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**Annuities cure stock market anxiety, but you better hustle if you want one; Annuity payments are influenced in part by interest rates, which have plunged since February as a result of the economic damage done in the COVID-19 pandemic**

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Every time the stock market crashes, financial planner Alexandra Macqueen wonders whether people will finally start to see the value of annuities.

Stocks have been at their erratic worst this year – falling like a brick, rallying back and then stumbling again at mid-month. “Well, what if you never had to think about that again, ever?” asks Ms. Macqueen, a certified financial planner (CFP) who specializes in retirement issues.

Annuities are insurance contracts that work like this: Pay a life insurance company a lump sum amount, get a set monthly payment for as long as you live.

A couple of veteran insurance advisers have reported an uptick in demand for annuities since stocks crashed in March. Don’t delay if you’re interested because annuity payments are almost certainly headed lower. “There’s probably a window where prices are more attractive now than in the coming months,” said Ms. Macqueen, co-author, with Moshe Milevsky, of Pensionize Your Nest Egg. “If you’re thinking about it, there’s no reason to wait.”

As of mid-month, $100,000 put into a non-registered annuity could have produced annual income of $5,068 for a 65-year-old woman. The same annuity bought in February would have paid $5,255, which means payouts have dropped by 3.5 per cent. Prepare for more declines ahead.

Annuity payments are influenced in part by interest rates, which have plunged since February as a result of the economic damage done in the pandemic. Rates have dropped much more dramatically than annuity payouts so far, which isn’t unusual.

A 2016 study by academics at York University’s Schulich School of Business and McMaster’s DeGroote School of Business found that annuities are not as sensitive to changes in interest rates as expected, and that annuity payouts react more quickly to rate increases than decreases. This suggests there’s currently a window of opportunity to buy an annuity before payouts adjust further to the decline in rates.

Those declines have been massive – the five-year Government of Canada bond yield has fallen to about 0.4 per cent from a 12-month peak of 1.7 per cent in mid-December. The Bank of Canada’s trendsetting overnight rate now sits at 0.25 per cent, down from 1.75 per cent early in 2020.

Those rate declines are as much a feature of the pandemic’s impact on financial markets as the 37 per cent peak-to-trough decline in the S&P/TSX Composite Index. Stocks surged back, then last week turned in the worst day since March. Many investors have been staggered by the volatility, but there’s not been a flood of interest in annuities.

Overall volume of annuity quotes on the Cannex Income Annuity Exchange fell to 38,241 between March 1 and June 15 this year from 71,940 in the same period last year, a decline of 47 per cent. The exchange is a service that provides annuity quotes and illustrations on behalf of companies representing the majority of annuities issued in Canada.

While the Cannex numbers reflect a sort of investing paralysis caused by the pandemic, some long-time insurance advisers say they're selling more annuities. **Rino Racanelli**, an independent insurance adviser in Toronto with 27 years in the business, said demand for non-registered annuities (not held in registered retirement income funds) has risen 25 per cent over the same period last year, while demand for registered annuities has jumped about 35 per cent.

"There are people who are worried about fluctuations in the stock market – they don't know what to do," Mr. Racanelli said. "They tell me that if they go into the market and they buy low, they're going to end up making money. But then they think the market is going to crash again."

Ivon Hughes, of Hughes Trustco Group in Montreal, said demand for annuities is up about 10 per cent over the level of a year ago. He says that six to eight weeks often go by between the time someone makes a first inquiry about an annuity and then actually buys one.

"A lot of thinking goes into buying an annuity," said Mr. Hughes, who has been selling annuities for close to 50 years. "People come in and get a quote and we talk to them, but it often takes people a long time to get around to it."

With an eye on low rates and expected future declines in payouts, let's see if we can ease some of the doubts that cause people to be indecisive about adding annuities to their portfolio of retirement investments.

One of the biggest reservations is based on the inescapable fact that low rates do depress annuity payouts. But Mr. Racanelli said there are several other factors at work in determining annuity payouts:

* Registered vs. non-registered: Registered annuities have slightly higher payouts, based on the actuarial assessment that people with non-registered money live longer.

* Amount invested: A $100,000 non-registered annuity for a 65-year-old male would pay $5,316 in mid June, while a $200,000 annuity would pay $10,837; that's a premium of $205 annually over a doubling of the $100,000 payout.

* Age of the annuity buyer: As you get older, the impact of interest rates on annuity payouts declines.

* Gender: Because they live longer, on average, women receive less than men of the same age.

* Insurance credits: Also known as mortality credits, this term refers to the component of annuity payments from people who bought annuities and died before they used up what they paid in.

Another concern with annuities is safety. Sure, they shield you from stock and bond market gyrations, but what if your insurance company fails? In that case, an insurance industry-funded compensation plan called Assuris protects up to $2,000 in monthly income and 85 per cent of amounts higher than that.

Another reservation about annuities is that they force you to give up control of your money. You can't undo the annuity once bought, and you have no say in how the money is invested. However, annuities can be bought with a guarantee to make payments to your beneficiaries or estate for up to 20 years, regardless of whether you die before the guarantee period is over.

One solution to the rigidity of annuities is to use them in a limited way to cover fixed expenses. "More and more, the advisers that I talk to are taking the approach called 'building the floor,'" Ms. Macqueen said. "It's income that you can't outlive and that meets your basic needs forever."

Using this approach, annuity payments would combine with Canada Pension Plan and Old Age Security payments plus workplace pensions to pay your rent, home upkeep, utilities and groceries. Discretionary spending on entertainment and travel would be funded from investments held outside the annuity in stocks, bonds and funds.

If your investments have a bad year, you could respond by curtailing discretionary spending. But you'd have no worries about covering basic costs because your annuity plus CPP and OAS would be guaranteed.

One more reservation people have about annuities is that advisers recommend them because of rich fees and commissions. Ms. Macqueen said the annuity pays a one-time commission between 1 per cent and 3 per cent, and in her experience it could be negotiable.

This level of compensation is far below mutual funds, where advisers and their firms receive trailing commissions – annually – from fund companies equal to as much as 1 per cent of the client's investment.

In fact, the way that fees are charged by advisers in conventional accounts works very much like an annuity. "Management expense ratios and fees are generated on the portfolio every year and a portion of that goes back to the adviser," Ms. Macqueen said. "In that circumstance, the client is the annuity."

What annuity buyers are doing

Ivon Hughes of Hughes Trustco in Montreal has been licensed to sell annuities since 1972. Here are three observations he has on buying decisions made by people seeking annuities:

* Average amount invested: $150,000 to $200,000, but also a few as large as $1-million;

* Age range of buyers: 67 to 72 for both registered and non-registered annuities;

* Inflation-indexed annuities: "People get quotes on them and no one ever buys them. Not from me, anyway." The reason is that payouts for indexed annuities are much lower.

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