity Life | A+ | \$43,224 | \$259,346 |
| | Mass Mutual Life | A++ | 34,540 | 207,238 |
| Joint Life | Mass Mutual Life | A++ | \$26,924 | \$161,549 |
| | Integrity Life | A+ | 26,814 | 160,884 |

Note: Single life pays for one person's lifetime; joint life pays for both spouses' lifetimes. Source: Cannex

Best Annuities: Guaranteed Income With Some Flexibility, Liquidity, and Growth Potential

Annuity contracts with income riders are designed to pay monthly income for life, covering either a single person's or couple's joint lifetime. Payouts can be higher than guarantees based on growth of assets in the contract, and assets are more liquid and accessible to investors than in SPIAs and DIAs.

Fixed-Indexed Annuity Income Guarantees: These riders are purchased on S&P 500-linked fixed-indexed annuity contracts with seven-year surrender charge periods. Assumes a \$200,000 investment by a 60-year-old. Payout begins at age 70. Joint life assumes spouses are age 60.

● **Best Guaranteed Minimum Annual Income:** The minimum income is paid for life regardless of the value of the underlying investments.

| | Company | AM Best Rating | Annuity Contract | Rider | Annual Income At Age 70 | Income Paid By Age 90 |
|--------------------|-------------------|----------------|---------------------------------|---------------------------|-------------------------|-----------------------|
| Single Life | Protective Life | A+ | Income Builder | Guaranteed Income | \$23,400 | \$468,000 |
| | Eagle Life | A- | Select Income Focus | Lifetime Income Benefit 2 | 22,000 | 440,000 |
| | Minnesota Life | A+ | SecureLink Future 7 | Achiever Lifetime Income | 21,589 | 431,780 |
| | American National | A | Strategy Indexed Annuity Plus 7 | Lifetime Income 1 | 21,337 | 426,740 |
| Joint Life | Protective Life | A+ | Income Builder | Guaranteed Income | \$21,600 | \$432,000 |
| | Minnesota Life | A+ | SecureLink Future 7 | Achiever Lifetime Income | 21,589 | 431,780 |
| | Eagle Life | A- | Select Income Focus | Lifetime Income 2 | 20,000 | 400,000 |
| | American National | A | Strategy Indexed Annuity Plus 7 | Lifetime Income 1 | 19,397 | 387,940 |

Variable-Annuity Income Guarantees: These riders are sold as add-ons to variable annuities. Assumes a \$200,000 investment by a 60-year-old. Payout begins at age 70. Joint life assumes both spouses are age 60.

● **Best Minimum Guaranteed Annual Income for Life:** Even if the value of underlying investments declines to zero, the annuity keeps paying the minimum guarantee for life. There is potential for higher payouts depending on performance of underlying investments.

| | Company | AM Best Rating | Annuity Contract | Rider | Annual Contract Fee* | Maximum Allowable Stock Fund Allocation | Guaranteed Annual Income For Life Starting at 70 | Income Paid by Age 90 |
|--------------------|-----------------------|----------------|----------------------|-------------------------------|----------------------|---|--|-----------------------|
| Single Life | Nationwide Life | A+ | Destination B 2.0 | Lifetime Income + Core | 2.20% | 60% | \$17,920 | \$358,400 |
| | Lincoln National Life | A+ | ChoicePlus Assurance | Lifetime Income Advantage 2.0 | 2.80 | 80 | 17,600 | 352,000 |
| | AIG | A | Polaris Platinum III | Polaris Income Max | 2.6 | 56 | 16,165 | 323,300 |
| Joint Life | Nationwide Life | A+ | Destination B 2.0 | Lifetime Income | 2.50% | 60% | \$16,320 | \$326,400 |
| | Lincoln National Life | A+ | ChoicePlus Assurance | Lifetime Income Advantage 2.0 | 2.90 | 80 | 15,520 | 310,400 |
| | AIG | A | Polaris Platinum III | Polaris Income Max | 2.6 | 56 | 14,945 | 298,900 |

● **Best Potential Average Income:** Contracts can pay more than their guarantees depending on investment performance. Averages were determined based on probability analysis using 10,000 market simulations.

| | Company | AM Best Rating | Annuity Contract | Rider | Annual Contract Fee* | Initial Annual Income | Potential Avg. Annual Lifetime Income | Ann. Income Guarantee if Underlying Account Drops to Zero |
|--------------------|-----------------------|----------------|----------------------------|--------------------------|----------------------|-----------------------|---------------------------------------|---|
| Single Life | Nationwide Life | A+ | Destination B 2.0 | Lifetime Income Plus Max | 2.60% | \$27,200 | \$22,080 | \$10,200 |
| | Lincoln National Life | A+ | ChoicePlus Assurance | Max 6 Select Advantage | 2.80 | 25,600 | 22,000 | 9,600 |
| | AIG | A+ | Polaris Preferred Solution | Polaris Income Max 2 | 2.45 | 23,637 | 22,360 | 9,912 |
| Joint Life | Nationwide Life | A+ | Destination B 2.0 | Lifetime Income Plus Max | 2.60% | \$26,350 | \$20,297 | \$10,200 |
| | AIG | A+ | Polaris Preferred Solution | Polaris Income Max 2 | 2.45 | 22,417 | 19,960 | 8,692 |
| | Lincoln National Life | A+ | ChoicePlus Assurance B | Max 6 Select Advantage | 2.90 | 24,000 | 19,280 | 8,800 |

*Includes the contract mortality and expense charge and the rider fee; does not include costs of underlying fund-like investments. Sources: Cannex; company reports

various ways to credit your account to reflect market performance, and options to lock in performance before a contract year ends.

Investors' choices don't end there. Some companies offer two versions of the same RILA products, one with an annual fee that comes with a higher cap on the S&P 500, and another with no fee with a lower cap.

For example, Great American Life's 10% buffer Index Frontier 7 RILA comes with a 26% cap on the S&P 500's return for a 1% annual fee, and its version with no fee—expenses are baked into the cap—has a 19% cap.

A 26% cap might be worth paying for, if you believe the market will perform better

than the no-fee contract's 19% cap. But while making such decisions, consider that RILAs don't include an index's dividends. Underlying investments in RILAs aren't invested in the stock market—they are in derivatives used to simulate an index's return. Because assets aren't actually invested in companies, investors don't partake in dividends.

Some companies, including Allianz, Prudential, CUNA Mutual, and Equitable, have introduced guaranteed-income riders on RILAs.

The first step for investors interested in RILAs is to choose between a floor and a buffer. Wade Pfau, Retirement Income Certified Professional program director at the American College of Financial

Services, sees a clear winner: the buffer.

"More returns fall in between 0% and minus 10% than beyond minus 10%, so with a floor version you'd be getting hit more often," Pfau says.

Since 1926, the S&P 500 has had 14 years with returns between 0% and minus 10%. Those down years could potentially have been protected by a 10% buffer. There were 11 years with returns worse than minus 10%. A 20% buffer would have spared investors losses in all but four years.

Generous Income Guarantees

Annuities with guaranteed income have largely taken a back seat in popularity this year, as investors have focused

on trying to stabilize and secure growth for their portfolios, but guarantees are more generous this year.

Fixed and variable annuities can be combined with income riders that guarantee a minimum income for life, and possibly more if underlying investments perform well.

Riders are pricey, especially when considered on top of the fees for the contract they are tied to. For example, for a 60-year-old who wants to invest \$200,000 in a variable annuity and plans to tap annual income at age 70, Nationwide Life's Destination B 2.0 with the Lifetime Income + Core rider pays the highest guaranteed minimum annual income—\$17,920—for a total 2.2% annual fee.

Best Annuities for Accumulation: Downside Protection With Upside

These annuities are designed to tie returns to stock indexes while providing varying degrees of cushion on the downside.

Registered Indexed-Linked Annuities (RILAs): These contracts, also referred to as variable-indexed annuities, combine some loss protection and upside tied to an index with limits set by caps or participation rates. Assumes a \$200,000 investment tied to the S&P 500.

● **Buffer-Style:** Protects against a certain percentage loss; investors are exposed to any losses greater than the buffer. With a 10% buffer and a 15% market decline, the insurer absorbs 10% of the loss and the investor absorbs 5%. These caps are reset annually.

| | Company | AM Best Rating | Contract | Surrender Charge Period (Years) | Annual Fee | Protected Loss | Cap on S&P 500 Return | Rate Term (Years) |
|-------------------------|------------------------------------|----------------|--------------------------|---------------------------------|------------|----------------|-----------------------|-------------------|
| Commission-Based | Great American Life | A+ | Index Frontier 7 | 7 | 1% | 10% | 26% | 1 |
| | Allianz | A+ | Index Advantage | 6 | 1.25 | 10 | 23 | 1 |
| | Lincoln National | A+ | Level Advantage | 6 | None | 10 | 20 | 1 |
| | Symetra Life | A | Trek Plus | 6 | None | 10 | 20 | 1 |
| | Lincoln National Life | A+ | Level Advantage | 6 | None | 15 | 15 | 1 |
| | Protective Life | A+ | Market Defender II | 6 | None | 15 | 16.5 | 1 |
| | Lincoln National Life | A+ | Level Advantage | 6 | None | 20 | 12.5 | 1 |
| | Global Atlantic - Forethought Life | A | ForeStructured Growth | 6 | None | 20 | 12 | 1 |
| Fee-Based | Allianz | A+ | Index Advantage ADV | 6 | 0.25% | 10% | 23% | 1 |
| | Lincoln National Life | A+ | Level Advantage Advisory | None | None | 10 | 21.5 | 1 |
| | Jackson National Life | A | Market Link Pro Advisory | None | None | 10 | 21 | 1 |
| | Lincoln National Life | A+ | Level Advantage Advisory | None | None | 15 | 16.5 | 1 |
| | Jackson National Life | A | Market Link Pro Advisory | None | None | 20 | 13.5 | 1 |
| | Lincoln National Life | A+ | Level Advantage Advisory | None | None | 20 | 13.5 | 1 |

● **Floor-Style:** Guarantees investors will not lose more than a certain amount. With a 10% floor and a 15% market decline, the investor absorbs 10% of the loss and the insurer absorbs 5%. These caps are reset annually.

| | Company | AM Best Rating | Contract | Surrender Charge Period (Years) | Annual Fee | Maximum Possible Loss | Cap on S&P 500 Return | Rate Term (Years) |
|-------------------------|-----------------------|----------------|--------------------------|---------------------------------|------------|-----------------------|-----------------------|-------------------|
| Commission-Based | CUNA Mutual | A | ZoneChoice | 6 | None | 10% | 15% | 1 |
| | CUNA Mutual | A | Zone Income | 6 | 0.75 | 10 | 17.15 | 1 |
| | CUNA Mutual | A | Horizon II | 6 | 1.50 | 10 | 19 | 1 |
| | Protective Life | A+ | Market Defender II | 6 | None | 20 | 22 | 1 |
| | Jackson National Life | A | Market Link Pro | 6 | None | 20 | 18.75 | 1 |
| Fee-Based | Allianz | A+ | Index Advantage | 6 | None | 10% | 13.75% | 1 |
| | Jackson National Life | A | Market Link Pro Advisory | None | None | 10 | 12.75 | 1 |
| | Jackson National Life | A | Market Link Pro Advisory | None | None | 20 | 20 | 1 |

● **Variable-Annuity Variations:** Contracts that provide varying levels of downside protection and upside in myriad ways.

| Company | AM Best Rating | Contract | Surrender Charge Period (Years) | Annual Fee | Protected Loss | Upside |
|-----------------------|----------------|-------------------------|---------------------------------|---------------------------|--------------------------------|--|
| New York Life | A++ | Premier VA FP Series | 7 | 1.2%; 1% ¹ | 100% of principal ² | Full returns on underlying stock or bond funds |
| New York Life | A++ | IndexFlex VA FP Series | 5 | None or 1.3% ³ | 100% of indexed account val. | 6.75% cap on the S&P 500; no cap on upside in subaccounts |
| Allianz | A+ | Index Advantage | 6 | None | 10% buffer | Uncapped; 130% of S&P 500's six-year return |
| Athene Annuity & Life | A | Amplify 2.0 | 6 | 0.95% | 10% buffer | Uncapped; 145% of S&P 500's six-year return |
| Symetra | A | Symetra Trek Plus | 6 | 1.0 | 10% buffer | Uncapped; 141% of S&P 500's six-year return |
| Great American Life | A+ | Index Summit 6 Pro | 6 | 0.75 | Half of any loss | 9% cap or 76% participation in S&P 500's ann. return; 1-yr term |
| Equitable | A | SCS Plus Dual Direction | 6 | None | 10% buffer | S&P 500 annual losses within -10% give equivalent positive return: -8% turns into 8%. Cap of 250%/450% (commissioned/fee product) over six years |
| Equitable | A | SCS 21 Plus Step-Up | 6 | None | 10% buffer | If S&P 500 annual return is flat or positive, you get a full 13% gain on commissioned contract or 15% on fee-based version |
| Symetra | A | Symetra Trek Plus | 6 | None | 10% buffer | If the S&P 500 annual return is zero or positive, auto 14.5% return |
| Lincoln | A+ | Level Advantage | 6 | None | 10% buffer | If the S&P 500 annual return is zero or positive, auto 14% return |

¹1.2% mortality and expense fee applies to contract value; 1% applied to amount guaranteed by a rider with a 10-year holding period. ²Protection begins after 10-year holding period; also potentially protects some growth; guaranteed amounts can be reset annually. ³Investors can choose, and switch between, an index-linked account with downside protection or regular variable annuity subaccounts. Only assets in the subaccounts are subject to a fee.

Sources: Cannex; company reports

The fee eats away at the underlying investments in the contract, which can eventually hit zero depending on market performance. Hitting zero value won't affect the minimum lifetime payment in this contract—though in some contracts, income declines when underlying assets disappear—but there will be nothing left for heirs.

The trade-offs in these kinds of contracts are a reminder that annuities are insurance

products, and protections come at a cost. The Lincoln annuity could be a solid solution for someone wanting the highest possible income guarantee, but not the wisest choice for someone wanting to leave as much as possible to heirs.

A trade-off that investors haven't been willing to make is illiquidity for the highest payouts. Sales of annuities' most inflexible, yet highest-paying, income products have languished this year.

Single-premium immediate annuities, or SPIAs, and deferred-income annuities, or DIAs, are about as simple as annuities get: You invest a lump sum and the contract pays out for life, like a pension, either immediately or in the future. Their payouts are up substantially. For a 60-year-old man investing \$200,000 and planning to begin income at age 70, the most competitive DIA that pays remaining principal to heirs is Integrity Life's,

with lifetime annual payments of \$25,017. Last year, the top contract paid \$17,916.

But they are irrevocable contracts, and with interest rates expected to rise further, investors aren't biting. Sales in this year's first quarter were flat for SPIAs and minus 14% for DIAs, compared with 2021's first quarter, according to Limra.

While annuity contracts are listed in Barron's table in order based on a single objective—

whether it is highest income, best rate, or lowest fee—investors should weigh other pertinent factors such as a contract's liquidity, underlying investment limits, expenses, and potential upside to make sure the terms align with their goals.

Consider investment-only variable annuities, or IOVAs. Variable annuities are similar to 401(k)s. Assets are invested in underlying mutual fund-like subaccounts and grow tax-deferred, but can't be touched without a penalty until age 59½. While most variable annuities come with income riders or other benefits—and substantial fees—IOVAs are cheap and used purely for extra tax-deferred growth.

In the table, IOVAs are ordered by their contract costs, so the Equitable Investment Edge Advisory Variable Annuity, which eliminated all contract charges this year, is listed in the top spot. But an investor who wants the most investment options, including alternatives, may decide to pay a flat \$240 monthly fee—the equivalent of 0.12% on a \$200,000 investment—for the Nationwide Monument Advisor Variable Annuity, which has 341 underlying investments, of which 48 are alternative investments, compared with the Equitable

Best Annuities for Accumulation, continued

● **Fixed-Indexed Annuities:** For investors who want principal protection and returns potentially higher than plain fixed-rate products. Returns are tied to an index and capped. These contracts have caps that are reset annually and five-year surrender periods.

| | Company | AM Best Rating | Contract | Protected Loss | Cap on S&P 500 Return |
|-------------------------|------------------------------------|----------------|------------------------------|-------------------|-----------------------|
| Commission-Based | Lincoln National Life | A+ | FlexAdvantage 5 | 100% of principal | 9.5% |
| | Athene Annuity & Life | A | Accumulator 5 | 100% of principal | 9.0 |
| | Delaware Life | A- | Growth Pathway 5 | 100% of principal | 8.8 |
| Fee-Based | Pruco Life | A+ | PruSecure Advisor | 100% of principal | 11.5 |
| | Lincoln National Life | A+ | Covered Choice Advisory 5 II | 100% of principal | 10.0 |
| | Global Atlantic - Forethought Life | A | ForeAccumulation II Advisory | 100% of principal | 9.0 |

Sources: Cannex; company reports

Best Annuities: Tax-Deferred Savings

These annuities are used for accumulating assets on a tax-deferred basis. As in a 401(k), there can be a 10% penalty for withdrawing assets prior to age 59½. These fees and rates assume a \$200,000 investment.

● **Traditional Variable Annuities:** Assets are invested in underlying mutual fund-like subaccounts.

| Company | Contract | Annual Contract Fee* | Avg. Expense Ratio on Subaccounts** | Surrender Charge | Total Investment Options (Total Alternative Options) | 5-Year Avg. Annual Return for Best-Performing U.S. Growth Fund*** |
|---------------------------|------------------------------------|----------------------|-------------------------------------|------------------|--|---|
| Equitable | Investment Edge Series ADV | None | 1.02% | None | 110 (24) | 13.50% |
| Lincoln National Life | Investor Advantage Advisory Pro | 0.10% | 0.88 | None | 139 (13) | 15.04 |
| Jackson National Life | Elite Access Advisory II | \$240 ¹ | 0.78 | None | 123 (8) | 12.11 |
| Nationwide | Monument Advisor | \$240 ¹ | 0.55 | None | 341 (48) | 16.10 |
| Nationwide | Advisory Retirement Income (NARIA) | 0.20% | 0.61 | None | 147 (6) | 16.10 |
| Fidelity Investments Life | Personal Retirement | 0.25 | 0.57 | None | 61 (2) | 16.00 |

*Fee includes: administrative and mortality and expense charges. There is no added fee on these contracts for return of contract value at death. **Asset-weighted average expense ratios on underlying mutual fund-like investments. ***Through June 30, 2022. ¹ Flat annual fee for any size investment; equivalent to 0.12% on a \$200,000 investment. Source: Company reports

● **Fixed Annuities With a Multiyear Guarantee:** These are tax-deferred contracts similar to certificates of deposit in that they lock in an interest rate for a specified period. Assumed minimum is \$200,000.

| Company | AM Best Rating | Contract | Fixed Rate Period (Years) | Guaranteed Rate |
|-----------------------|----------------|--------------------|---------------------------|-----------------|
| Midland National Life | A+ | Oak Advantage | 3 | 4.05% |
| BrightHouse Financial | A | Fixed Rate Annuity | 3 | 3.90 |
| Delaware Life | A- | Apex MYGA | 3 | 3.55 |
| Mass Mutual Life | A++ | Stable Voyage | 3 | 3.50 |
| Midland National Life | A+ | Oak Advantage | 5 | 4.60 |
| BrightHouse Financial | A | Fixed Rate Annuity | 5 | 4.30 |

Source: Cannex

contract's 110 options.

Bottom line: The best annuity for your neighbor is probably not going to be the

best one for you. To get the best out of an annuity, first have a clear understanding of what you want, says Lau, "then

choose one for what it can do for you." **B**

All product guarantees, including optional living and death benefits, are subject claims-paying ability and financial strength of the issuing insurance company.

The APEX MYGA® Fixed Annuity and the Growth Pathway® Fixed Index Annuity is issued by Delaware Life Insurance Company, which is located at 1601 Trapelo Road, Waltham, MA 02451. The other companies referenced are not affiliated with Delaware Life Insurance Company.

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