**Investment Failure: The High Cost of Procrastinating**

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After experiencing turbulent equity markets over the last decade, many people decided it may be better to trade the possibility of high returns for guaranteed fixed returns for at least a portion of their money. The problem is that some of these same people have kept their money out of the market entirely because they are waiting for interest rates to rise. This failure to invest has cost these procrastinating investors considerable money that may never be recovered.

On the first day of August 2010, the U.S. 5 year treasury yield was 1.64% and by 2015 it was 1.89% - not much movement. Maybe interest rates will rise over the near term, maybe not. If rates do rise, will the interest earning lost now ever make up for the higher rates later? Nobody truly knows. But, let’s look at some reasons why any near term increase in interest rates will likely not be substantial:

- devalued Chinese currency and the likely correlated slowing of US inflation;
- falling global commodity prices;
- Eurozone economic weakness;
- average annual growth of the US gross domestic product around 2%, reflecting a slow healing from the 2008 financial crisis; and
- today’s “new normal” isn’t exactly a period of robust growth for quality full time jobs, spending, manufacturing or other economic indicators that would normally drive rising interest rates.

Despite this data, many people remain comfortable leaving their money on the side-lines in the hopes that interest rates will finally rise substantially. Your bank savings account likely offers almost zero interest and bank CDs are not much better. However, if you invest in a fixed annuity, you would be considerably ahead. Consider this example:

Using $100,000, you keep your money in a bank savings account earning 0.06% for the last 5 years. At the end of the 5 years, your savings account increased $300. Alternatively, you purchased a 5 year certificate of deposit (bank CD) and received a jumbo rate of 0.84%. At the end of the 5 years, your bank CD account value increased $4,285. Certainly not great returns.

For the same $100,000, you could have purchased a 5 year fixed annuity that earns 2.70% annually. Your interest rate is guaranteed by the issuing insurance company during the entire term. Your account value would be $14,249 at the end of the 5 years. You earned $13,949 more than the savings account and $9,964 more than a bank CD!
In addition to a significantly superior return, there are other benefits to buying a fixed annuity. You get liquidity benefits (capped annual free withdrawals), a death benefit and annuitization features, which permit you to convert the annuity’s cash value into payments for a specific term or for your life. Annuities also permit you to name a beneficiary, which could provide estate planning benefits. A saving account or bank CD simply don’t provide any of these benefits.

By choosing to wait or investing in a lower-yielding financial product, consumers could lose valuable investment earnings and may never recoup the gains offered by a fixed annuity today. As the above chart shows, the cost could be substantial.

DISCLOSURE: Bank savings account interest is an average of interest rates on $100,000 at the three largest banks in the United States as of August 19, 2015. The 5-year bank CD is the national average as quoted by www.wsj.com for a jumbo account. The 2.70% annuity rate is quoted from Knighthead Annuity & Life Assurance Company as of August 25, 2015 and is compounded annually. All other rates are compounded quarterly. All interest rates are subject to change. An annuity is not a bank product and is guaranteed by the issuer. Knighthead Annuity does not issue annuities to US persons or in any jurisdiction where prohibited. This article is the opinion of the author only.