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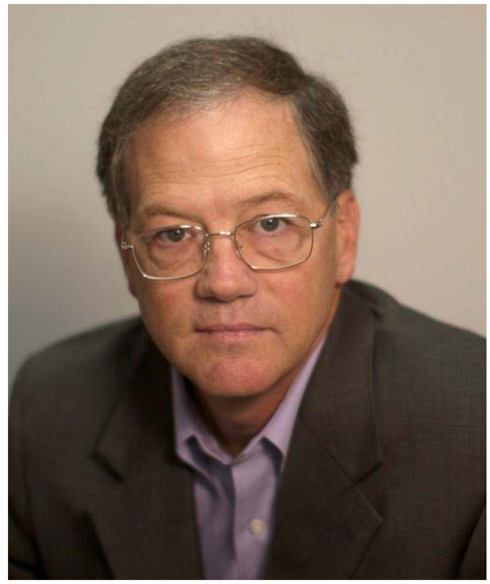
Retirement Strategies Take a Shine to Gold



Jay Tyner

Jay Tyner, President and CEO of Greensboro, NC –based Semmax Financial Group recently spoke to The Street.com.

BOSTON (TheStreet) -- Worries over domestic debt, fear of a double-dip recession and a desire to hedge against inflation are among the issue that have heated up gold fever and spiked the price of the precious metal to roughly $1,800 an ounce. Should the mindset of gold bugs -- despite some recent price declines -- play into a retirement strategy, especially given the corrosive effect on savings inflation can have?

The "golden years" live up to their name as annuities and other products turn to the precious metal.

In recent months, some annuity providers have been starting to index their products to commodities. Among them is Investors Insurance, a subsidiary of SCOR Global Life. Its PremierMark SE fixed-index annuities include a product that links credited interest to performance increases in the price of gold during the term.

By using the price of gold instead of the growth of an equity index to determine interest crediting, "this annual point-to-point strategy can turn a portion of your premium into a hedge against economic uncertainty," marketing materials claim, describing it as "the fallback position when Wall Street turns bearish."

Billed as "among the first of its kind offered on a fixed-index annuity," the strategy takes the closing price of gold on the last day of the term period and compares it with the price at the beginning of the term. The annuity contract is then credited with 100% of the gain in the price, up to a predetermined "cap" or maximum rate of interest. The interest credited is locked in annually, never less than 0%.

A key selling point is that money is protected, with opportunities for long-term growth, says Jay Tyner, president of North Carolina-based Semmax Financial Group, who finds merit in the approach.

"One of the things our clients have wanted to get away from was some of the risk and yet still have opportunities," he says.

Investors need to be aware that they don't actually own any gold and instead are placing their bets on index credits that are made point-to-point on an annual basis.

"On the last day of the term period they can compare that with the beginning date and they have either a gain or a minus," Tyner says. "Obviously, if it has gone down they don't get any interest credits. If it has gone up, then the gain is available for them, during that predetermined time, up to a cap [typically in the 8% to 9% range]. They always have a cap. The annuity company has to protect itself so you are not going to blow out the roof."

"The thing I like about this is that if gold does continue to go up, you can capture some gains of gold without having any underlying risk," he adds. "That's what clients like to hear. Everyone is typically afraid that they are getting in on the tail end of the trend and we are going to have a huge gold correction and they will be left holding the bag."

The guarantees in place, he says, come as a tradeoff to the cap. Ideally, investors have a chance at potential returns that can be converted to an income stream or handed down to beneficiaries without much risk.

Another selling point to the approach, Tyner says, comes from "re-indexing."

"If you were to open an account with gold at $1,500 and it goes up to $1,600, you've got a nice little gain," he says. "Then, all of a sudden, we have a major correction. For argument's sake, let's say gold drops down to $750. The next year this client has taken a zero loss and now can re-index it at $750 and start earning from that lower point. You might have some good years and some bad years, but every time there is a bad year it is like you just stepped out to cash for a year and then get back in next year without taking a loss."

Beyond such specialized annuities, the allure of gold has yet to play a major role in mainstream retirement strategies.

Investors do have the option of finding an IRA custodian that allows gold as an investment option. Brokers and custodians will be needed as an intermediary to handle the acquisition and storage of the physical gold, however. Various mutual funds and ETFs can also be added to an IRA for a taste of gold with futures contracts offering a more speculative play.

Those with 401(k) plans will find their options rather limited.

Last month, Mercer -- a global human resource consulting firm and subsidiary of **Marsh & McLennan**(MMC) -- released the findings of a survey to assess plan sponsors' views on investment trends in defined contribution plans.

Among its key findings were that, despite inflation concerns, very few plans offer the ability to invest in gold or other precious-metals funds. The inherent lack of diversification was cited as a concern.

A mere 3% offer gold as an investment option and only 1% plan to offer it next year.

"While there has been a great deal of discussion involving commodities, gold and emerging-market debt, the vast majority of sponsors -- over 80% -- do not offer these asset classes and do not intend to include them as fund options," the study says.

In contrast, in a Gallup poll last month, 34% of respondents said gold is the best long-term investment, more than say so about four other types of investments. Real estate (19%) and stocks (17%) are distant second choices.

"Gold is Americans' top pick as the best long-term investment regardless of gender, age, income or party ID, but men, seniors, middle-income Americans and Republicans are more enamored with it than are other Americans," a summary of the findings says. "After gold, low-income Americans are most likely to pick savings accounts as the best option for long-term investing."

The pollsters say that the "sentiment among many Americans may be related to the growing lack of confidence in the U.S. economy," particularly among upper-income Americans "who are now more pessimistic about the direction of the economy than their middle- and lower-income counterparts."

-- Written by Joe Mont in Boston.