

# Variable Annuities

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The cardinal rule of investing is, keep things simple, and variable annuities are anything but, melding the potential for growth that comes from stock investing with the guarantee of a steady income that all annuities are supposed to provide. Mixing motives costs you. The average annual expense fee for a variable annuity is 2.39 percent of assets, compared with the average mutual fund expense fee of 1.36 percent. (To see what a difference 1 percent can make, check out the chart below.)



Need we say more? We could, because that number doesn't even include sales commissions or surrender charges applied if you pull your money out years later. And the fund monitor Morningstar reports that the average variable annuity underperformed the average mutual fund no matter what time span it examined - one year, three years, five years, or ten years. For the past ten years the average variable annuity invested in stocks posted an annual return of 6.72 percent, compared with the average fund return of 8.71 percent. Studies also show that index funds outperform active managed funds 80% of the time. The average return of the S & P 500 over the last 70 years is around 10%; consider index funds and the new Target Retirement funds.