Annuities

Safe Money Products That Stimulate Financial Growth & Preserve Wealth

What Does "Safe Money" Mean?

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- **"Safe Money"** is for money you cannot afford to lose.
- **A "Safe Money Place"** is where your principal is protected from loss as long as you follow the initial guidelines, and if you do decide to take your money and leave, you know pretty much what leaving early will cost.
- **This presentation will show you why we consider Annuities to be a "Safe Money Place"** and how these financial products can help give you a safe retirement

What Are Annuities?

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- Prior to the late 1970s annuities were primarily used as a **retirement income vehicle.**
- The textbook definition of an annuity in those days was, "A periodic income for a specified length of time, for life, or a combination of the two."
- Today, annuities can mean much more.

Annuities can provide:

- A means of accumulating interest on a **tax advantaged basis**.
- An **estate instrument** that preserves and protects assets.
- A **guaranteed income for life** that also lets you access the principal.

Variable Annuities ARE NOT CONSIDERED "Safe Money Products" because:

- The owner of the variable annuity takes the **investment risk**.
- You can **lose the principal.**
- Gains and losses are **tied to the stock market**, *which is out of the annuity owner's control*.

When you read or hear about annuities in the media, most of the time the subject is VARIABLE annuities NOT FIXED annuities.

Fixed Annuities Vs. Variable Annuities

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	Fixed Rate Annuity	Fixed Index Annuity	Variable Annuity
Management Fees	No	No	Yes
Registered as Security	No	No	Yes
Guaranteed Prior Earnings	Yes	Yes	No
Guaranteed Principal	Yes	Yes	No
Minimum Interest Guarantee	Yes	Yes	No

What Are Fixed Annuities?

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- Fixed annuities provide a **guaranteed minimum interest rate**
- Are considered **savings instruments.**
- Insurance companies issue all fixed annuities.
- Have an **extraordinary record of safety** and offer other benefits.

Interest Earned And Minimum Guarantees

- Fixed annuities provide a **minimum guaranteed return**
  - *which is a "safe money" feature that annuities have in common with other "safe money places" such as Series EE Savings Bonds.*
- The **insurance company will declare a fixed rate of interest if they believe they can pay extra interest** from their general account above and beyond its minimum guarantee
- Gains are **NOT tied to the stock market**
- You **cannot lose the principal as long** as you follow the initial guidelines set forth by the insurance company.

Tax Advantages

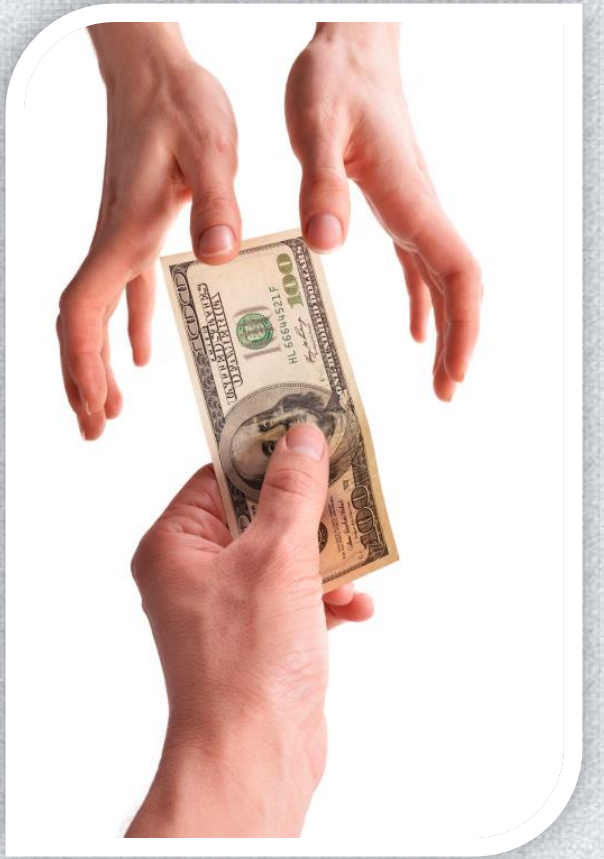
- Money remaining inside an **annuity grows without being taxed until withdrawn.**
- *Unlike qualified retirement accounts where you must begin taking out money around age 70,* **most annuity contracts permit the owner to enjoy the advantage of tax deferral until age 85, 90, or even later.**
- **Tax deferred does not mean tax-free;** interest is taxed when withdrawn.

Annuity Tax Deferral In Qualified Plans

- Annuity interest grows tax-deferred.
- Money in qualified plans grows tax-deferred.
- An annuity inside, say an IRA for example, is already growing tax-deferred because it is in a qualified plan.
  - Which leads some people to say a fixed annuity should not be used in a qualified plan.
  - **Most people buy annuities primarily for the potentially higher yield.**
  - The decision to buy an annuity is primarily based on return, not tax benefits.

Liquidity And Penalties

- Fixed annuities offer a wide variety of term choices.
- **The fixed annuity selected may have a penalty for early withdrawal**
  - **These periods range from 1 year to 20 years.**
  - Insurance companies use these penalties, also known as surrender penalties or charges, to recoup initial costs if an annuity is cashed in prematurely.
- **Most policies permit the withdrawal of the interest earned each year without penalty.**
- **A surrender penalty only becomes a charge if the policy is surrendered**; therefore, you need to determine whether the term of the annuity and liquidity provisions match your liquidity needs.



Market Value Adjustment (MVA)

- An MVA feature means **changes in the interest environment are taken into account IF AND ONLY IF the annuity is surrendered prematurely**.
- If rates have risen since you started the annuity, the penalties for cashing out could be higher than the schedule stated in the policy
- If rates have fallen since you took out the annuity, the penalties could be lower or even zero.
- Since you and the insurance company share the risk, an annuity with an MVA feature may credit a higher rate than an annuity without that feature.
- **If you don't surrender the policy during the period, you never pay the MVA** and you might get a little better rate.

Death Benefit

- In the event of death, **the vast majority of fixed annuities pay the account value to the beneficiary & NO PENALTIES are charged.**
- *However some annuities:*
  - Assess surrender penalties at death
  - Some annuities require the account value to be paid out over time.
- You should determine if the annuity's terms meet your needs.
- If you desire, **you can set up an annuity so that your surviving spouse may keep the annuity in force.**

Maturity Date

- Not to be confused with the surrender period, the maturity date is the longest one can keep annuity interest deferred before you must take it out.
- Maturity dates **usually occur when the annuitants celebrate their 80th birthday**.
- **The maturity date is NOT how long you must keep your annuity,** but how long the insurer will let you keep your money with them.
- The annuity owner may take their money out or **annuitize** the contract *prior* to the maturity date.
  - **Annuitization** occurs when a policy holder converts the money in an annuity into a guaranteed income stream

Fixed Index Annuity: How They Work

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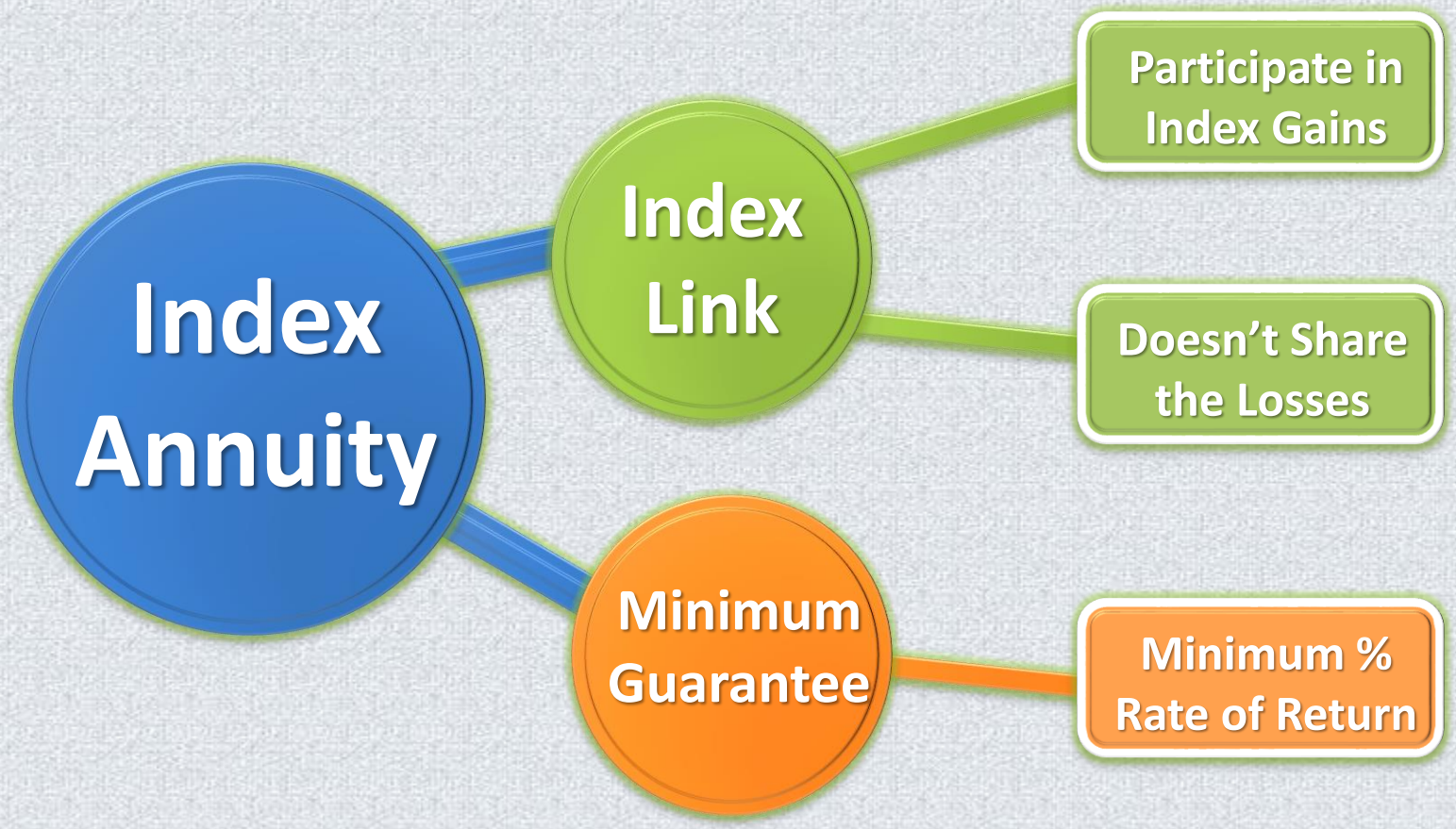

Fixed Index Annuity: Definition

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Fixed index annuities **link the interest paid to the performance of an index** and state what your participation in the index will be.

How They Earn Interest

- Fixed annuities provide a **minimum guaranteed interest rate**.
- If the insurance company believes it can pay extra interest from their general account, above and beyond its minimum guarantee, **it uses the extra interest to link the earning of interest to the performance of an external index** for the period.
- **The major difference between a *fixed rate annuity* and a *fixed index annuity* is in the crediting of excess interest above the minimum guarantee.**

How Do Fixed Index Annuities PAY Interest?

- **Your principal does not fluctuate,** but the interest you receive can and usually does fluctuate from period to period.
- The amount of interest paid is **linked to the movement** of an external index.
- When the **index goes up, the amount of interest earned increases.**
- However, because this is a safe money place and NOT an investment, **the index annuity does not share in any decreases of the index**.

What Do The Insurance Companies Invest In?

- The bulk of insurance company holdings are in bonds.
- They may own a smattering of direct loans, possibly some preferred stocks, and perhaps some real estate, but by and large insurance companies buy bonds because of the **predictability of the income.**
- **What the *index annuity* lets you do is benefit in the up periods without sharing in the losses.**

One Year Or Multiple Year Rate Lock-Ins

- Typically, an index annuity will **guarantee index participation for one year at a time** and **declare the new index participation on the policy anniversary** for the next year.
  - Some index annuities lock-in all of the initial participation elements for two years, three years, or even for the entire penalty period of the annuity.
- The amount of **index participation may be expressed in many different ways.**
  - Some index annuities state that you will receive a stated percentage of any calculated index gains over the periods
  - Others may give you all of the calculated index gain up to a certain interest ceiling or cap
  - Others may use averaging or other variations.
- No index-link method is good or bad and **any method can be the winner** in a given period. The key is understanding how it works.

How Much Interest?

- The index annuity link to interest changes in an equity index and **benefits in increases calculated** for the index over a period.
- If the index goes down **you can never lose principal OR previously credited interest.**
- The highest index annuity interest rate credited for one year was over 40%.
- In 2002 and 2008 the major stock market indices went down and index annuities linked to these indices credited 0% for the year, **but no previous interest was lost.**

Living Benefits and Riders

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- **"Lifetime Income Benefit Riders"** are known by a variety of terms. Some companies refer to these products as "**Guaranteed Income Withdrawal Benefits**."
  - The Lifetime Income Rider assures the annuitant that he/she will never run out of money or live too long. These payouts can provide "single life income" or "joint lifetime income."
- "**Chronic Illness, Terminal Illness, Confinement Waivers**" are riders that provide important benefits, such as: complete liquidity after a certain period of confinement, and increased payouts in the event the annuitant experiences some degree of incapacity that prohibits him from operating independently.
- Other riders for **inflation and death benefit enhancement** are also available.

In Summary

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An index annuity with an income rider and a confinement rider can make retirement more enjoyable with a lot less stress.