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The 50 Best Annuities

Annuities are looking better than they have in years, thanks to rising interest rates and regulatory efforts. We choose the best.

By Karen Hube

Frank Burns, a manager at a commercial tire company in Spokane, Wash., has been the target of annuity sales pitches several times, but he has always demurred, wary of the products' complexities and costs. So why, when he turned 57 this year, did he sink $500,000 of his nest egg into an annuity?

Quite simply, annuities are looking better than they have in years, thanks to rising interest rates. Yields and guarantees are more generous—up 10% or more over last year—and there are many more lower-cost options. These are enticing trends for folks like Burns who, hoping to retire in a few years, is eager to protect his investments as the bull market clocks its ninth year.

"My portfolio has taken hits four or five times in my career, and I don't want to go through that again," says Burns, who chose a New York Life annuity that allows him to invest in a moderately aggressive portfolio and protects against any losses over 10 years.

Annuities are insurance contracts with three primary purposes: They can provide a floor under investment losses, allow for more tax-deferred investing once individual retirement accounts and 401(k)s are maxed out, or turn a lump sum into guaranteed income for life.

For all types of products, terms have improved. Consider the bellwether plain fixed annuity: Like a certificate of deposit, these annuities allow savings to grow at a fixed rate for a fixed amount of time—but annuities also defer taxes on earnings. The top five-year guaranteed interest rate offered by an insurer with an A.M. Best rating of A- or higher is 3.6%, up nearly a percentage point from 2.65% a year ago.

Longer-term guarantees have been somewhat slower to get traction from rising rates, but a positive trend is afoot: A year ago, the most competitive contract for a 60-year-old man wanting to lock in annual guaranteed income at age 70, assuming a $200,000 investment, was $21,015; this year, the income would lock in 9% higher at $22,888.

The recent uptick in benefits is an inflection point in a yearslong stretch of sagging annuity business. Last year, industry sales fell for the third consecutive year to $192.2 billion, which is 27% below their 2008 high.

Troubles have stemmed from low interest rates and regulatory pressures. Low interest rates make it harder for insurers to afford guarantees, which leads to less generous guarantees for investors. Then there's the Department of Labor: The industry spent more than a year overhauling product lines and systems to comply with a DOL rule that was supposed to go into effect this year to protect consumers against shady commission-inspired sales practices. It was scrapped under President Donald Trump.

While this leaves investors vulnerable, there's some good news: The industry had already pivoted. Revamped product lines include more-transparent and flexible contracts. For example, TIAA's new Income Test Drive allows investors to bail out of their income agreement within two years without penalty—an attempt to address investor hesitation to turn a liquid lump sum into fixed lifetime payments. And some insurers have loosened restrictions on how aggressively variable annuity portfolios can be invested. The restrictions, which became standard after the 2008 market decline, required investors to either choose managed volatility funds or limit their stock allocation to usually no more than 60%, to damp volatility and mitigate insurers' risk. Recently, though, Lincoln National introduced a contract with unrestricted stock exposure, and Ohio National raised its stock allocation limit to 80% on one of its products.

What's more, almost all insurers launched fee-based annuities over the past year, which are usually cheaper—by a full percentage point or more—than traditional commission-based products. Though fee-based products represented less than 5% of annuity sales last year, that was the only sales channel that grew. Insurers see vast potential as fee-only advisors, who have traditionally shunned annuities, grapple with income planning for a growing number of aging clients.

"The value proposition of annuities is totally changing," says Rob Santillo, managing director of product management and research at PNC Investments, who recently purged his annuity platform of old contracts to make room for new ones. "They used to have one product try to be everything to everybody, and the costs outweighed the benefits. Now there are more streamlined options."

Another boost could come from a bill with bipartisan support in the House of Representatives. The Retirement Enhancement

(over please)

Best Annuities: Guaranteed Income for Life

Fixed income annuities turn a lump sum into a lifelong income stream.

Immediate Income Annuities

These contracts begin paying income right away. Assumes a $200,000 investment by a 70-year-old male.

Immediate "Life Only" Annuity

Pays income for life; if investor dies before principal is paid out, the insurer keeps the remaining principal.

Company	Rating	Annual Income for Life	Percentage Paid on Investment	Total Income by age 90
Minnesota Life	A+	$16,003	8.00%	$320,059
Penn Mutual Life	A+	15,881	7.94	317,620
Mutual of Omaha	A+	15,879	7.94	317,587
Lincoln National Life	A+	15,636	7.81	312,725

Immediate "10-Year-Certain" Annuity

If investor dies within the first 10 years of establishing the contract, heirs get paid until the end of the 10-year period.

Company	Rating	Annual Income for Life	Percentage Paid on Investment	Total Income by age 90
Minnesota Life	A+	$15,120	7.56%	$302,390
Mutual of Omaha	A+	14,979	7.49	299,584
Symetra Life	A	14,955	7.47	299,100
Penn Mutual Life	A+	14,954	7.47	299,078

Immediate "Cash Installment Refund" Annuity

When an investor dies, any remaining principal is paid out to heirs monthly.

Company	Rating	Annual Income for Life	Percentage Paid on Investment	Total Income by age 90
Minnesota Life	A+	$14,316	7.16%	$286,320
Penn Mutual Life	A+	14,269	7.13	285,380
Mutual of Omaha	A+	14,044	7.02	280,880
Lincoln National Life	A+	14,010	7.00	280,200

Deferred Income Annuities

Turns a lump sum into an income stream later.

Personal Pension

Assumes a 60-year-old male puts in $200,000; income begins at age 70; remaining principal upon death is paid to heirs.

Company	Rating	Annual Income at Age 70	Total Income by Age 90
Mutual of Omaha	A+	$22,888	$457,756
Symetra Life	A	22,190	443,793
CUNA Mutual	A	22,071	441,420
Lincoln National Life	A+	22,068	441,350

Personal Pension as Longevity Insurance

Assumes a 60-year-old male puts in $200,000; income begins at age 80; remaining principal upon death goes to heirs.

Company	Rating	Annual Income at Age 80	Total Income by Age 90
Symetra Life	A	$59,939	$599,388
Lincoln National Life	A+	54,711	547,110
CUNA Mutual	A	53,920	539,208
Mutual of Omaha	A+	52,929	529,290

Personal Pension Within IRA

Up to $130,000 of IRA assets can be converted to a deferred income annuity and be exempt from required minimum distributions. Payout must begin by age 85. Assumes a 70-year-old puts in $130,000; income begins at age 84; any remaining principal upon death is paid to heirs.

Company	Rating	Annual Income at Age 84	Total Income by Age 90
Mutual of Omaha	A+	$37,267	$223,602
Lincoln National Life	A+	33,490	200,943
Principal Financial	A+	32,653	195,919
Guardian Life	A++	31,589	189,535

Sources: AnnuityAdvantage.com; Cannex

Savings Act, or RESA, would encourage more 401(k) plans to offer annuities. Annuities are currently allowed in 401(k) plans, but it's rare to find them there, in large part because employers worry about liability if they choose an insurance company that later fails to pay claims.

For help combing through this expanding annuity universe, Barron's screened for the most competitive contracts across different types of annuities using assumptions such as age and size of investment. Because annuity contracts can last for decades, only insurers with an A.M. Best financial strength rating of A- or above were considered. Keep in mind that a tweak in assumptions can produce different results, and quotes on some contracts are updated monthly.

Structured Annuities

This year's biggest product story is the explosive rise of so-called structured annuities. After a slow start when AXA Equitable introduced the first of these in 2010, structured annuities have recently become an entirely new annuity category—with a number of insurers jumping in—and a game changer for folks who want to invest for growth but are concerned about a stock market downturn. Sales were up more than 20% for these contracts last year, one of only two types—along with fee-based variable annuities—that didn't suffer declines.

Structured annuities' drab name belies their enticing function: They peg returns to a stock market index and promise to absorb a certain level of losses, typically the first 10%. So, in that case, if the market falls 15%, you would lose 5%; in a 7% market drop, you would register no loss. In exchange, it sets a cap on the upside performance. The current cap on S&P 500–linked products ranges between 10% and 14%.

"Structured annuities are modeled off of collared options strategies typically available only to high-net-worth investors," says David Lau, founder of DPL Financial Partners, a new firm that provides fee-only planners with an Amazon-style annuity platform. "We love them for the mass market, because they protect against sequence of return risk when nearing retirement or when five to 10 years in."

The caps are a vast improvement over the 4% cap on returns set by fixed-indexed annuities, which also peg upside to a stock index and, until now, have been the industry's go-to option for investors wanting downside protection and something more than just Treasury yields. Sales on fixed-indexed annuities, which have been the rising stars in the industry in recent years, dropped in 2017 by 5%.

Investors like Michael Cuoio, 70, of Forestville, Calif., are smitten with higher return potential on structured annuities, even if it means shouldering some downside risk. "I'd be delighted to limit my gain to 10% if it meant avoiding catastrophic loss," says Cuoio, a former senior manager in the North Atlantic Treaty Organization's telecommunications agency, who says he's in the process of discussing a structured annuity with his wife. "I don't want to go to bed every night thinking about what the Dow has done."

Like all annuities, these new products have variations to appeal to investor preferences. There are two types of structured annuities—buffer and floor products.

Buffer annuities protect investors against the first 10% or 20% of losses, and expose them to the rest. Floor products, which are less popular, do the reverse: leave the first, say, 10% of losses to the investor, and absorb the rest.

"In the years of small declines of less than 10%, the buffer is better, but in a large drastic decline like in 2008, the floor is better," says Jessica Rorar, a senior planner in the investment group at Valmark Financial Group in Akron, Ohio, who says her firm's annuity business is up this year for the first time since 2011. Generally, the upside caps on the floor products are a little lower, she adds.

Caps are also influenced by whether an insurer charges an explicit separate fee, or embeds fees into the terms of their contracts. This is especially clear in costlier commission-sold buffer annuities. When an advisor earns a commission on a sale, the insurer is on the hook to pay the commission to the advisor, but will pass the cost on to investors either in the form of a stand-alone fee or by taking a little return off the table.

Consider a commission-based buffer annuity with a 10% downside pegged to the S&P 500. Allianz Life's cap is the most competitive, allowing investors to participate in 14% of the index's upside, compared with Brighthouse Financial's 12.5%. Investors should note, though, that Allianz charges a separate 1.25% fee, while the cost of the Brighthouse contract is reflected in the lower cap.

When markets are up, the two cost structures tend to net out about the same for investors. But when indexes are flat or down, folks with an explicit fee still have to pay up.

Like all annuities—and insurance products, for that matter—structured annuities are highly complex behind the scenes, involving sophisticated investment strategies to mimic an index's return and mitigate downside risk. But part of their appeal is that on the outside, they seem simple, with just two moving parts—the cushion and the cap.

Variable Annuities

Despite the movement toward easier-to-understand products, variable annuities with income riders that guarantee future annual payments remain mind-bogglingly detailed, each with its own inner mechanics and special benefits for consumers, making them difficult to understand or compare.

Variable annuities allow investors to choose from a menu of investment options, and assets grow tax deferred. While insurers have come out with ultralow cost, simple variable annuities, a lion's share of this category's sales are still captured by annuities with complex and pricey income riders.

When chosen carefully, investors can make the positive aspects of these products work in their favor. Guarantees have the potential to rise when underlying investments perform early in the contract, and there are riders to address almost any concern in retirement.

For example, Lincoln's Lifetime Income Advantage 2.0 rider includes a nursing-home benefit, which guarantees that income will increase by 10% if you've held the contract for five years and are age 70 or older when you enter a nursing home. The income resumes to its originally guaranteed level if the account value runs to zero.

Total contract fees for variable annuities with income riders run about 2.3%, and then there are expense ratios on underlying investments, which average 1%.

The value proposition of annuities has always been a subject of debate, because there are always trade-offs required to get some level of guarantee. For example, Wade Pfau, professor of retirement income at the American College of Financial Services, has run the numbers to show that a plain annuity with a fixed yield will give you a higher after-tax payout than if you invested in comparably safe Treasuries, even in a rising rate environment in which you roll one-year Treasuries into increasingly higher yields each year.

Consider investing $100,000 in an annuity with a 2.5% fixed seven-year rate, compared with a one-year Treasury yielding 1.2%. (That's where yields were when the study was conducted last year.) After seven years, the annuity would grow to an after-tax $114,151, and the Treasury, assuming rates stay level, to $105,967. If the Treasury's rate rises to 3.12%, the average since 1990, its after-tax total still lags behind, at $111,394. This is partly due to

Best Annuities: Tax-Deferred Investing Wrappers

These annuities are used to accumulate assets on a tax-deferred basis.

Traditional Variable Annuities

Assets grow tax deferred in underlying mutual fund-like investments. Assuming a $200,000 investment.

Company	Contract Name	Annual Contract Fee	Avg. Expense Ratio on Subaccounts**	Surrender Charge	# of Investment Options	5-Yr Avg. Annual Ret. For Best-Performing U.S. Growth Fund
Great-West	SmartTrack Advisor	0.20%	0.98%	none	100	16.4%
Transamerica	I Shares	0.20	N/A	none	71	20.7
Fidelity Inv Life Ins	Personal Retirement	0.25(1)	0.70%	none	61	17.2
Transamerica	Vanguard Variable Annuity	0.27	0.23	none	19	16.1
Lincoln National Life	ChoicePlus Assurance	0.30	0.94	none	114	17.2
TIAA	Intelligent Variable Annuity	0.35(2)	0.69	none	66	17.0
Pacific Life	Pacific Odyssey	0.30	0.95	none	100	17.3
Northwestern Mutual	Fee-Based Select	0.35	0.70	none	33	16.7

Variable Annuities With Alternative Investments

Company	Contract Name	Annual Contract Fee	Avg. Expense Ratio on Subaccounts**	Surrender Charge	# of Investment Options	5-Yr Avg. Annual Ret. For Best-Performing U.S. Growth Fund
Lincoln National Life	Investor Advantage	0.10%	1.01%	none	145 (132/13)	17.5%
Nationwide Life	Monument Advisor	$240*	1.12	none	359 (248/111)	18.0
Nationwide Life	Destination Architect 2.0	0.40%	0.98	none	120 (100/20)	16.2
Ameritas	No-Load Variable Annuity	0.45	1.00	none	65 (54/11)	18.0

(1) Fee drops to 0.1% when assets reach $1 million; (2) fee drops to 0.1% after 10 years;
* Flat annual fee for any size investment; ** This is the asset weighted average of expense ratios charged by the variable annuities' underlying mutual fund-like subaccounts.

Fixed Annuity With Guaranteed Rate

Assets accumulate at a fixed rate for a specified period; then the rate fluctuates.

Company	Rating	Contract Name	Guarantee Period	Guaranteed Rate
Sagicor Life	A-	Milestone MYGA 3	3 years	3.0%
Sagicor Life	A-	Milestone MYGA 5	5 years	3.6

Sources: Company reports, AnnuityAdvantage.com

higher interest rates paid by annuities. Insurers pool investors' assets and invest in corporate securities with higher yields than Treasuries. The annuity has an added edge if the Treasuries are held outside a retirement account—the annuity provides tax deferral, while the income from the Treasury portfolio would be taxable as it's paid out.

But there's a trade-off: liquidity. While many fixed annuities allow you penalty-free withdrawals of up to 10% of your assets, they lock up assets above that amount for a period matching its fixed interest-rate term. If you withdraw assets from a contract with a five-year fixed rate after three years, you may be subject to a surrender charge, which is a penalty that begins as high as 10% of assets in the first year, and declines over the fixed-rate period. The penalty can be high enough to erase the benefits over the Treasury strategy.

When it comes to annuities with lifelong income guarantees, the trade-offs in liquidity, flexibility, or explicit costs can be greater, and the value of the benefits depend on how long you live—a factor that is, for most, unpredictable.

For many folks, the decision of whether or not to buy an annuity comes down to peace of mind, says Davis Riemer, founder of financial-consulting firm DHR Investment Counsel who recently began suggesting fee-only annuities to clients. "As life expectancies extend and the risk of running out of money increases, annuities provide assurance. There's no other product that can do what annuities do." ■

Best Annuities: Downside Protection With Stock-Like Returns

Buffer Annuities

These contracts protect a certain percentage of losses and allow investors to participate in an index's upside, with caps. In some cases, fees are explicit; in others they are embedded in the caps. Assumes contracts are pegged to the S&P 500.

Commission-Based

Advisors collect a commission on a sale. The insurance company pays the commission, but its cost passes to investors either in an explicit fee or embedded in its caps on returns.

Company	Contract	Surrender Charge	Separate Fee	Protected Loss	Cap on Return* S&P 500
Great West Financial	Capital Choice	6 years	1.2%	10%	14%
AXA Equitable	SCS Plus	6 years	none	10	12
Lincoln National Life	Level Advantage B Share	6 years	none	10	12

Fee-Based

Advisors collect an annual fee for services, directly from investors.

Company	Contract	Surrender Charge	Separate Fee	Protected Loss	Cap on Return* S&P 500
Allianz Life	Index Advantage	6 years	0.25%	10%	14%
Lincoln National Life	Level Advantage Advisory	none	none	10	13
Brighthouse Financial	Shield Level Select	none	none	10	12.5

*Cap is reset each year. Source: Company reports

Best Annuities: For Future Guaranteed Income Later

Fixed indexed and variable annuities can be sold with income riders that guarantee future income. Strong performance by underlying investments create the potential for a bump-up in future income.

Fixed-Indexed Annuity Income Guarantees

Assumes a $200,000 investment by a 60-year-old male; payout begins at age 70.

Company Name	Rating	Rider Name	Min. Guaranteed Annual Income at Age 70	Total Income by Age 80	Total Income by Age 90
American National	A	Strategy Indexed Annuity Plus 10	$22,047	$220,470	440,940
Delaware Life	A-	Target Income 10	$22,000	220,000	440,000
Lincoln National	A+	Optichoice 9	$21,990	219,900	439,800

Variable Annuity Income Guarantees

Assumes a $200,000 investment by a 60-year-old male; payout begins at age 70.

Company Name	Rating	Rider Name	Min. Guaranteed Annual Income at Age 70	Annual Fee for Single/Joint Life*	Noteworthy Features
Lincoln National Life	A+	Lifetime Income Advantage 2.0	$17,920	1.25%/1.5%	If in a nursing home at age 70 or older, income increases to 10% of the benefit base (in this case to $32,000). After account value drops to $0 the regular guarantee ($17,920) resumes for life; generous death benefit
Prudential Financial	A+	HDLI 3.0	19,131	1/1.1	High income will not decline even if account value hits $0; includes a generous death benefit
Securian Life	A+	MyPath Ascend 2.0	19,040	1.4/1.5	Benefit base grows for 12 years rather than the usual 10; fits well for investors with a longer runway to retirement

*Does not include fees for the variable annuity contract or underlying investments. Sources: Valmark Financial Group; AnnuityAdvantage.com

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A fixed annuity is intended for retirement or other long-term needs. It is intended for a person who has sufficient cash or other liquid assets for living expenses and other unexpected emergencies, such as medical expenses.

Contract may be referred to as "policy" or "certificate" in certain states (certificate may not be available in all states). The certificate is a group annuity certificate issued under a group annuity contract issued by The Lincoln National Ife Insurance Company to a group annuity trust.

Investors are advised to consider the investment objectives, risks, and charges and expenses of the variable annuity and its underlying investment options carefully before investing. The applicable prospectuses for the variable annuity and its underlying investment options contain this and other important information. Please call 888-868-2583 for free prospectuses. Read them carefully before investing or sending money. Products and features are subject to state availability.

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