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## Key questions to ask before buying an annuity

Five experts tell James Frost why certainty of income is not for everyone.



There is much to consider before committing to buying an annuity. **Viki Lascaris**



by [James Frost](#)

**Chris Morcom, Hewison Private, director and adviser**

The one question I would ask is, 'Am I prepared to lock my capital into a relatively low rate of return for the rest of my life for the sake of having certainty of income?' It comes down to your attitude towards risk and return. If you have a diversified portfolio, you should be able to replicate the same characteristics. If an annuity is providing you with an income stream of \$20,000 a year, a substantial part of that return is your capital coming back to you with some interest. What you are betting against is your life expectancy. Fifty per cent of investors who buy an annuity will do well and 50 per cent will not do so well. Annuities provide a guaranteed outcome but that guarantee comes at a cost.

**Craig Day, GM technical services, Colonial First State**

Before purchasing an annuity product, investors need to understand their financial needs and compare those with the characteristics of the different types of available income streams. While annuities can provide a guaranteed income and have a range of social security advantages that may make them appropriate for some people, they may not be for those who like to have full control over how their retirement savings are invested or want the flexibility to be able to withdraw lump sums at any time. They may find an [account-based pension](#) is more appropriate. The size, strength and reputation of the different annuity providers are also important considerations.

**Gene Wilson, senior financial planner, Omniwealth**

People pay a premium for the certainty of income that annuities provide but don't want to pay over the odds for good advice. Most people think annuities will provide protection so that they won't outlive their money but, like everything, that comes at a cost. The key question every investor should ask is: who can help me to understand all of these products and which one best suits my needs? What am I getting for my money and can I rely on the provider? Features to consider include term (fixed or lifetime), whether capital is left at the end, buying before or after 60 and who can be a beneficiary. A good adviser should help navigate these questions to help choose the best product from the range available to them.

**Tim Wedd, executive director, Crystal Wealth**

There are many issues to consider with annuities, but the crucial question to ask is whether you can cope with an ongoing lack of access to your capital. If the answer is yes, then the next question is, to what degree? Annuities can include some limited withdrawal features but it is important to note that you may get back less money than you invested, depending on prevailing interest rates, if you decide to try to cash in the annuity during any withdrawal period. So if you are happy to lock up some of your capital, consider next the rate of return on offer and check that the annuity provider has the necessary financial strength to make good the income being promised – after all, that's the real point of an annuity.

**Ben McGrath, financial planner, Bendigo Financial Planning**

Investors need to ask themselves if they are prepared to trade off the volatility and the potential upside available from the sharemarket with a modest, but reliable income stream that may give special treatment under the aged pension assets test. If yes, then other benefits such as regular monthly payments and a fixed rate of return are key attractions. If you are eligible for a pension or part pension, the beneficial treatment given to annuities is advantageous (although slightly less appealing from January 2017 when the taper rate changes). The main drawback is that annuities offer limited flexibility, but if you value certainty above all else, they should be investigated carefully.

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Read more: <http://www.afr.com/personal-finance/what-is-the-one-question-investors-must-ask-before-buying-an-annuity-20161025-gs9vk2#ixzz4QIrF3zzY>

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