Annuity Review

TPAFinancial

Hello, and thank you for taking the time to discover some of the most costly variable annuity mistakes that MUST be avoided when planning your retirement.

We have helped Americans move out of risky stock market investments and into safer, more retirement-friendly alternatives.

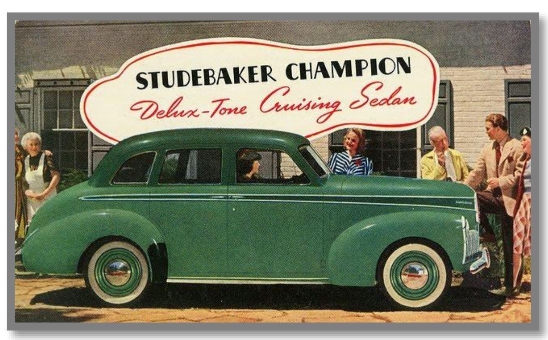
In this report you'll discover:

- **The Top 10 Fees** of variable annuities that may be hiding in plain sight
- **The Top 3 Questions** you should be asking if you already own a variable annuity or trying to figure out if you should buy one
- The guarantees insurance contracts claim to provide, and how they may NOT always be what they seem to be
- The **3 Critical Keys** so you can retire and STAY retired
- What the variable annuity sales pitch is and why Americans keep falling for it
- What income riders *really* are and what do they mean to your retirement

We'll cover all of these topics, but first, it's really important to understand why Americans are turning to annuities to solve some of their retirement needs.

In order to do that, we need to go back some 50 years, to 1961, when President John F. Kennedy created the Committee on Corporate Pension Plans.

Just two years later, in 1963, the Studebaker Corporation closed its South Bend, Indiana plant the week before Christmas. Studebaker's pension plan was so poorly funded that they could not afford to honor the pension promises made to their employees.



4,000 workers aged 40-59, who had at least ten years with the company, received lump sum payments valued at about 15% of their benefits. And, some 2,900 other workers received no pensions at all.

In 1967, New York Senator Jacob K. Javits proposed legislation, addressing the funding, vesting, reporting, and disclosure issues brought to light by the President's Committee.

The bill was opposed by labor unions and business groups that wanted to retain the lax standards they had previously enjoyed.

The Employee Retirement Income Security Act (ERISA) of 1974 was signed into law by President Gerald Ford on September 2, Labor Day.

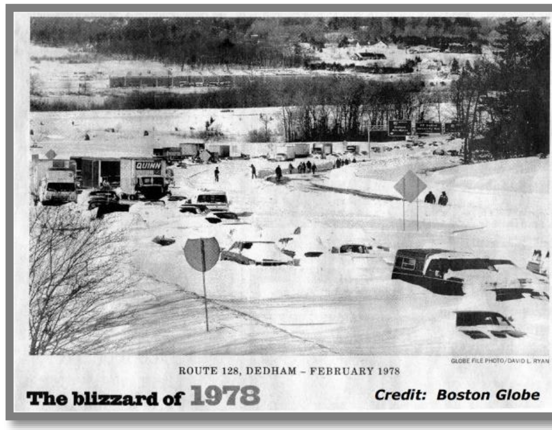
The law established standards of conduct for pension plan fiduciaries and required disclosure of financial information to plan beneficiaries. It also provided remedies and access to the federal courts.

ERISA established The Pension Benefit Guaranty Corporation as a precautionary measure to protect the participants, in the event that a defined benefit pension plan did not have enough assets to provide the benefits earned.

ERISA didn't require employers to provide pension plans, but it did regulate the operation of a pension plan once it was established.

The bar had been raised for corporations that wanted to have the ability to manage their employees’ retirement savings.

1978



The blizzard of 1978 Credit: Boston Globe

- Artificial insulin is invented.
- Cleveland, Ohio is the first major city to go into default since the Great Depression.
- The Northeast blizzard of 1978 Hits Ohio, New England and New York, causing some 150 deaths.
- Publication of *The Times* is temporarily suspended due to labor problems.
- San Francisco Mayor George Moscone and City Supervisor Harvey Milk are assassinated by former Supervisor Dan White.
- The New York Yankees win the World Series against the Dodgers.

1978 was also the year that Internal Revenue Code 401 (k) was enacted into law. This new law gave Americans a break on taxes from deferred income.
In 1980, Ted Banna, a benefits consultant, took note of the obscure provision and figured it could be used to create a tax-advantaged savings account for retirement. He later went on to install the first 401 (K) plan for The Johnson Companies - his employer at the time. This earned him the name, "The Father of the 401 K".

Then in 1981, the IRS issued rules allowing 401 (K) plans to be funded by deductions from employee salaries.

According to the Employee Benefit Research Institute, by1983, nearly half of all large employers offered a 401 (K) plan or were considering offering one.

These events gave regular employees the ability to manage their own retirement savings; it introduced many Americans to the world of investing for the first time. Because of this, billions of dollars were poured into the stock market like never before, helping fuel the market boom of the 80's and 90's.

By 1996, assets in 401(K)'s surpassed $1,000,000,000,000, with more than 30 million participants. These dollars helped contribute to a stock market that was skyrocketing. Between 1982 and 2000, the S&P 500® and Dow Jones Industrial Average gained by 1000%, while the NASDAQ moved up more than 2000%. There was money there to be made for investors that were willing to play the game.

In 1987, the maximum contribution to a 401(K) was $7,000. After the stock market crash of 1987, the markets quickly rebounded and continued their march toward record highs. With such a low limit on tax-deferred savings vehicles, a large number of people were forced to pour their after-tax income into their investments, which were tax at regular income tax rates. This gave variable annuities the perfect opportunity to position themselves as the go-to investment vehicle.

Until variable annuities came along, investors had no way around the tax on capital gains, which, for most of this market boom, were taxed as ordinary income. In other words, when an investor wanted to move from one investment to another, they had to pay tax on the gains they had experienced along the way. Imagine investing $10,000, having it grow to $20,000, and then having to give Uncle Sam $2.800-$3,600 to move your money to another investment.

This gave the insurance industry an opportunity to provide a much needed service and make a profit at the same time. Perfect! Right?

The variable annuity would have a selection of sub accounts that could be invested into, similar to mutual funds. The difference is that the investor had the ability to move from one fund to another, as often as they wanted, without having to pay tax on the gains along the way.

This became the perfect vehicle for high-income earners, who had already maxed out the contribution limits to 401 (k)'s or IRA's, and had plenty of cash to invest into a raging market.

It was a great proposition because, when markets are gaining at 1000%, you want to keep every penny inside of your account. Why? Because every cent paid in tax is a cent that is not working for you and making you money.

So now the insurance companies provided the investment tool, but it's up to the owner to use it. In order to use this account, the insurance companies charge a fee. For this reason, what made the variable annuity such a useful tool during the 80's and 90's is what can make it such an expensive tool today.

Do you want to invest in 100 different places? You can do that, but there's a fee.

Would you like a death benefit that'll return your deposit, even if the market crashes and you lose it all? This is possible, BUT there's a fee.

How about a guaranteed source of income that'll pay you even if your investments lose half their value? You can have that, too. But you guessed it. There's a fee.

In total, there are 10 different fees that you may be subject to paying while using a variable annuity. When you ask an insurance company if your variable annuity can provide an additional feature or service, the answer is likely to be yes. They are more than happy to do it for you. But with every "yes," there may be a fee associated with it.

Think of it like walking into a car dealership in search of an efficient and safe mode of transportation. In the process, you notice you can add leather seats, a navigation system, a sunroof, and a warranty in case you break the engine or the transmission. Sounds like a good idea right? By the time you finish, you could be driving away in a

Toyota with a Cadillac price tag. That extra protection you wanted ... Well, each one is only a 1 % fee. Not that bad, right?

Unfortunately, we've come across many investors who aren't aware of the 1.5-2% standard fees just for owning the account. The costs can quickly add up.
The bottom line is that there is no single investment vehicle that can do everything. There are many options out there for you to invest in, and all of them have their pros and cons. Your GOALS will determine which investment is best for you. What you want to accomplish should be the determining factor, not what bells and whistles are offered.

If you understand that all investments are good at doing something, and not so good at doing something else you'll be on the right track to making a sound decision.

Get out your pen and paper, because, if you own a variable annuity, you should call the company directly and ask them how much you're paying.

Here's the Top 10 Questions that you should ask:

1. What is the Mortality and Expense (M&E) fee?
2. What is the administration fee?
3. How many sub accounts do I have, and what is the fee for each?
4. What is the contract maintenance fee?
5. What is the fund operating expense fee?
6. What is the turnover fee?
7. What is the mutual fund fee?
8. What are the transaction fees?
9. What are the rider fees?
10. How much is the surrender charge fee?

So, what do you *really* get for all of these fees?

First, the ability to grow assets tax deferred. But, now, capital gains tax rates make that argument a lot less valid. This is especially true since some of the billions of dollars currently going into variable annuities are rollover IRA's or 401 (K)'s, which are already tax-deferred vehicles. People are paying a fee to buy something they already have.

The main feature that has been touted recently is the Income Rider. There is a lot of confusion out there about Income Riders and how they work. So, let's take some time to understand this rider. Keep in mind that each company has slight variations, but we'll be talking about how they work in general.

An income rider is an additional option that, for a fee can provide the annuitant (or annuity owner) a certain guaranteed income. The headlines usually read like this "get a guaranteed rate no matter what the market does". "Your account will grow by 5% every year, guaranteed - unless your funds do better than 5%, in which case, you will get the higher of the two." When your account reaches a high value, your income rider will lock in that value.

Sounds like a pretty good deal, right? We've seen this benefit lead to more unsatisfied investors than most any other feature of the variable annuity.

The truth is that you don't really get a guaranteed rate of return to your account. What's growing is called an "Income Account Value." This Income Account Value is separate from your actual account value - which is how many dollars are in your account. The income account value is a number that the insurance company will use to determine what your monthly payment will be when you're ready to start getting income from the annuity.

Your actual account value is never really growing by a guaranteed rate.

The number that really matters when shopping for the best source of income during retirement is the payout rate, which is the percentage of the Income Account Value that you'll receive when you start taking income.

If the Income Account Value grows to be a big number it won't help us much if the insurance company only pays a small percentage of that number.

Here's an example of how bigger numbers don't always make for better results:

Let's say…

Company A gets a premium deposit of $200,000 and offers a guaranteed income rider increase of 5% compounding. After five years, the income rider value would be $243,101.

Company B, the competing insurance company, offers a guaranteed income rider increase of 7% compounding. After five years, the income rider value on that $200,000 would be worth $262,159.

Keep in mind that, during those five years, the value of your account (the real money in the account) may be fluctuating; it might be higher and it might be lower than what you started with. And, if your fees are high it can be difficult to make progress.

Now we have two different numbers:

Company A: $243,101 **Company B: $262,159**

Which number would you expect to produce the best income? Company B, the one whose income account value is worth the most, right? Not exactly. If the account with Company A has a payout factor of 4%, the $243,101 would result in an annual payment of $9,724.

It is common for the account with a high "rate" to have a lower payout factor, which is the case in this example. That being said, the $262,159 with Company B paying out at 3.5% would result in $9,175 of annual income.

Bigger numbers don't always make better results.

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If you've already purchased an income rider on your variable annuity contract, here are the **Top 3 Questions** you should ask BEFORE you start your income payments:

1) Do I have to annuitize in order to receive payments on the guaranteed value?

In some cases, in order to get your payments, the insurance company may require that you annuitize your contract. That means that you give up control of your assets in exchange for the income payment.

In this case, the contract would be irreversible and the insurance company stands to keep any remaining funds when the person dies. To avoid this, the insurance company might try to sell you a Death Benefit Rider, for a fee, of course.

The death benefit rider would pay out the remaining balance upon death.

2) Can a spouse continue receiving the payments for the rest of their life if something happens to me?

Unfortunately, many people are not aware that their contract will not continue for their spouse. And, many times, by the time they learn this, it is too late.

If you don't see your spouse mentioned in the document that outlines the payment, you should call the insurance company right away and ask this question.

3) Will I continue to receive my payment if my account runs out of money?

If the insurance company doesn't ask you to annuitize your contract to get the income stream, there is a chance that your payments are only guaranteed while you have a balance.

If your balance ever gets to zero, the payments stop. So much for that "guaranteed income." This is usually surprising to variable annuity owners who have paid the income rider fee for many years leading up to this.

So what has changed? Why are variable annuities becoming less popular in recent years?

The primary difference is the conditions surrounding investors today. If you owned a variable annuity during the 80's and 90's and used it to get a tax deferral for after-tax income, you had a fairly good solution for your needs. Sure, fees might have been high, but when you're making 30, 40, or 50% gains per year, a 4-6% fee doesn't really sound like much.

Last year, alone, it was estimated that variable annuities charged roughly $5,300,000,000 in fees.

Now fast forward to the 2000's. If you take a look at the S&P 500 from January of 2000 to January of 2013, you'll see two very sharp market declines with an overall progress of just 1. 7% (a 0.13% average).

If you didn't own a variable annuity during this time, let's pretend you did. You've been on a wild roller coaster ride. However, you may be thinking that if you waited for 13 years, you would be about even to where you started, right? Wrong.

You paid fees along the way. If you had paid just 3% in fees, you would have given up about a third of your balance along the way!

If this were the case, it would mean that you had surrendered four months of every year worth of savings that you deposited! Not only did you not made any progress during a 13-year period, but you lost ground along the way.

The most precious asset you have is time. For a 35 or 40-year-old, results like these might not devastate their retirement. But for a person nearing or already in retirement, this may be the type of situation that forces a person back to work.

Everyone reading this article surely has one major goal in common: to RETIRE. We have a better idea, we want you to retire and **STAY RETIRED**, no matter what.

We've all heard or known of someone that claims to have retired in their 40's. Well, anyone with any amount of savings can retire at any time. Anyone can simply stop working and retire for as long as their savings will support them. But, unless you have a plan where you can say to yourself, "I will never have to work again," what you might be doing is taking a very long vacation. If you're unsure if your money will last your lifetime, that's all it is ... a long vacation.

That may have been a fun, spontaneous idea in your 20's, but I'm sure you can think of many other fun things you did in your 20's that you don't do now. Vacationing until your money runs out should be added to that list.

Only time will tell if that retired 40-year-old is still retired 30 years from now, most will be willing to bet that a part time job is in that person's future. Don't suffer the same fate. You deserve to retire once and do it permanently.

As much as retirement may seem like a complex subject with infinite variations and individual circumstances, we're going to sum up the Top 3 Critical Keys you need to accomplish with your assets in order to retire and NOT have to look back.

1) A Guaranteed Source of Income

Based on your current budget, the dollars that you know you'll have to spend to maintain your household and standard of living should be coming from guaranteed sources.

Traditionally, those guaranteed sources are considered to be Social Security and pensions. Since pensions are few and far between, for most people out there, the only source of guaranteed income is social security. Which is why they might be looking to an annuity for a secondary guaranteed source of income.

2) An Emergency Fund

Keeping enough liquid and safe assets to get you through whatever life may throw your way. In other words, having a healthy emergency fund.

3) Inflation Protection

This is probably the most challenging part of a solid retirement plan.
Inflation happens every single day. Every new dollar that is printed makes the one that you and I already have in our pockets worth a little bit less.

The Consumer Price Index measures changes in the price of consumer goods and services. Over the last 25 years, the CPI has averaged about 4.1 %. If we apply this information going forward, we can estimate how much the things we purchase today will cost us in 20 years.

For every $50,000 being spent today, $109,000 would be necessary 20 years from now to BUY THE EXACT SAME ITEMS. During 30 years of retirement, the original $50,000 would need to be a little over $162,000 to cover those same expenses.

Keep in mind that not all of your expenses are subject to inflation. If you have 15 years remaining on a mortgage, you wouldn't be adjusting your mortgage for inflation. However, if you spend $200 a week on groceries, you should expect to be spending about $300 ten years from now, and that number will grow to about $425 ten years after that.

Compounding interest can be very powerful when it's working for us. But it can be equally as powerful when working against us, and that is precisely how inflation may impact your retirement.

Since life expectancy continues to increase, inflation may be one of the most difficult factors to cope with during a typical person's retirement.

Traditional investment strategies tell us that if we remain invested through retirement, the gains we experience will help us adjust for inflation. That's easier said than done. Ask a financial advisor at what rate the market grows over time, and you'll likely hear something between 6-9%.

Even though the markets fluctuate, they always go up in the long run, right? The real question is just how many market lows are we going to have to experience in order to participate in the highs? And will you have enough money in your retirement accounts to recoup from market losses when the market finally does go up?

Fluctuations shouldn't be a problem if you don't dip into your principal right? Enter the 4% rule.

Based on research of actual stock returns and retirement scenarios over a 75-year period, Williams Bengen published his article in the Journals of Financial Planning in October of 1994 on calculating "safe" withdrawal rates.

He states that retirees who withdraw 4% of their portfolio in the first year and adjust for inflation stand a great chance of their money outliving them over a 30-year period of time.

If the market makes 7% and you take out 4%, you net 3% return. This 3% net should help you grow your principal even while taking money out to live on. This is the 3% Wall St. tells you to bank on for your inflation adjustment. "Spend the interest and not the principal," right?

Averages can be a risky way of looking at things. The order in which you experience returns can make a big difference to your account balances. Losses occurring during the early years of retirement have the potential to do damage that may be difficult or impossible to replace.

Also known as Sequence Risk, the order in which we experience returns can be seen in this example from a Morningstar report published January, 2013. They say, "Retirement income portfolios are sensitive to poor portfolio returns early in retirement - a concept known as sequence risk. (this figure) .. .illustrates differences in the real growth of a portfolio with an initial balance of $1,000, assuming a 5% initial withdrawal rate when early returns are favorable and unfavorable."

These two lines represent the same returns experienced in reverse orders. When the losses occur early, the portfolio is unable to recover. When the losses occur late, a completely different story unfolds.

The idea of spending the interest and not the principal, as well as the 4% rule, were theories based on time periods when the markets were continuously going up. The same can no longer be said today. The generation that helped fuel 1000% and 2000% market gains with their influx of capital is now approaching retirement. They are no longer investing, today they need their savings back.

Those 78 million boomers are now going to be withdrawing their capital from the markets. What happens when there are more sellers than buyers? Prices go down.

Can we realistically build a retirement plan that doesn't depend on the markets? Can we get out before another bubble bursts?

And, is there a viable alternative to the variable annuity?

Can you have an account that can securely and steadily grow your principal?

Is there such thing as a guaranteed lifetime income stream without having to pay large amounts in fees along the way?

How about having the peace of mind knowing that your spouse can have equal benefits for life?

The insurance industry says the answer is YES. Less than 15 years ago insurance companies started developing the idea of fixed annuities (that fundamentally function as savings accounts) that can take advantage of market gains, but be shielded from market losses.

The way it works is that the insurance company will take the premiums deposited, and use it to purchase some of the highest quality investments available.

They use US Treasury Bonds—which are considered to be one of the safest investments in the world-- along with Investment Grade Corporate Bonds-- which are companies rated BBB+ or better; think Alcoa, Caterpillar, McDonalds, Johnson and Johnson, or Microsoft. Their primary goal is to NOT lose any of your money. It might not appear as "exciting" as the stock market, but it is a secure way of making sure your money doesn't disappear overnight.

Because the insurance company is not allowed to leverage your dollars like a bank, each dollar is represented with an equal purchase of assets.

This forms the first safety net for any potential failures. If the insurance company goes out of business, does that mean that Microsoft also fails, or that McDonalds has failed? Absolutely not, so we know that the dollars are backed by real assets no matter what happens to the insurance company.

In order to provide protection in case of a default on a bond, the insurance company will keep a certain level of cash reserves on hand. If they select a bond that eventually defaults, they will need to use their own funds to purchase a replacement of equal value.

It’s important to make sure the insurance company you use is purchasing the best quality bonds possible. We know that no companies bonds are 100% foolproof. Think about General Motors who was once labeled as Investment Grade; they nearly went out of business just a short time ago.

The purchase of these bonds ensures that our money isn't just riding the market waves, but that safety has a price and that price is generally a low yield. High yields require risk, which is something that insurance companies are generally eager to avoid.

The yield from these bonds are then used to purchase options that track market indexes. These options offer the ability to leverage a relatively small amount-- in this case, the yield from high quality bonds-- in order to benefit from potentially high returns. So, what's in it for the insurance company?

In this case, each insurance company will also benefit from a specific portion of the gains you've experienced. The insurance companies are asking that when time are good for you to share the upside. When the markets move into negative territory, no new profits are raised, but also, no direct risk was taken with your principal.

So the goal is to find the insurance company that is willing to do the work for the smallest portion of the profits.

Market upside without the downside ... It does exist.

Over the last 10 years, these accounts have been very useful and had the ability to surpass the results of traditional investments. This isn't because of the returns; it's because of the downside protection. Taking one step forward and no steps back can get you a lot further than taking two steps forward and three steps back, like what happened during the last two major market declines.

In the years before retirement and during retirement, the first goal should be to keep what you already have, and the second goal should be to experience growth.

In other words, when approaching retirement Americans MUST focus on preserving their wealth first and foremost!

Income riders can still be purchased in these types of annuities, and they work in much the same way as previously discussed. A certain guarantee is applied, which gives you the certainty of a base guaranteed lifetime income with the potential of higher income if the markets perform well along the way.

The primary benefit is that your account is not taking the risk of being invested in mutual funds or sub accounts, which equals less risk for the insurance company. They don't have to commit to an income stream for an account that can potentially lose large amounts of its value.

The reduced risk allows the insurance company to guarantee more income dollar-for-dollar than a comparable variable annuity. You will not be asked to annuitize your contract. Therefore, any remaining funds after your lifetime are passed on to heirs.

If you select this option, you may be paying no more than 1 % in fees, TOTAL for the ENTIRE account!

Remember the three things we need to retire:

1) Income
2) Emergency fund and
3) Inflation protection.

When searching for the right annuity, you must start by identifying what it is that you are setting out to accomplish, or what your goals are. In this case, determining HOW to produce income to cover your expenses is the main goal.

A method of doing this would be to calculate how many dollars it currently takes to run your household. Once you have this number, subtract the income you'll receive from social security and pensions. You either have more income than your expenses, or, like most people, you have more expenses than income, in which case this would be the number you should aim to target.

Instead of going from company to company telling them how much you're willing to deposit, take the upper hand in the negotiations and say, "This is how much I need."

The next step is to determine which insurance company is willing to guarantee this rate of income for the lowest price possible.

You want to choose an annuity company with an income rider that will pay what you need, when you need it, while asking as little from you as possible.
Most insurance companies will give you two sets of results: the guarantee and the hypothetical.

The hypothetical scenario will show how much your contract MIGHT pay IF the market does certain things.

If there's one thing you should do, it would be to review the insurance company's math based on what's *guaranteed* to happen. If the market decides to smile upon you and you end up with something better than expected, great. But you need to focus on the guarantees first and foremost!

After your income is covered by all guaranteed sources-- social security, pensions, and annuity income-- you should determine the appropriate dollar amount required for an emergency fund.

The next thing to solve for is keeping up with inflation.

The biggest strength of modern annuities, especially those with income riders, comes in the form of time. The more time between your initial deposit and when you activate your income stream, the better the result you can receive from a relatively small deposit. These numbers can be used to create inflation adjustments along the way.

In summary...

- Pensions are practically extinct for most Americans
- The likelihood of the next 20 years of the markets performing like the 80's and 90's are slim.
- Variable annuities are long-term **INVESTMENT** vehicles that were designed for tax deferral and riding the markets. They are **NOT** for suitable for retirement purposes, especially with the amount in fees that are charged along the way
- Guaranteed rates from income rider are not always what they seem to be, but they can be used to your advantage when market volatility is eliminated and the fees are kept in check.
- There is a viable alternative to the variable annuity that is more useful during and before retirement, when safety is top priority.
- Most importantly, knowing exactly what you need when you need it is the easiest way to shift the balance of power. This allows you to negotiate on YOUR terms.

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There are some 30 different insurance companies that would all love for you to become their newest client. The question is, how do you make sure you're getting the best deal?

This is where TPA Financial comes into play. We research and compare hundreds of policies each week in every state across the country, and we don't stop until we find the best option for you.

That's just how we do it. You may be thinking, "Well, doesn't that take a lot of time?" And my question to you is, "Have you ever experienced the highest amount of success in a short amount of time?"

Odds are, the answer is no. You see where I'm going with this ... We want you to achieve the highest level of success when it comes to fulfilling your retirement goals, and we know how to make that happen.

The goal in retirement is to keep what money you already have and make good use of it, rather than exposing it to stock market volatility that may never provide you the consistent income you need.

You may have a monetary goal that you want to achieve in retirement, and you may not need *more* money to reach it. You just need to ensure the money you already have will generate the Cashflow you need.

The Retirement Cashflow Calculator will show you how much Cashflow you will need to generate from each and every dollar that you already have. It will help you determine *what* you need your money to do, and we will help you determine *how* you can make your money do it. This calculator is designed to give you a clear and accurate financial goal to aim for, and our job is to then make that goal a reality.

Remember, it's not about chasing the big numbers. It's about getting the highest Cashflow from every single dollar you've saved and minimizing risks.

Once you calculate your Cashflow number, we can shop the top insurance companies to find the best source of Cashflow for YOUR retirement needs. If these insurance companies want to earn your annuity business, they should accomplish your goals on your terms.

This puts the power of negotiation in **YOUR** hands.

Here's what to do next: **Request Your Demo Now!**

Together we'll help you determine how much Cashflow you need to safely retire and point you in the right direction. Now is your time to take action. You're one step away from getting closer to the more secure retirement lifestyle you deserve.

Request Your Demo at WWW.TPAFINANCIAL.COM!