an·nu·i·ty

A fixed sum of money paid to someone each year, typically for the rest of their life.

“ he left her an annuity of #1,000 in his will”

Etymology:

From French: annuite’,

from Medieval Latin: annuitas

From Latin: annuus (*annual*)

From Roman era Latin: annua

Source: Dictionary.com

Annuities:

Providing safe and secure income

for over 2000 years.

Contents:

Origin

Most agree that the Roman's were first to the annuity party, but some financial archaeologists argue that annuities actually existed in Egypt from 1100 to 1700 B.C. when a prince from someplace called Sint in the Middle Empire created the first annuity payment plan.

In Rome, annuity solutions for Roman citizens were simple lifetime income strategies that became the genesis for today's Single Premium Immediate Annuity structure.

During the British Medieval era. Annuities were the second largest asset behind owning land.

Source: MarketWatch.com

The current era has it's history with legends such as "Babe Ruth" who went through the depression unscathed because all of his money was in annuities.

One Annuity that we all have.

In 1935 F.D. Roosevelt signed into law the Social Security system to provide an "Old Age Pension" Annuity to the older persons. The system in fact was created by a lady named **Frances Perkins**. She was the Secretary of Labor Chairman. From her, we now have our Social Security. Which is an Annuity.

What is an Annuity?

I am a firm believer in **NO SURPRISES** regarding retirement planning. As a client, you know what to expect. No stress.

An Annuity is defined as:
a steady stream of payments.

From that point the annuity takes on many designs, or purposes. To provide income, security, growth, legacy etc.

There are 2 primary formats. **Fixed** or **Variable**.
We only offer the Fixed types of annuities.

Variable's are sold by Broker's. *I did sell them until the market crash of 2000. After that I only offered the safety and guarantee's of the Fixed variety.*

In a recent survey (*ThinkAdvisor Dec.11-2018*) *some interesting facts came out as to why Brokers do not like Annuities* ***1;*** *advisors don't earn residual revenue once an annuity is purchased and therefore aren't jumping up and down to recommend them.* ***2;*** *."Because annuities aren't a financial benefit to them, advisors don't offer them. Most advisors shy away. That's a big problem in the industry," says Anna Felix, .*

Who has the priority - The Client or Broker?

The Fixed Annuity is guaranteed to be safe from losses.

There are **3 basic parts to an annuity**. **1; You**, the contract owner. **2;** The **Insurance Company. 3;** The **Beneficiaries**.

They have been upheld in the Florida Supreme Court. Protecting the assets of an annuity owner. Florida Statute 222.14 *(Goldenberg v. Sawczak, 791 So. 2d 1078 (Fla. 2001)).*

Annuities are a Legal Contract. The company is required by contract to perform accordingly. Therein lies much of the safety. While Stock and Mutual funds may only have a promise to pay, the annuity is required, by law, to pay.

Getting away from the dry, legal aspects.

How do they fit into your retirement portfolio?

Annuities should not be 100% of your retirement portfolio. Using them as the safety portion that will have all of your base expenses covered for life. Knowing that your expenses are covered, you are able to take on a little more risk in your stock portfolio, up to your comfort level.

A **60/40** or a **50/50** mix between stock and annuities is recommended. If you are into Mutual Funds, you may do better with Annuities,

Fee's and Taxes can be expensive.

The "Hottest Items" now are the ETF's. Assuming you select the best one out of the 5000 available, you may do well. They still have fee's, but less than Mutual Funds and more than Annuities.

Fee's. Annuities may or not have any fee's.

Fee's will normally appear when you are adding a "Rider" to the base annuity. To add an Income Rider is normally less than 1%. While some annuities that are designed for income may have no rider fee's.

Annuities are intended for longer term. When a Stock purchase has a purchase fee upfront,

100% of the annuity purchase amount is credited to the account. An early surrender will often have a annually reducing fee schedule. That would be discussed when selecting the annuity for you. Other provisions also avoid any fee's.

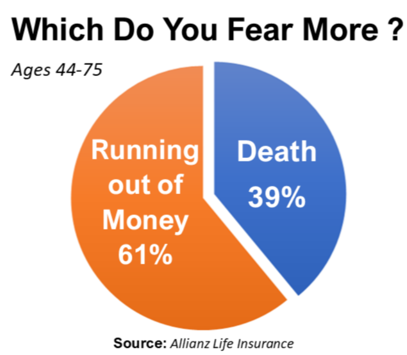
This is seldom a concern as you have access to the funds at any time. Normally, you are able to withdraw, by a phone call, 10% annually without fee's. Keeping in mind that different annuities provide different provisions. This comes back to my earlier statement about "Educating the Client".

Selecting the proper annuity to meet your goals.

By now you are aware of the Safety provided by Annuities and the Basic fee structure.

The second reason people buy Annuities is for Income.

Why do people like their Social Security and Pensions? They know that they will provide lifetime income. Few retiree's anymore will have a Pension. It has been replaced by the 401K or 403B.



The greatest fear of Retiree's now is running out of money.

It is a very real fear. This alone drags into one's life, Stress that they have never felt before. They have always had the Human income because they were working. Now they are looking at their retirement funds to support them for 30 plus years.

Getting older is unavoidable.

Getting older and poor is avoidable.

It's all in the planning.

Creating that Lifetime income is normally done by using an **Index Annuity**, IA. Often referred to as an **EIA,** Equity Index Annuity.

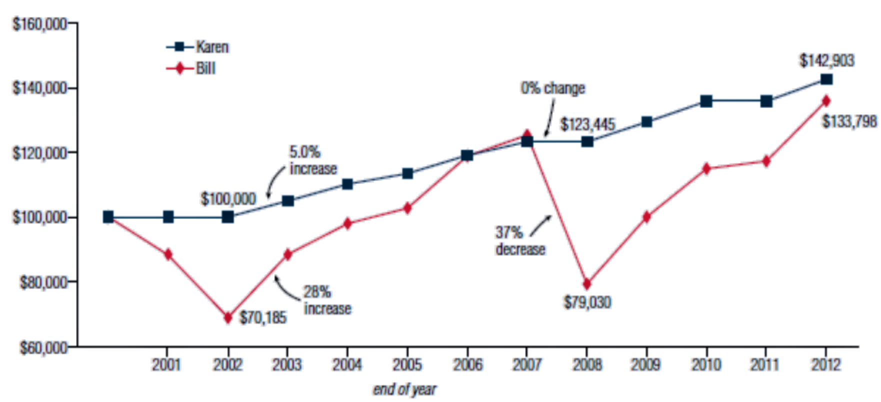
Remember when your broker suggested investing into a Index Fund? Guess where that concept came from.   Annuities.

Going forward may seem as I'm going in circles. When I look at Lifetime Income, there are several variables that I consider.

Differences being the value's stability. A Index Fund may lose value that must be regained.

With an Index Annuity. Your values **NEVER GO DOWN** even if the index does.

In the illustration. You will see how the values remain or go higher, but never down. This is common of all Fixed Annuities.



With a Variable Annuity, your values can go down.

This feature is also beneficial regarding when you choose to begin retirement.

One important aspect of a Lifetime Income is **WHEN YOU START**.

On the date you choose to retire and start taking income from your portfolio. You have no idea if the market will go up or down. What occurs is known as the **Sequence Of Returns**. It is #12 of the 19 Risks facing Seniors. The effect is that you may run out of money before you had planned.

As you can see in the illustration, there is a 13 year difference. If the years following the retirement date are good, you should be OK. If the market drops, you will have a problem.

With an Annuity, this problem <u>**DOES NOT EXIST**</u>.

During the growth stages you never lost anything. As you begin receiving income, the payments are guaranteed for life. They may be adjusted for inflation. The same security as you have with Social Security.

In your checking account every month. forever.

Recapping.

With annuities you have an income that you can never outlive. The values will never go down during the growth period.

The Pay Out.

Typically advisor's will use the 4% rule. This was created by Wm. Bengen in 1994. The 4% may be to little one year and way to much the next. Meaning your income can vary, according to the market. Excess withdrawals, #4 of the 19 Risks, will cause your portfolio to crash sooner.

Income from the Annuities will avoid several problems. Your percentage rate is higher and it will last forever. The start age and whether a single or joint plan is chosen, will provide you a higher income.

Having a guaranteed income to cover your expense's, you are able to be a little more aggressive with the remainder of your portfolio. If the values fall, your lifestyle is protected by the steady income from the annuity.

Structuring your annuities.

A term very popular now is "Using Bucket's" for your portfolio. It a a variation of the percentage rule that is better understood by the investor.

Annuities are contacts for specified times. IE: 3yr-8yr - 10yr etc. One plan is use several annuities at different time frames. As the first one matures, either begin income or roll it over into another longer term. This is also called "Laddering" your investments. Often done with Bonds.

With the Laddering, especially with the Basic Fixed Annuity, you are able to keep up with increasing interest rates or market concerns.

Your goals-

Are you looking for growth or future income?

For the EIA not intended for income.

This allows the growth without any losses as you have seen in a previous illustration. When purchased, you may or not choose to receive a Bonus. This is a percentage at purchase, that is added to your purchase amount. *For example: you purchase @ $100,000 and have a 6% bonus. On day one, your account balance is $106,000*.

This will still have all of the growth available. You are not obligated to take any out unless you choose to. You may access it usually after the first year's anniversary for 10% per year. Different companies will have different details.

At the end of the term. You may take your money. A taxable event of the growth. Continue where you are. Or transfer it to another annuity. A tax free move.

For the EIA intended for future income.

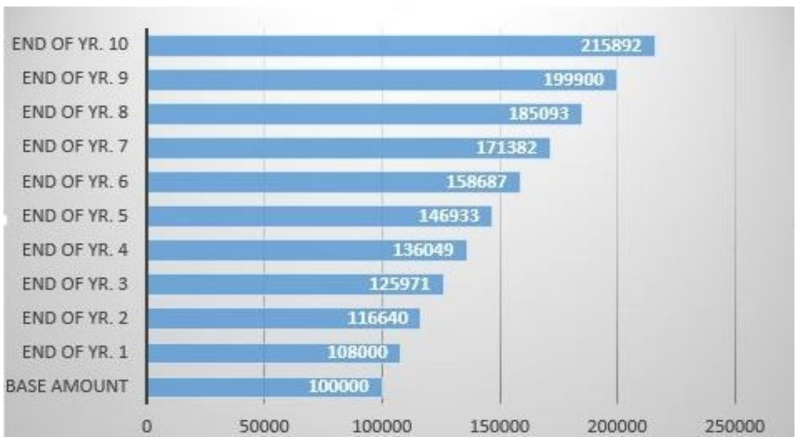
Several options are available.

Bonus up front. Guaranteed Growth regardless of any yearly returns. Or a percentage at future time points.

All 3 plans are good.
Your goals will determine which is best for you.

With a **<u>fixed growth</u>**, you will receive a fixed percentage per year regardless of the base annuities growth. When income is selected, your income will be based on the higher of the 2. Guaranteed amount or growth.

As seen in the illustration, the growth is constant.



This chart is using $100,00, no bonus, 8% growth.

This option allows you to know that in X number of years. You will have X amount of money for income. If the underling annuity does better, your income will be higher.

Following the rule of 72. If you receive 7.2% return for 10 years, you will double your money.

This allows you to plan very accurately what your income can be at some time in the future. You may elect at any year to start the income. Very Predictable.

A Large Bonus upfront.

As an example. The Allianz 222 plan currently offers a 22% bonus. Plus your growth after that.

For example. A $100,000 purchase becomes $122,000 on day one.

This has been a very popular choice. It is a 10year plan. Income will start after the 10 years.

Your exact income can not be determined today with this plan. Because of the large upfront bonus, this will provide an excellent position in 10 years. This plan does not charge any fee for the income. This plan is designed as an income plan.

Ideal for those who know they will not need the income for at least 10 years. Allowing you to ladder or use the Bucket method.

A **3rd format** is to have a Pre-Determined growth at future time points. Not my first choice. It may however be a good choice, depending on upon your future income goals. You can start income any time before the 10 year mark.

Creating the Lifetime Income is easy to do.

Predictable and secure that you will never run out of money.

Peace of Mind has value. Never having to worry about how to pay the electric bill of buy groceries.

Annuities can bring safety to your IRA.

If you have a 401K or 403B, you can transfer them to an IRA annuity without a taxable event. Annuities are similar to an IRA . They both have Tax Deferred Growth. The Cost Basis for an annuity is not taxable.

Fewer restriction than the IRA.

Having an annuity, you always have a source that you can access as needed for any purpose you wish.

If you have a need for confined care, you have access without any penalties in most cases.

Flexibility

Like to Travel?

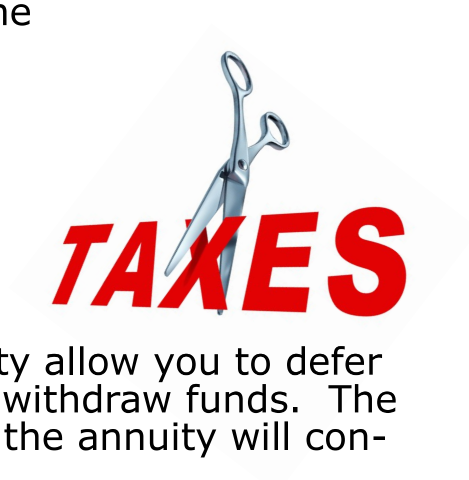
The annuity can be used as your Travel Slush Fund. Or any other purpose. Take the 10% out annually to pay your travels or visits to the Grandchildren.

Privacy? Annuities are private. They are not reported to any one. Enabling to distribute an asset with total privacy

You may wish to leave something to a charity or set up something for your heirs.

The Annuity allows growth without being taxed. Passing to a Charity again eliminates any taxation to you. Until then, you have access to it if needed.

A living legacy for either your Children, Grandchildren or your designated beneficiary. You may be familiar with the term "Stretched IRA". You can do the same by having a lifetime payout to the beneficiaries.



As you are growing your portfolio, Taxes continually take a part of your growth.

The advantages of an annuity allow you to defer any taxes until you actually withdraw funds. The principal and the interest in the annuity will continue to grow.
That is known as **Compounding**.
Your ***principal and interest*** both receiving interest.

This Booklet should give you some insight to the possibilities of having annuities as part of your retirement portfolio.

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If you have any questions,
please call or Email us.

We can help you, even
if you are not a resident
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