Getting Started in Annuities (Getting Started In.....)

Gordon K. Williamson
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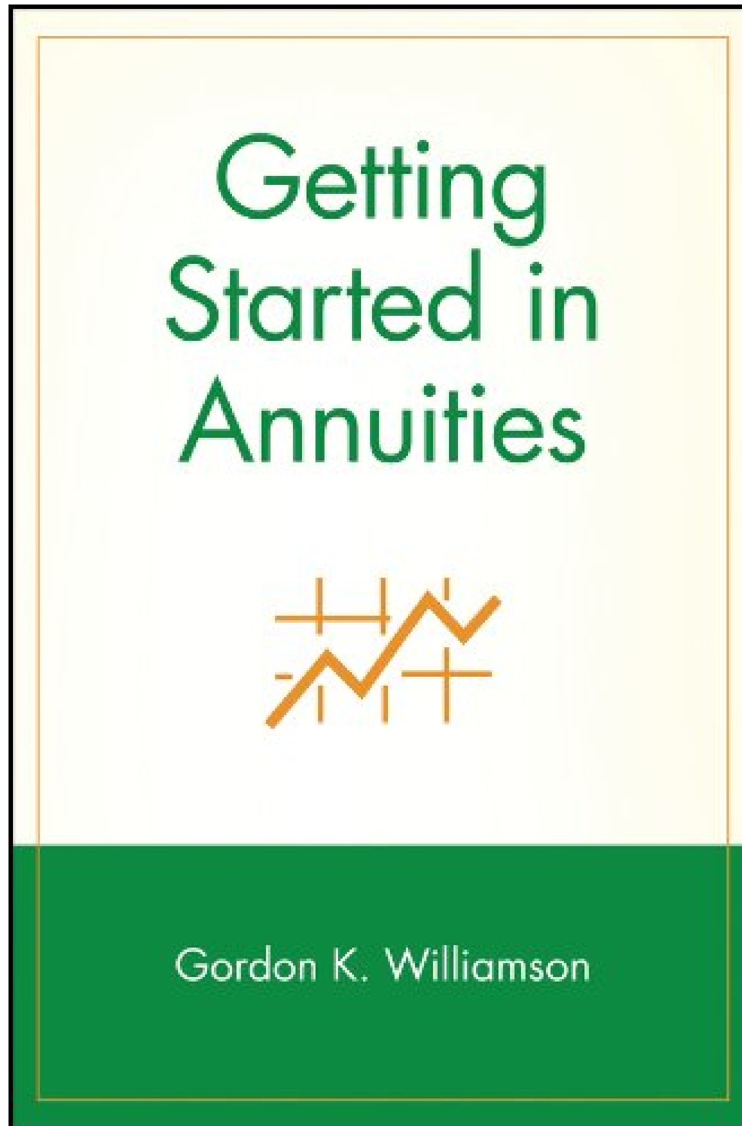

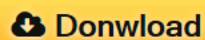

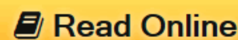

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Gordon K. Williamson : Getting Started in Annuities (Getting Started In.....) before purchasing it in order to gage whether or not it would be worth my time, and all praised Getting Started in Annuities (Getting Started In.....):

11 of 11 people found the following review helpful. An acceptable primer on annuitiesBy Artephius (.I wanted to do some research on variable annuities, and I was surprised to find very few books on the subject.I found Williamson's writing style acceptable, but not really enjoyable to read.I found this book informative, with some attention to the pros and cons of annuities, but with some major issues.When I first read the author's example of two investors (one invests $1M in a variable annuity and the other invests $1M in a regular stock mutual fund), my gut said something was wrong with his math. On page 65, he runs through these 2 cases and pronounces the variable annuity man the big

winner over the regular mutual fund investor....$11M to $6.829 after 24 years.The author mentions a 15% pretax rate of return and an average 12% return. From what I can tell he didn't use either number in his calculations.My analysis of his example goes like this....For the ordinary mutual fund investor to end up with $6.829M after taxes in 24 years, this gives an after tax return of 8.334% (using compound interest formula of FV = PV x (1+i)^n). This 8.334% after tax return equates to a pre-tax return of 12.5% if the investor is in the 33% marginal tax bracket. Note that my calculated return of 12.5% doesn't match the author's 12% or 15% numbers at all.The variable annuity man invests $1M at a pre-tax rate of 12.5% for 24 years which gives $16.891M. The variable annuity man nets $11.26M after being taxed at a 33% marginal tax rate.My first complaint is that the author used the wrong inputs for his model. My second complaint is that this example portrays an inaccurate picture of variable annuities. The author assumes 0% expense ratios for both the annuity investor and regular mutual fund investor. He points out correctly elsewhere in his book the average expense ratio of variable annuities is about 2.0%, yet he chose 0% expense rate for variable annuities. The average mutual fund expense ratio is about 1.38% with index funds from Vanguard at only 0.18% expense ratio. My third complaint is the author correctly applied an ordinary income tax rate of 33% to the variable annuity, but incorrectly applied the same 33% to the mutual fund investor. In 2007, the long term capital gains rate is only 15% and not 33%.If we redo the author's example using a 2% expense ratio for the variable annuity man, a 0% expense ratio for the mutual fund investor (he uses Vanguard's stock index fund with 0.18% expense ratio), and a 15% capital gains rate to the regular mutual fund investor.....then the story reverses. The regular mutual fund man wins with $11.28M after taxes compared to the variable annuity man's 7.32M!I was also very disappointed to see the author did not promote single payment immediate annuities as important tools in retirement portfolios. Many studies have been done which show that immediate annuities are advantageous to investors because they help prevent investors from outliving their money. The reason for missing this advantage of immediate annuities may be the book publication date of 1999. A lot of the key research papers on using immediate annuities in retirement portfolios did not start until around 2001 (Milevsky's papers).I did know that most states guarantee annuities in the event the insurance company declares bankruptcy. I thought the limit was $100,000 per insurance company, but the author says 80% or $100,000....whatever is less......of the annuity is paid by the state. This state insurance guarantee only applies to fixed annuities because your money is mixed with other people's money. In variable annuities, your money is kept separate and you own the underlying investments within the annuity.I found some of the author's logic a little ironic, or perverse, depending on how you look at it. Many studies (e.g. Dalbar) have found that investors only achieve a fraction of the stock markets return.......due to switching mutual funds in an attempt to chase the winners. The author contends that an investor would be better off in a variable annuity indexed to the SP 500 or Wilshire 5000 because they will be assured of getting at least the general stock market return. I found this an odd way to promote the use of stock index funds.One thing you realize reading this book is how complex variable annuities are. They are also laden with fees of all types. Uneducated investors have no chance of ever understanding or being capable of comparing variable annuities.The general idea of variable annuities is that their tax free compounding advantage out-weighs their disadvantages of lower returns (2.0% compared to 1.38% expense ratios) and lower after-tax returns (33% marginal rate for annuities, 15% long term capital gains) when compared to taxable mutual funds.In today's relatively low tax world, with high variable annuity expense ratios, I'm hard pressed to see where variable annuities make economic sense compared to conventional stock and bond mutual funds.Over-all an acceptable primer on annuities.I would suggest companion books to supplement this book including:The Richest Man in BabylonBogle on Mutual Funds: New Perspectives for the Intelligent InvestorThe Millionaire Next DoorThe Four Pillars of Investing: Lessons for Building a Winning PortfolioA Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing, Ninth EditionThe Coffeehouse Investor: How to Build Wealth, Ignore Wall Street, and Get On With Your LifeThe Bogleheads' Guide to Investing.0 of 0 people found the following review helpful. Not bad but may be complicated reading.By Philly PhilPrice was right. I did not read the book much but it looks like it is written in a complicated format. I do not suggested for light reading. It is in new condition. Not bad for the price.0 of 0 people found the following review helpful. Important Financial ProductBy Carol KayIf you are new to Annuities, one of the basic type of investments, this is a good overview that will answer your questions and outline the features and benefits of this important financial product.

Getting Started in annuities One of the most popular retirement investment options, annuities are also among the most difficult to comprehend. This handy volume provides an in-depth, easy-to-understand look at these complex instruments, revealing exactly what they are, how they work, and what advantages they have over other investment vehicles. Along with performance tables, sample portfolios, and a helpful Q A section, you'll find up-to-date details on tax law changes, as well as complete information on:

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popular retirement investment options, annuities are also among the most difficult to comprehend. This handy volume provides an in-depth, easy-to-understand look at these complex instruments, revealing exactly what they are, how they work, and what advantages they have over other investment vehicles. Along with performance tables, sample portfolios, and a helpful Q A section, you'll find up-to-date details on tax law changes, as well as complete information on:About the AuthorGORDON K. WILLIAMSON is an attorney, financial planner, and branch manager of LPL Financial Services. He is the author of fifteen books on annuities, mutual funds, and other investment topics.