Learning about Annuities

Allchoice, Inc. Insurance http://www.lowcostinsur.com

A Few Very Important Points

The investment performance data we use is historical and does not reflect sales or investment management charges. Past investment performance is not indicative of future results.

As an investor, your investment returns and the value of your principal will fluctuate, so when redeemed, your shares may be worth more or less than original cost. Investment shares are always subject to investment risks, including loss of principal invested. The equity investments we will be discussing are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution.

This information should not be considered tax or legal advice. Please consult your legal or tax specialist before making any investment decisions.
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What we will discuss in module one.

- Senior financial concerns.
- Potential Pro's & Con's of investment products for seniors

Areas of Concern for Seniors

- Having adequate income for present & future expenses.
- Not outliving their retirement income.
- Keeping their money safe.
- Having adequate Health, Medical and Prescription coverage. http://www.lowcostinsur.com
- Not losing money in non-legitimate investment or an investment hoax directed at seniors.

Seniors can feel bombarded with invitations to free seminars, offering trips, gifts, meals, information packages, how to, how to and how to, etc.

(and in fact they are)

<u>Products</u> that are most often discussed in a Senior Seminar

- Annuities
- Mutual Funds
- Bonds
- Long Term Care
- Limited Partnerships
- Medicare Supplements
- And now Medicare "D"

Products that are most often discussed in a One-on-One meeting set by an Agent or Tele-marketer.

- Annuities
- Long Term Care
- Medicare Supplements
- Reverse Mortgages

Getting you to attend a Seminar.

First they need to get your attention. How?
Radio or a Direct Mail Special Invitation offering...

- A <u>Free</u> lunch or dinner.

Or information about

- How to Eliminate taxes on Social Security.
- How to Reduce your taxes now.
- How to Avoid probate while retaining full financial control.
- Utilizing the recent changes in minimum distributions.
- Learning how to stretch your IRA or 401
- Inflation-proofing your money.
- How to roll over your 401.
- Free analysis on how long your money will last.

- (see more on the next page)

Continuing to get your attention-

- Increasing your monthly income by reducing taxes.
- Avoiding the devastating Medicaid Spend-down.
- Avoiding the devastating cost of Nursing Home Care.
- Protecting your money from devastating illnesses.
- How to Protect your assets and still get a good return.
- How to get a higher return than your IRA and all the protection.
- Investing during retirement.

- How to get a 5% return on your CD. (limited)

Why do Seniors attend Seminars?

- Most seniors have learned that you have to kick the tires to see if the are any good.
- Seniors have the time to comparison shop.
- Many seniors want to educate themselves.

- Finally, seniors really do like the free meals and the opportunity to meet others with circumstances similar to theirs.

All Seminars have some value but--
the real question is,...
What is the value to you?

- The <u>purpose of those presenting</u> the seminar will often determine the seminars' value to you.
- By offering a variety of perceived benefits geared to one product they are likely to hit at least one benefit of interest to you.

Why would someone provide a Senior Financial Planning Seminar for you?

- Do they want to get to know you?

- Are they happy they can provide you with a free meal? …(is this a happy meal?)
- Do they want to write you a check so you will be more secure in retirement?
- Did a friend really refer you to this special limited seating event?
- Do they really want to help you with your financial planning with no strings attached?

They want to sell you something!

- Most Seminars have Tunnel Vision.

- They are often geared toward selling you a particular type of product….and most often that is an "Annuity", Financial Planning for a fee, a Limited Partnership or LTC.

Can the financial products being presented at the seminar provide all the benefits listed on the invitation?

Yes and No.

Your circumstances must fit the benefits of the product or service offered.

Lets' see what the various products offer.

Why are most seminars geared to Annuities?

- Some annuities pay agents large commissions.
- Some annuities appear to be designed for the client and some annuities appear to be designed for the agent & company. The key is to sort them out.
- The higher the commission to the agent the less money remains for the client.
- The higher the charges by the company the less money remains for the client

So it is up to you to be Careful and get all the facts on…

- Who is making what

And knowing that…

- Annuities are not meant for everyone who is considered a senior whether 55 or older.
- The financial circumstances of each senior must be taken into consideration to determine if an annuity is SUITABLE for them.

What is Suitability?

"Suitability" can be defined as… Recommending the right investment product(s) For each client, that is/are suitable to the clients' financial situation, risk tolerance, their age and their knowledge of the product(s) and their mental stat**e**.

Why is "Suitability"

important to you

If you are sold a financial product that is not "Suitable" to your situation it can adversely affect your present and future financial position

Examples of questionable investments

- Buying a “Medicaid Friendly Annuity” when you have a large amount of financial assets.
- Using the proceeds from a “Reverse Mortgage” to purchase an “Annuity” to only provide an income stream. In fact the Reverse Mortgage is already capable of providing the income without the additional cost. Other facts must be present to justify an annuity purchase

What is an Annuity?

- A Fixed Annuity is a promise of payments by an insurance company in return for a premium or premiums paid by the owner of the Annuity. All benefits and guarantees are subject to the claims paying ability of the issuing insurance company

- A Variable Annuity promises nothing until annuitization or a pay out schedule takes place. In some cases there may be a minimum guarantee.

Types of Annuities

There are two basic types of Annuities, Fixed and Variable.

- Variable Annuities may be
  - Bonus
  - Non-Bonus
  - Minimum Guarantee

Types of Annuities (continued)

- Fixed Annuities may be

- Immediate
- Bonus
- Non-Bonus
- CD (multi-year guarantees unless withdrawn)
- Periodic Deferred
- Equity Indexed
- Multi-account

Variable Annuity defined

A Variable Annuity generally uses mutual fund-type sub accounts as the investment choices within the Annuity.

(Variable annuities may also make provision for the movement of money into money market or treasury funds. The owner of the annuity is responsible for the movement of their investment from one fund to another within the annuity.)

Variable Annuity
(Always has Market Risk)

Bonus | **No Bonus**

Single Premium

Immediate

Payout is based on a % of total invested

Deferred

Future value is based on market performance

Periodic Deferred

Future value is based on market performance

Guarantee return rider may be available with a cost and for a specified period.

Variable Annuity Positives

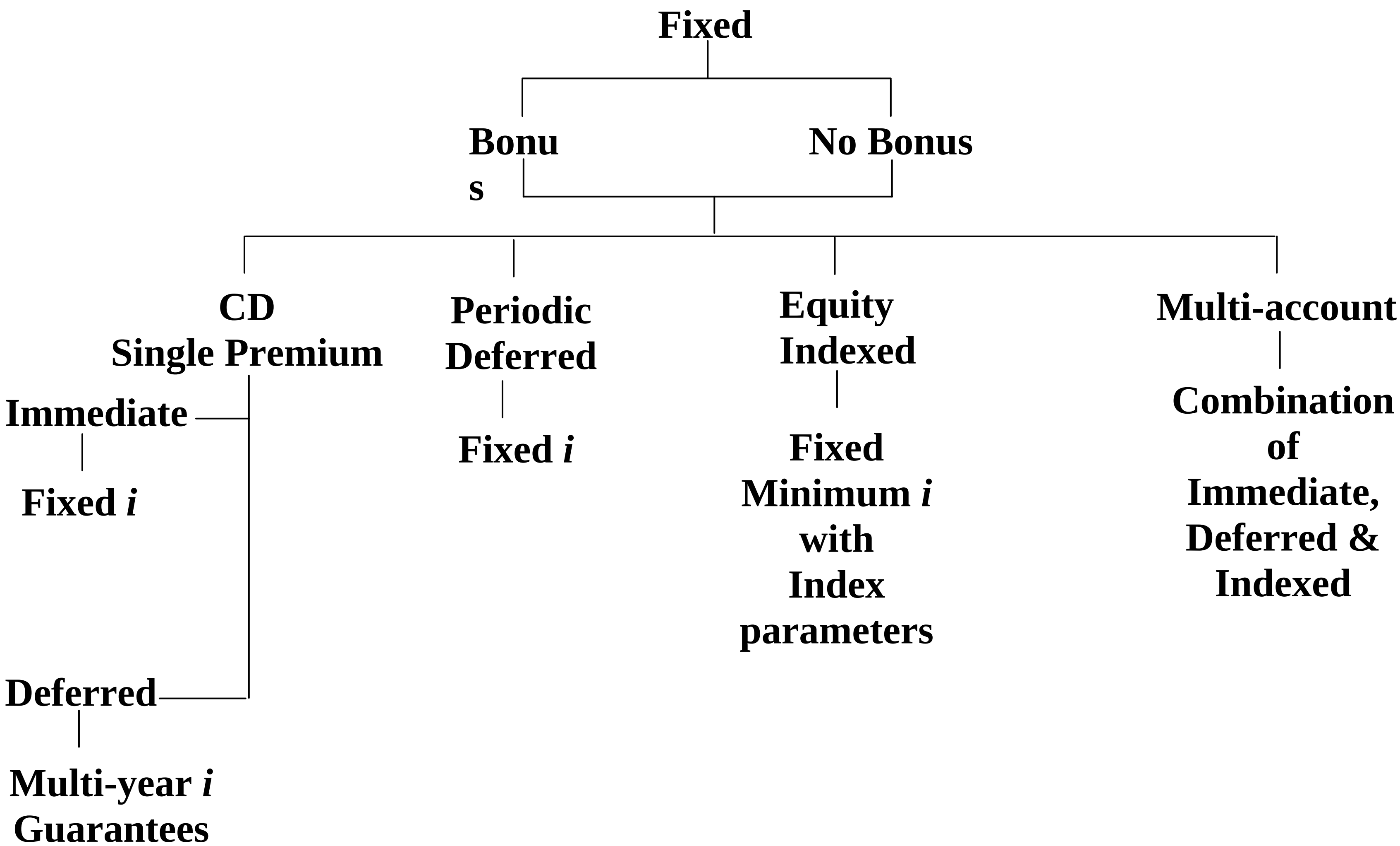
- Gains accumulate tax deferred.
- Gains & losses are determined by Market conditions
- Some provide Nursing Home Riders
- Some provide Disability Riders
- Can avoid probate & pass to beneficiaries.
- Some have Minimum earning guarantees.
- May provide income options that cannot be outlived.

Variable Annuity Negatives

- You assume the Market risk unless a minimum guarantee rider is available.
- Potential for Limited access to your money
- High cost to retrieve money (surrender charges)
- Many have no lump-sum pay-out.
- Many require annuitization.
- M & E charges are higher than comparable Mutual Funds.

Fixed Annuity

A Fixed Annuity has a fixed interest rate guarantee as a return on the initial, 1st year or multi-year investment and a minimum contract interest guarantee. The fixed rate guarantee may be on the first year only or on multiple years.


Fixed
Bonus
No Bonus
CD
Single Premium
Periodic
Deferred
Equity
Indexed
Multi-account
Immediate
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Fixed *i*
Fixed
Minimum *i*
with
Index
parameters
Combination
of
Immediate,
Deferred &
Indexed
Deferred
Multi-year *i*
Guarantees

Fixed Annuity Positives

- Gains accumulate tax deferred if non-qualified. Interest is earned on principal, interest & the portion that would come out as tax.
- In a 28% tax bracket a 4.75% rate is equal to a 6.60% taxable rate.
- Nursing Home Riders
- Disability Riders

Can avoid probate & pass to beneficiaries

Fixed Annuity Positives

- Minimum earning guarantees.
- May provide income options that cannot be outlived.
- Mixed-fixed annuities can be multi-buckets to compensate for inflation.
- Lower risk in relation to equities.

Fixed Annuity Negatives

- Limited access to your money
- High cost to retrieve money early (surrender charges)
- Many have no lump-sum pay-out.
- Many require annuitization.
- Many cannot compensate for inflation.
- M & E charges.
- Commissions to agent vary significantly.

Immediate Annuities

An immediate Annuity requires a one-time, up-front investment and immediately begins a pay-out schedule.

- For seniors who have investments and wish to create a life-long monthly income stream.
- For seniors who want the tax advantages of an annuity.
- Should not be used for investments that are not intended to be used as income until after age 70 1/2.
- As a source of funding for a living trust when the living trust is meant only to hold assets and not qualified retirement plans providing income.

Deferred Annuities

A Deferred Annuity has the payout deferred to a later date.

- For seniors who have non-qualified investments and wish to delay income until age 701/2 but avoid the annual taxes on the present investment.
- Should not be used for investments that are not intended to be used as income after age 70 1/2 or as a source of funding for a living trust.
- As a source of funding for a living trust when the living trust is meant only to hold assets and not qualified retirement plans providing income.

Bonus Annuities

A Bonus Annuity may be any of the subject annuity types with a bonus added to the initial premium or the premiums over a pre-set number of years.

Bonus Annuities

- For seniors who have non-qualified investments and wish to delay income until age 70 1/2 but avoid the annual taxes on the present investment.

Can be used to offset losses from other investments when security and guaranteed returns become the dominant reason for the investment

Bonus Annuities

- Should not be used for investments that are not intended to be used as income after age 70 1/2.
- As a source of funding for a living trust when the living trust is meant only to hold assets and not qualified retirement plans providing income.

Equity Indexed Annuities

An Equity Indexed Annuity has a rate of return that is based on the return of a particular equity market index. (i.e. S&P 500) The percentage return is usually called a participation rate (i.e. 90% of a particular index's return). They also have a minimum guarantee and the increases or losses are locked in at varying calendar points. They also include all the associated costs and surrender periods of a fixed annuity and as such are <u>defined as insurance policies.</u>

Equity Indexed Annuities

- All the pros and cons of any fixed annuity apply to this type of annuity.

Do not expect your returns to be as much as the index being used because of the participation rate and associated costs. Even when the participation rate is 100% there will normally be a maximum return. (Example; If the index being used shows a 15% annual return the annuity may have a maximum return of 11%.

Equity Indexed Annuities

- Keep in mind that some indexed annuities will change their participation rate after the first year and consequently offer a lower return over the long run.

- If you want to purchase this type of annuity look for one with multi-year guarantees and low costs and a higher maximum on the participation rate.

- This type of annuity is intended to allow some participation in the gains of an equity market index without the risk of the actual equity markets.

Multi-account Annuities

A Multi-Account Annuity is an annuity that combines the features of several different annuities. The most common is a combination of an immediate annuity with a monthly payout, a fixed or bonus annuity for safety, and an indexed annuity for growth to compensate for inflation.

Multi-account Annuities

All the pros and cons of any fixed annuity apply to this type of annuity as well as those that apply to each type within the multi-account annuity.

Important Fixed Annuity Features

- Bonus interest rate and length of guarantee.
- Interest rate and length of guarantee.
- Minimum contract interest rate.
- Surrender period and per-cent of charge.
- Rolling surrender of contract surrender period.
- Company rating and history on “old” money.
- Loans and withdrawals.
- Access to money-Lump sum, Annuitization, Partial Annuitization, Interest only, Lifetime with period certain or Minimum Annuitization period.
- Riders available- Nursing Home, Disability, etc.

M&E Charges and Rider Charges

Can Annuities do everything the Seminars Claim?

- Yes, if the financial circumstances for each individual or couple are such that they will actually receive the benefit claimed.
- No, when the financial circumstances for an individual or couple prevent them from realizing the benefit claimed.

Yes, they can...

Provide

- **A <u>Free</u> lunch or dinner. (Your happy meal)**

Or information about

- **How to Eliminate taxes on Social Security.**
- **How to Reduce your taxes now.**
- **How to Avoid probate while retaining full financial control.**
- **Utilizing the recent changes in minimum distributions.**
- **Learning how to stretch your IRA or 401**

Inflation-proofing your money.

Yes, they can...

Provide information about

- **Increasing your monthly income by reducing taxes.**
- **Avoiding the devastating Medicaid Spend-down.**
- **Avoiding the devastating cost of Nursing Home Care.**
- **Protect your money from devastating illnesses.**
- **How to Protect your assets and still get a good return.**
- **Getting a higher return than your IRA and all the protection.**
- **Investing during retirement.**
- **How to get a 5% return on your CD. (limited)**

In Summary

Annuities can be a wise choice depending on your individual circumstances; however, as with anything they can also be a very poor choice. Don’t fall for high pressure sales tactics or slick sales presentations. Always consult as least two other people you can trust to help you make the right decision.

Call us if you need an opinion.

1-800-889-2659

