Why Fixed Index Annuities May Be a Better Choice Than Bonds

As you near retirement, protecting your savings and ensuring they'll last throughout your lifetime become significant financial considerations.

Many savers nearing retirement gradually shift their portfolios into a more conservative direction. This strategy can help protect against a stock market decline. For example, if your portfolio is only 25% invested in stocks, a stock market decline wouldn't dent your nest egg as much as if you had 50% invested in the market.

And while de-risking your portfolio as retirement nears makes sense, there is a potential danger to this strategy: being too conservative can limit your ability to generate enough income to fund your retirement.

Take bonds, for example. When used as a conservative, fixed income investment, they can provide stability and predictable income. But, in today's low interest rate environment, most simply don't provide a lot of income. You may want to consider a safer money product that can still help offset the risk of running out of money.

Fixed index annuities (FIAs) may be an attractive bond alternative. FIAs offer the option to receive a declared interest rate along with the option to allocate to accounts that credit interest based on part of the change in one or more financial market indexes. The insurance company assumes all risk if the index accounts fall below 0% – meaning that while you participate in some of the growth of a particular index, your account is protected from all market loss.

FIAs offer several benefits that bonds don't:

- **The power of tax deferral.** Money in a FIA isn't taxed as it grows; you pay tax when you withdraw funds from it.
- **Protection from market downturn.** Funds allocated to one or more index accounts participate in part of those index gains while being protected against all market downturns.
- **No bond default risk.** When you purchase a bond, you are subject to the risk that the bond issuer could be unable to make their required payments. FIAs don't have the same risk.
- **No potential loss of principal in a rising interest rate environment.** When interest rates rise, bond prices typically fall, which devalues your initial investment. FIAs protect your principal even as interest rates fluctuate.

A Case for Considering Fixed Index Annuities Over Bonds

FIAs have historically performed better than long-term government bonds:

According to Ibbotson Research, FIAs have historically outperformed long-term government bonds – with comparable volatility and better downside protection. The example below shows the annualized performance for the period of 1927-2016, net of assumed fees for Large Cap Stocks, Long Term Gov't Bonds, and a simulated FIA.*

Example: Hypothetical Net Return (1927-2016)

	Large Cap Stocks	Long Term Gov't Bonds	FIA
Annualized Return	9.92%	5.32%	5.81%
Standard Deviation	19.99%	9.97%	10.01%
Minimum Annualized 3-Year Return	-27.00%	-2.32%	0.00%
Maximum Annualized 3-Year Return	30.76%	23.30%	27.56%

Table Source: 2017 SBBI Yearbook, Roger G. Ibbotson, Duff & Phelps; Zebra Capital; AnnGen Developement, LLC

*For the period 1927-2016, Ibbotson Research simulated the net performance of an FIA with a large cap equity index based upon thirty 3-year holding periods, the price return of a large cap equity index, a minimum 3-year net return floor of not less than 0.00%, and uncapped dynamic participation rates (net of assumed fees.

Assumes annual expenses/fees for passive stock and bond funds to be 0.10% and 0.19% respectively.

The fixed index annuity offers interest credit options, determined in part by the change in one or more financial market indices instead of interest rates. While those index options limit upside market participation, it does protect against all downside risk.

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Talk to your financial professional to see whether a fixed index annuity can complement your retirement portfolio or contact us at 800.888.2461.

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22-90291-35 2018/07/02