Wealth Management Strategies

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A New Type of Pension with

NO GOVERNMENT INTERVENTION!

During these difficult times the greatest fear we are hearing from our clients is:

"I want to make sure I don't outlive my money"

Or

"I want to make sure my principle is protected"

How You Can Create A Paycheck for Life

Imagine a retirement with an insured monthly income well that never runs dry, no matter how long you live and even you're your account value runs out. If you are married, you can choose a joint option with your spouse.. That is the dream of most in or about to retire.

That is why Pension plans were so widely used. Many pension plans offer individuals a lump sum option but **most individuals turn it down**. Even if they could have made more investing the money themselves, they are afraid of what could happen if they don't make the right investment or personal decisions.

First let me start out by a explaining a pension plan is nothing more than a lifetime income insured by the company you slaved for all your life. Pension plans offer you a few options that vary by the amount of income you want to leave your spouse. The more you take the less your spouse receives.

Here are the facts with Most Pensions:

1. If you choose the 100% option for yourself, your spouse will not receive income when you die. If you chose an option for you and your spouse, then when you die your spouse could have a substantial decrease in income.

2. Most pensions do not have increases if the investments your previous company makes do better than expected.

3 They are looking at death averages. The companies know a few people will live long lives. In this scenario the employee "wins". For those who die not long after their pension start, they and their family "lose big".

4. For most pension plans, no matter what option you chose when both individuals die, your beneficiaries receive nothing.

We are not saying that having a pension is a negative thing. Millions of people rely on that monthly check which they know they will receive for the rest of their lives. Just like Social Security. The reason people are willing to accept the returns they receive from their company pension plan is because they are given what we call SWAN insurance by their previous employer.

SWAN = **S**leeping **W**ell **A**t **N**ight!

Let's put it all together. Many people work 25 to 30 years for a company or companies to obtain a monthly pension income they can count on for the rest of their lives. Your lifetime income is based on your previous employer's ability to pay. Hopefully they have not under-funded their pension plans or do not go out of business.

Many have an option to roll a lump sum into a self-directed IRA, but they choose not to. They would rather have that guaranteed income. Most pensions use some actuary table to give you a certain income for life. When you chose a pension option you are trading your lump sum payout option for a lifetime guaranteed income payout.

A New Type of Insured Lifetime Pension Option

There are now programs offered through top insurance companies that will guarantee you a stream of income or a monthly paycheck for the rest of your life just like a pension. This is how they work:

Paycheck for Life

First, during your growth period you will receive 4% to 7% (depending on the product and company we choose) per year guaranteed growth on top of your original deposit (for the purpose of income for life) **This is for your pension value not your account value**. We will go into greater detail when we meet one on one). When you retire and you and activate your income or pension rider, you will have a guaranteed income for life.

Most individuals start their income between ages 65 to age 75. Even if your actual account balance goes to 0, you will continue your paychecks for the rest of your life. There is also an option for 2 lives for you and your spouse, just like with an actual pension plan.

Guaranteed Income Benefit Example Based on $100,000 deposit:

Example #1 Start income immediately and you are age 70
Income at 6% of 100,000 = 6,000 a year insured for your life

Example #2 If you wait 5 years and you earned 5% each year. Value = $125,000
Income at 6% of 125,000 = $7,500 a year insured for your life

These are basic examples. Your growth could be different, which means your results would be different. The guaranteed living benefit riders cost varies from company to company. The costs range from .45% to .75%.

Income/Pension for 2 Lives

This same rider with some companies can insure the incomes for 2 lives, (most cases must be husband/wife). The discount is usually around 1% less for each person. For example if you chose 1 life you would have 6% of your account value starting at age 70. If you chose 2 lives you would receive 5% of your current account value.

Death Benefits

Death benefits vary from company to company. If you chose the living benefits with some FIAs then you will receive the balance of your account value minus any income received. Most individuals who choose the income rider do not choose the death benefit rider. We strongly recommend a separate life insurance policy if you are concerned with leaving a larger amount to your beneficiaries.

We know this may sound confusing. That is why it is important that your advisor be an expert in FIAs. This will insure you understand completely how this works before you purchase any of the benefits.

Disclaimer: The living and death benefits described are backed financially by the company or companies you choose to work with. It is extremely important to know the current financial strength of the company you choose to work with.

Another term for a monthly income lifetime pension is an Annuity

It is as simple as that. Companies or you trade in a lump sum in exchange for certain guarantees. People understand what a pension is. That is why we have been using the example of a pension, but the same can be said for the money you have saved for retirement. The difference between an annuity and a pension plan is that with a pension, you are trusting your previous employer with your lifetime income. In an annuity, you are trusting a large insurance company.

Over the past several years annuities have been picked on, slandered and beat up by Wall Street, BUT during this recent market breakdown, it is now obvious that annuities provided exactly what most people nearing retirement needed, Insured **Safety of Principle for living and for the death benefit**. (The living benefit riders vary from company to company and range from .45 to .75. There is a standard return of principle (less withdrawals for no charge with all annuities), some have an enhanced death benefit rider available for an additional cost which ranges from .20% to .50%)

While Wall Street was melting down and 401(k)'s were plummeting, as stocks & bonds nosedived, most types of annuities were not affected. We do recognize that it important to choose a top rated strong annuity carrier. You also need to learn the ins and outs of whatever you are considering before you make any purchase.

FIAs have principle guarantees in a down market. Fixed Indexed Annuity is considered a type of fixed annuity and is not exposed to the downturns of the market.

Disclaimer: If you do not purchase a living benefit rider you could experience principle loss if you withdraw from your account when it is down while you are alive. If your account is down at death then you will receive what you put in, less withdrawals (this is from the standard death benefit with no charge). Some FIA's have enhanced death benefit riders that can be purchased for an additional cost.

Many Wall Street Individuals Bashed Fixed Indexed Annuities

It is true that long term you could possibly make more in the stock market. But for a portion of your retirement money, millions of individuals who are sick and tired of the ups and downs want a guaranteed income they can't outlive. **Millions of individuals choose the pension option at their work over rolling over their cash values and managing it themselves. The reason is the certainty of that monthly paycheck.**

No doubt Wall Street bashed annuities because they offer mostly higher risk alternatives like stocks, bonds & mutual funds. It is a fact that many irresponsible insurance representatives sold all types of annuities the wrong way. They did not disclose all the facts which lead to all kinds of misunderstandings and problems for the individuals they sold them to. **We never recommend purchasing anything unless you know everything about it. That is why we take the time to educate our clients as to what they are purchasing. That is one reason we created this education piece.**

Also some of the seminars that were held compared Indexed annuities to the stock market. THEY ARE NOT ALTERNATIVES TO THE STOCK MARKET. They are a place for your safe money and with the new riders **a place to guarantee an income**. It is our opinion that over time you will average 3% on the low end up to 7% per year at the most. If you are choosing an Indexed Annuity, some years you will have 0% in returns, but that's a heck of a lot better than 30% down. If you choose the guaranteed income/pension growth rider you will have 5-7% growth every year for the purpose of income in the future no matter what the market does.

An index annuity is not intended to replace the stock market. You are basically letting the insurance company take the risk versus you. More than likely there will be very little money left for your family if you live a long life if you choose the lifetime income rider. You will have most likely depleted your actual cash value. Some companies have a death benefit enhancement. Each persons situation is different and needs to be reviewed before investing.

We do admit annuities are not for everyone. They do an excellent job if used for a portion of your assets, for specific goals and you follow the rules. The most important thing the living benefits provide is they do is *protect your principle during difficult economic periods.* If that is the only reason you buy one then, there is something to be said for that alone.

As more retirees shift their focus from accumulating assets to spending them, solutions to the puzzle may finally be emerging. There are now numerous types of annuities. As we were indicating earlier, many have new types of riders that can guarantee an income for life.

It is important to understand that you should not purchase the lifetime income riders unless you fully intend to take income. Otherwise you are paying unnecessary fees & will receive no benefits from them.

We believe a lot of the negatives written about annuities are actually safeguards put there in place to make sure the insurance companies stay strong so they can keep the promises they are making to millions of people.

The three major negatives that most people talk about with annuities are:

1. **An annuity is a long term contract**. They have to be! Most insurance companies do not start making any profits until several years into the contract. If the insurance companies do not make a profit, your insured values will go out the window. Isn't safety one reason you buy an annuity?

2. **They have surrender charges**. (Surrender charges vary from contract to contract) Most annuities only have surrender charges if you take out over 10% of your contract value per year or you take out more than the rider you purchased.

   Here is the bottom line:

   a. If you do not purchase an income or death benefit rider, you can pull out 10% per year for most annuities without surrender charges.

   b. After you are out of the surrender period, your cash value is available with no more charges.

   c. If you purchase any of the living or death benefit riders, follow the rules and only pull out what is allowed (talk to your planner & the company).

   d. If you have a disability or are confined to a nursing home, most Indexed annuities have some kind of rider that will allow you to pull out more than the annual 10%.

   If you stick to these main rules and you never break them, you won't have to worry about surrender charges.

3. **They have fees.** Of course they have fees! Why do you think they call it insurance? You insure your car, your house, your health & your life. Doesn't it make sense to insure the most important thing in your life, your retirement assets? A lot of people have lost 25% to 50% of their life savings during the recent market downturns. Some were so terrified; they pulled everything out and will never go back into the market. Those are real losses. What would you pay to insure you never have to worry about those types of downturns?

Disclaimer: If you do not purchase a living benefit rider you could experience principle loss if you withdraw from your account when it is down while you are alive. If your account is down at death then you will receive what you put in less withdrawals (this is from the standard death benefit with no charge). Some VA's and FIA's have enhanced death benefit riders that can be purchased (the cost ranges from .50% to 1.95%).

The living and death benefits described are backed financially by the company or companies you choose to work with. It is extremely important to know the current financial strength of the company you choose to work with

Pension plans provide the same type of income guarantees annuities do, but try to get your pension company to give you anything more than your guaranteed income if you had an emergency. Pension plan providers aren't stupid. They are protecting people from their own potential bad judgment. The only way pension plans can guarantee the amount of money they make is they know people will never be playing around with the principle.

Facts about most Pensions

1. **You can't ever change your mind again -** Once you have traded your lump sum option into a pensions lifetime monthly contract, you can't change back.
2. **After the death of both spouses –** most pension leave nothing for your heirs.
3. **It doesn't matter what emergency you have.** You will never get more than your monthly amount.

If your objective is to ensure enough money to live on no matter how long you live -- Think "consumption, distribution or income generation" instead of accumulation -- then an annuity may be right for you. I tell clients that they are creating their own pension. This should grab your attention. In a world with fewer corporate pensions, longer retirements and substantial 401(k) balances, annuities should be a part of most retirement plans.

Specifics - such as how much to put into which type of annuity – vary greatly. In general, the type of annuity or annuities you choose will depend on what your income needs as well as what your short and long term requirements are.

A full financial review should be done before you step into any annuity contract. Your advisor needs to completely explain all the advantages and disadvantages of the product you will be going in. The most important aspect of the new riders associated with FIAs is it helps get rid of the worry. It lets you spend more time enjoying retirement.

Isn't that what we have worked all our lives for?

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