Many retirement-age clients have asked me for my view of annuities as a vehicle for converting their savings into a lifetime income stream. My view is that, while specific annuities may be part of the answer for certain investors, it's almost always a better idea to invest your nest egg in a balanced income portfolio.

Let's walk through the pros and cons of annuities for retirees. Annuities come in many variations—immediate, deferred, fix-rate and variable rate. They are attractive to many retirees who prefer the certainty of guaranteed, regular income to the potentially greater returns and higher volatility of conventional investment portfolios.

But what many investors don't appreciate is that this certainty comes at a high cost. The multiple layers between the investor and the investment often lessen the amount that can be generated for the client. One of these layers is the insurance agent who sells products (including annuities) for the insurance companies. Agents generally collect sales commissions as low as 1% and as high as 15%. These charges are usually recouped by high internal fees and long lockup periods of your money—thus lessening the return on the investment.

Sales charges are just the start. All those attractive riders that look so good at the time of purchase—a death benefit, a lifetime income guarantee and so on—can be just a ruse for the insurance company to increase the ongoing cost of their product. These insurance company fees have nothing to do with your investment, but do have a great impact on your investment return. It is not uncommon to see additional costs of 1% to 2% to manage the investment account in some variable annuities. All of those fees can easily ruin your total return of your portfolio and/or lower your annual income.

To come out ahead after absorbing all those charges, investors in these variable rate annuities may need to take a "more than their risk tolerance allows" aggressive investment stance within their account. In doing so they are likely to take on more risk than is prudent for a retiree who no longer has work income. On the other hand, the current low-interest-rate environment means that "safe," fixed-rate annuities will have a hard time generating enough income to meet all of the rising needs of retirees.

In contrast, balanced direct portfolios are far more flexible and transparent: If you need the money for any reason and at any time, it's available to you.

Now, a regular income portfolio doesn't have the investment guarantees that are available through an annuity. But in my experience, a properly allocated portfolio can generate comfortable cash flow from bonds and dividend-paying stocks while hedging against market risk, interest-rate risk and inflation. My view is that a long-term, balanced-income portfolio can provide more income over its lifetime than any high-fee annuity will over that same time.

In addition, the charges associated with income portfolios are easier to understand and generally significantly lower than those of annuities. And the fact that they give you control over your money can't be overlooked. I've met many investors who have become disillusioned with their annuity but, because of the high surrender charges, realize it might be difficult or unwise to make a change.