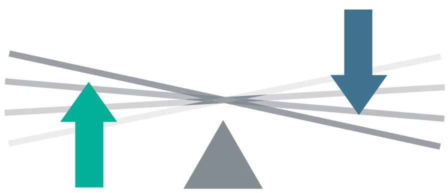
Are Bonds on the Bubble?

When saving for retirement, bonds are commonly viewed as a secure and stable option.

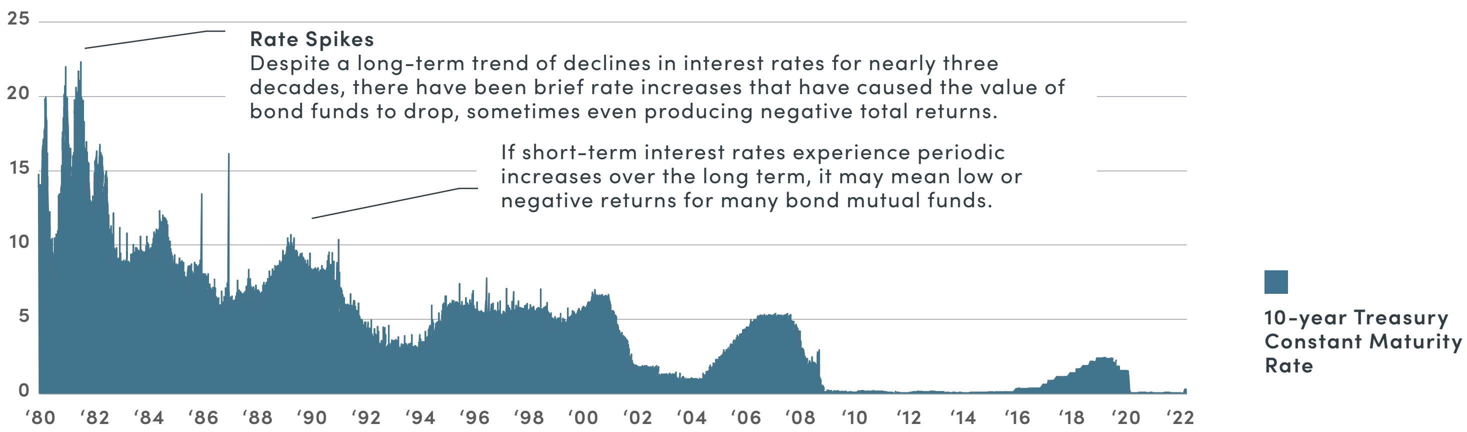
If you have bonds, you're lending money, whereas if you have stock, you own part of something. For retirement savings, individuals usually invest in bonds through a mutual fund. Different types of mutual funds are affected by interest rates in many ways. However, the main factor that affects bond fund values is interest rates.

Although some bond funds may increase when interest rates rise, bond prices and interest rates usually have an inverse relationship. As interest rates rise, bond values fall and vice versa. If some of your retirement savings are linked to those declining bond funds, your savings value may drop as well, though it is possible that any losses may be short term or eventually recouped.

When interest rates rise, bond values may fall.



What's Happening With Rates Now?



Interest Rates as Measured by 10-year U.S. Treasury (Constant Maturity), 01/01/1985 to 12/31/2021, home.treasury.gov

Additionally, during periods of high market volatility, most asset classes become highly correlated as was the case in the 2008/2009 financial crisis. Correlation tends to increase between asset classes during a market downturn, which would make asset allocation less useful as a risk management strategy precisely when it would perhaps be needed most. Simply spreading your investments across multiple asset classes may not provide adequate risk protection for your savings.

Rising interest rates in the future could result in low or even negative returns for bond funds. Conversely, interest rates rarely go lower than zero. If a portion of your money is tied up in bonds in a safe asset class experiencing decreasing rates, not only are you losing money on your investment in a volatile market but you're also missing out on the opportunity to create wealth.

The key could be placing your money in a non-correlated asset that can protect your principal from market volatility while allowing you to still grow your assets automatically by taking advantage of broader interest rate markets.

An Example of the Inverse Relationship Between Bonds and Interest Rates			
Years to Maturity	Rates Rise 1.00%	Rates Rise 2.00%	Rates Rise 3.00%
5	4.3% decrease in value	8.4% decrease in value	12.3% decrease in value
10	7.7% decrease in value	14.7% decrease in value	21.1% decrease in value
20	12.5% decrease in value	22.9% decrease in value	31.8% decrease in value

The table above is an example for a generic bond with 4.00% annual coupon and 4.00% yield and shows how interest rate changes can affect bond prices. The quality of the bond, the marketplace, and other factors contribute to the price of a bond and any subsequent decline in price if interest rates increase. For example, a rise in interest rates in a deteriorating economic environment would usually result in a drop in the price of a low-rated bond faster than the price of a highly rated bond of the same maturity.

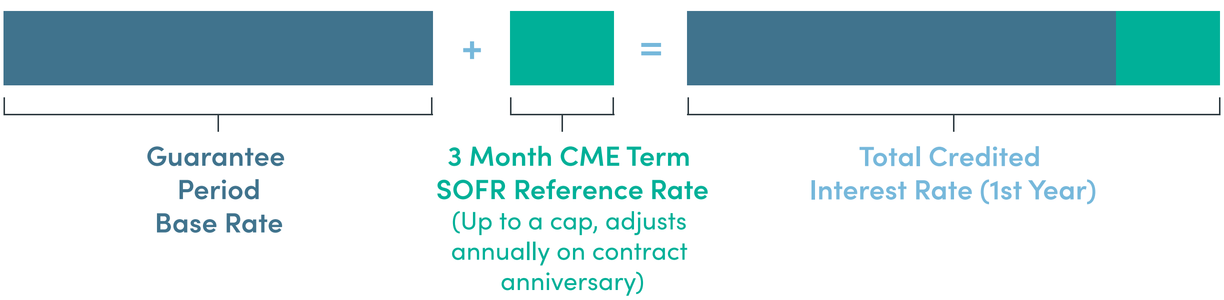
Consider the Innovative RateTrack® Annuity

Your retirement saving strategy may entail a 60/40 or 70/30 stock/bond split. The Security Benefit RateTrack® Annuity, the industry's first floating rate annuity, offers an alternative to your current bond allocation strategy by providing an interest rate that resets each year on your contract anniversary – allowing you to benefit automatically if rates rise. If bond fund values drop and stocks are too risky for you, you can be confident that your RateTrack® Annuity will not lose value because of market declines.[1]

Here's How RateTrack® Annuity Works

RateTrack® Annuity combines both a fixed interest rate as well as a floating rate to provide the potential for increased interest crediting during your contract's Guarantee Period.

If you're concerned about the fluctuating values of bond funds, consider moving a portion of your bond fund allocation to the RateTrack® Annuity.



Talk to your financial professional to see whether a Security Benefit RateTrack® Annuity can complement your retirement portfolio or contact us at 800.888.2461.

[1] If you surrender your annuity during the Surrender Charge period, you may receive back less than your principal.

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