

## MAKING CENTS

### CHECK OUT NEST EGG GUARANTEES

-John P. Napolitano, CFP®, CPA, PFS, MST, RLP®



**M**any people are looking for guarantees for their nest egg these days. They are concerned more with the return of their money than the return on their money. The proof of this statement lies in the billions of dollars sitting in money market accounts earning less than 1 percent a year.

Interest rates have been quite low for a long time, and many experts think that low rates may persist for a few years still. With this scenario, it won't be long before alternatives paying higher than your bank or money fund will begin to catch the eye for some conservative savers.

Many types of savings vehicles and insurance contracts offer a guarantee. Fixed annuities, life insurance contracts, savings account and certificates of deposit all offer guarantees. But how good is that guarantee?

The easy answer is to check the ratings of the company that you choose, but recent happenings would even cast doubt on the accuracy of the ratings services. There are four mainstream companies that rate insurers or banks. These are A.M. Best, Standard & Poors, Duff and Phelps and Moody's Investor Services. Another one, Weiss Research, is rarely considered to be in the top tier by banks and insurers. For my money, I appreciate the very tough look and candor that I've read

from Weiss Research. It is not uncommon for a company to have reasonable ratings from one of the big four and poor to satisfactory ratings from Weiss.

Another way to make sure that an unkept promise or guarantee doesn't cripple your finances is to diversify. Even if your local bank is run by your best buddy, maybe you should bone up on FDIC rules and spread out your safe money for the most

protection under federal law. I would make the same case for annuities. If you are inclined to lock up all your money into guaranteed fixed annuities, do not commit all of the funds to one insurance company.

Diversification should also happen by using different products and different time frames.

Don't lock all of the CD money in a 5-year CD just because it

has the highest rates today. I'd use a little from every time period offered because even though your 1- or 2- year guaranteed rate may be low, the renewal rate in one or two years may actually be higher than today's rate for the 5-year CD.

Even though you may decide to take the guarantee, spread your risk and understand who is guaranteeing your guarantee.

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