Safe Money Advisory

Can You Earn Higher Interest Rates Without Risk?

For Immediate Release
Houston, Texas

Interest rates are currently at historical lows and expected to stay there for the foreseeable future. If you had $500,000 in a 5-year bank CD paying 6% your annual interest was $30,000. Currently the national average rate for 5-year CDs is 1.84% to yield $9,200 a year – 70% lower than before. Lower interest rates have left many retirees with perplexing choices: live on less money, invade the principal or find something paying 6% to replace the matured CD. What are many retirees doing to make up their loss of income?

Many retirees are switching to bonds because many bonds have fixed rates better than CDs. Wall Street is loudly shouting that bonds are great for income seekers and retirees are listening. There is a problem: if interest rates rise, the value of fixed rate bonds will fall. Let's see how this works. Let's say you purchase a new AAA rated, 10-year bond with a face amount of $1,000 and a 3% fixed rate. This bond will pay you interest of $30 (3%) annually. When the bond matures in 10 years, you'll receive $1,000. What could go wrong?

Let's say that due to massive overspending by the federal government, 10-year AAA bond rates rise to 10%. You could now buy the same bond as before and get $100 annually in interest. What will happen to the market value of your $30-a-year-interest bond? Correct, it will fall because the interest it pays is lower than the identical new bond. You'll still be entitled to the $1,000 at maturity in ten years. Generally higher interest rates and inflation are traveling companions; thus, the $1,000 you'll receive in ten years will buy less than it will today. How much the market value of your bond falls will depend on: (a) how much rates rise, (b) how close maturity is, and (c) changes in the rating. The higher rates rise, the longer the maturity and lower the rating goes, the higher the market loss of your bond will be. Can any or all of these things happen?

First interest rates are at all-time lows; thus, it seems prudent to expect higher rates in the future if the economy recovers. If you need to sell before maturity, say because of an emergency, chances are you'll have a loss. Second, prices may also rise due to the exploding federal deficit and the need for corporations to recover losses of the past several years. If so, your money will not buy as much as now. If the economic recession continues, corporations and governments will experience harder financial times and their bonds will suffer lower ratings. Unfortunately, some retirees are buying lower rated bonds to get the higher interest rates. The immutable law of investing says: potential risk and interest rate always move in lock step. Retirees beware!

So, what alternative do you have other than very low rate, short-term bank CDs? There is a little known "forgotten option" called fixed annuities. They offer: a fixed rate, plus an opportunity to earn more if the market to which they're linked does better; tax deferred earnings until withdrawn; creditor-proof in many states; bypasses probate; have no-loss guarantee if held to maturity; convertible into a guaranteed lifetime income at your option; generous liquidity and penalty-free money if needed for an emergency. Fixed annuities are offered by insurance companies – the same ones that insure your home, car, health, life, business and other valuables. While annuities are not for everyone, you owe it to yourself and loved ones to find out if they're right for you. The best way to find out about fixed annuities is to ask your financial advisor for guidance. If you don't have a financial advisor, find one immediately because managing your retirement money properly is complicated and should involve a financial professional. I encourage you to check out the "forgotten safe money option".

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September 2010