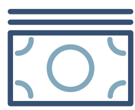
Is it time to bank on annuities?



If there's anything that the past few years have taught me, it's that things cannot be taken for granted. During the course of the pandemic we saw many things in our ordinary lives that were inevitable, become up for debate. Kids being able to attend school in person is a great example of that. Fortunately from a financial perspective, the government stepped in and was able to stabilize our economy during the shutdown. Now just 3 years later, almost to the day that the world shut down, our nation's banks find themselves in crisis. Again, government intervention may avert a total financial catastrophe, but something like your money in your checking account, not 3 years ago, but 3 days ago, is not something that was on the minds of most of us, certainly not me.

As interest rates rose in the past year, the nominal interest on your liquid cash turned into a relatively significant number. The major banks in our country did not seem to respond quick enough, leaving many checking accounts with no interest still, or interest rates on savings/CDs at 50% or more below that of their smaller peers. This brought about a shuffling of funds from some of the major banks to really anywhere in the country. The dawn of the online only banks with high yield savings, or local credit unions paying 100 or more basis points than the bigger banks create a situation in which many people moved their money into banks that they had little knowledge or exposure to before.

The most recent news publications claim that the recent banking failures are isolated and contained, but it still has created a shift in the way people view, yet another staple of our lives, our banking system. The safety of our safe money has now come into question. During the 2008 financial crisis, the spark that lit the fire was from the insurance industry. Its roots were in banking, but the lack of regulations in the insurance industry combined with a bad set of circumstances in interest rate volatility almost bankrupted our nation, potentially the world. During this time, those of us in the insurance industry were very concerned with the financial strength of the carriers that we represented. Many clients were initiating these conversations, and were very much concerned about the solvency of the companies that they were being presented. Enhanced regulations in banking and insurance were able to lessen the concerns. Now, less than a week into the most major banking crisis since then we find ourselves coming full circle to the concerns that were at the forefront of our discussions 15 years ago.

Insurance and banking products vary wildly, but the closest relatives between the two financial institutions are certificates of deposits offered by banks and fixed deferred multi year guaranteed annuities issued by insurance companies. Both have set terms in which you cannot access your full principal without penalties. Both generally pay above the market rate that is offered in a traditional savings account. There are two main upsides of a fixed annuity against a CD in most scenarios and they are that annuities tend to have higher guaranteed rates for the same duration (As noted below); and they grow tax deferred which allows for more flexibility from a tax standpoint and more net value to the consumer at the end of the deferral period. CDs by contrast generally have more flexibility during the deferral years, and lower penalties for access.

Current CD vs. Fixed MYG Annuity Comparison

#1 Highest APY on a 5 year CD in the country as of 3/13/2023: 4.54%

Life Brokerage's #1 guaranteed rate on a 5 year MYG annuity as of 3/13/2023: 5.55%

Annuities can create significantly higher guaranteed interest over the same duration period with the superior guaranteed rates that they provide. Circling back to the ratings conversation, fixed annuities are guaranteed contracts that are backed by the insurance companies that offer them, and are regulated at the state level. State guarantee funds exist and vary by state that may provide some form of protection due to insolvency of the insurance company, but this is where I think as insurance advisors, we sell ourselves short, by not showcasing the staying power that the major insurers that we represent have.

Life Brokerage only deals with insurance companies that are A rated or better from AM Best.

Below are 4 of the better rated carriers that we represent in the annuity space.
Take a look at how long that they have been around for:

Lincoln Financial Group: Formed in 1905

Mass Mutual: Formed in 1851

Nationwide: Formed in 1926

North American: Formed in 1886

Our A rated carriers have the staying power and financial history of that of the big 4 banks.

Bank of America: Founded in 1998 with original roots tracing back to 1956 and prior.

Chase Bank: Formed in 1799

Citigroup: Formed in 1998 in current form, although it's roots date back to 1812.

Wells Fargo: Formed in 1852

Now contrast that with the two banks below that have come under recent struggles:

Signature Bank: Formed in 2001

Sillicon Valley Bank: Formed in 1983

It's not fair to say that if something is new that it is bad. Or if something is old and been around that it's not susceptible to trouble, but when you look at the company's that we represent having provided financial stability and benefits to American families for 100-150 years, that is a powerful message.

At Life Brokerage we shop the market to ensure that we show you all of the features, financial strength and ratings included. What we are suggesting now is to consider putting it more in the conversation. Our job is to educate the consumer, and it's their plan, not ours. Doing your due diligence and going over the financials of the insurance carriers presented is just another point of value to bring up in your conversations.

Please let us know if we can be any of assistance with this, as we can provide you with detailed financial reports and current ratings from major agencies for any of the carriers that we represent.

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