Annuity Insights

Guidebook

FORWARD

Before we get ahead into *The Annuity Insights Guidebook*, we want to communicate some important information. First, thank you for your time and interest in reading this guidebook. If you ever have any questions, feedback, or need anything at all, please call us at 877.476.9723.

Second, this book is created to be an educational guide. Its purpose is to bring greater clarity and understanding to annuities and any financial decisions you may make about them. It doesn't have to be read from cover to cover, even though many people do. If there is an area where you need more information or something needs to be clearer, we encourage you to go to that section.

Remember, there are hundreds upon hundreds of product options in the annuity marketplace. This is great in terms of being able to cover many consumer needs, but it makes things complex.

Everyone is different. So any annuity product, if appropriate, must be configured to your own financial picture. We highly recommend you use this as a reference point for when you consult with an advisor or an agent about annuities.

Just as not all annuities are equal, neither are all financial professionals. They can differ in terms of the knowledge and guidance they are able to give on annuities. Working with an independent, knowledgeable annuity specialist can go a long way toward finding the right annuity strategy for your retirement needs.

If you are ready for help in going over different annuity options and see if any make sense for you, we at SafeMoney.com can assist you. Please visit SafeMoney.com to connect with an agent or an advisor for your needs. Or if you ever need anything else, we invite to call us at 877.GROW.SAFE (877.476.9723) at any time.

Disclaimer – This guidebook gives information on issues people may want to consider in decisions of whether to buy an annuity, and should they decide to purchase, which type of annuity, annuity benefits, and additional riders may be suitable for their goals and needs. This information is general in nature and meant only for educational purposes. This information is not designed or intended to be a recommendation or any means of solicitation or inducement for buying any specific financial product or service. At certain points, content is reemphasized when relevant. This is done for educational purposes, when convenient.

This material should not be construed in itself as, and should not be relied upon for, investment, legal, tax, or accounting advice. Please consult a professional specializing in these areas for specific financial, legal, or tax-planning needs.

This guidebook includes references to studies and other sources. They can be found in the endnotes. If you would like to request a copy of any of these sources, please call us.

Please note any examples given within this guidebook are not company-specific, they are concepts given to help you understand how these products function. Contracts can vary and change. Not all annuity contracts, benefits, riders, and rider features may be available in your state.

At times, this guidebook refers to guarantees offered with annuity contracts. Please note annuity guarantees depend on the financial strength and claims-paying ability of the insurance company issuing the annuity contract.

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INTRODUCTION

Is an annuity right for you? Depending on your needs, goals, and circumstances, it could be a powerful addition to an overall retirement strategy. Annuities help you reach long-term goals, whether you want to put away money for the future, protect assets from market downturns, enjoy dependable income for retirement, or all of these.

As we saw in *The New Retirement Report,* we are in the throes of economic uncertainty. Do you have the right safeguards in place for your retirement lifetime?

Rising health costs, market volatility, growing pressure on guaranteed government programs like Social Security and Medicare, widespread shortfalls in savings, inflation… these are just a few of the retirement challenges we face. If unplanned for, even a small misstep could prove a costly mistake. It could even be disruptive to your retirement lifestyle.

The point is to enjoy a secure, comfortable retirement, we must prepare carefully… and thoroughly. Annuities offer permanent income security and help balance portfolio risk with their contractual guarantees. They are one of only a few vehicles which can do this. But this doesn't mean they are right for everyone – they should fit well into the scope of your retirement financial picture.

We at SafeMoney.com have prepared this guidebook to give you straightforward insights into annuities, their benefits, and their downsides. It is my sincere hope that you find this to be a valuable resource to evaluate your income and asset preservation strategies. If you ever have any questions, have any input, or need help, please don't hesitate to call us at 877.476.9723.

All the best,

Brent Meyer

SHOULD AN ANNUITY BE PART OF YOUR PORTFOLIO?

You may be attracted to annuities for a variety of reasons, but are they right for you? Each annuity offers various benefits and downsides, depending on how it is applied. Another factor that can affect their appropriateness is your goals: What you would like for your money to achieve? To those ends, it helps to understand the purpose of these financial vehicles.

There are misconceptions about annuities; two common misunderstandings are "they all have high fees" and "when someone passes away, the rest of their money goes to the insurance company." However, this isn't true. The annuities which tend to have high fees are variable annuities, and their expensive costs have led to the perception that all annuities must be costly. In fact, many annuities tend to be fairly low-cost. And as for the money going to the insurance company? That's the case only when you choose a life-only annuitization payout option (an option where someone receives guaranteed income payments for life, but the payments cease at death), and it should be used only for unique consumer needs.

Let's clarify the purpose of these vehicles, then. Annuities are designed to be tools of risk management. They help mitigate risks with contractual guarantees. These guarantees range from asset protection to growth potential and assured income, to name a few factors.

Americans find annuities appealing for a host of reasons, as shown by various research resources:

- Most people buy annuities to supplement income they receive from Social Security and pensions, according to LIMRA.[1]
- Others capitalize on annuities giving the benefit of tax-deferred money growth. They are motivated to accumulate assets for retirement.[2]
- Some Americans use annuities to supplement or enhance retirement income, even if they have other income sources like 401(k) plans. Part of this trend may be tied to concerns over having enough money for a retirement lifetime.

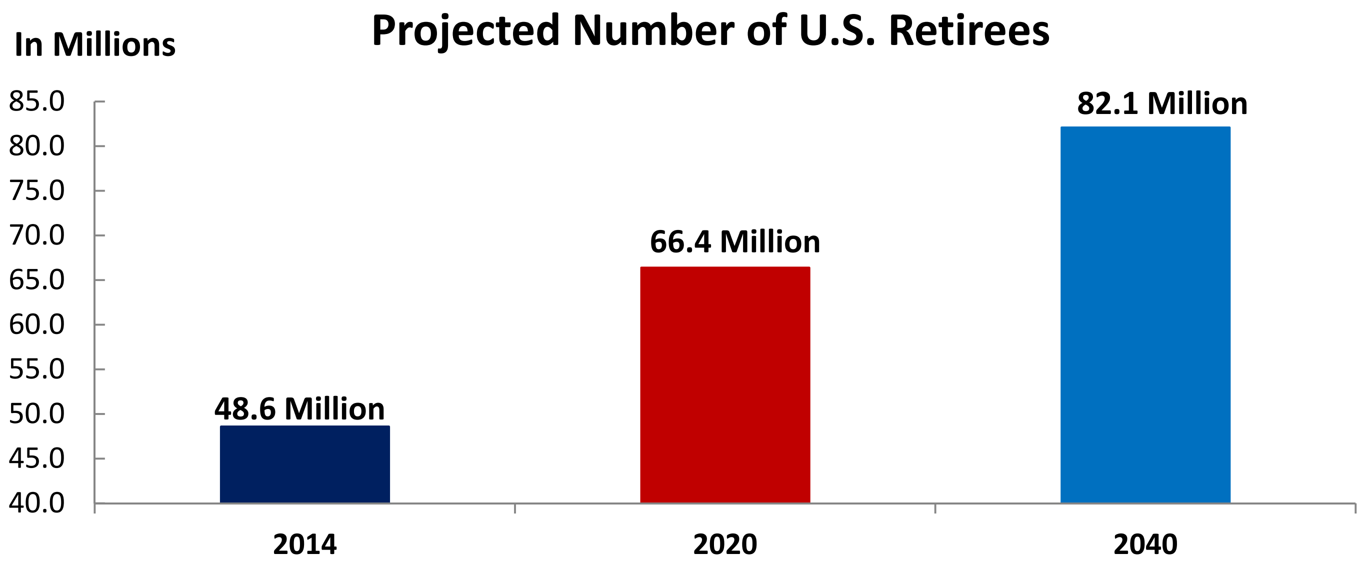
- In one study by LIMRA, among workers with access to defined-contribution plans in their workplace – like 401(k) plans – just 16% said they felt "very confident" about having enough money to last their entire retirement.[3]
- Another way that annuities are tapped as a solution is for "longevity insurance," or to ensure they have enough income for retirement. People are living longer, and it brings a longer period of time for which we might need income. There has been a 40% increase in the number of Americans living past age 100, according to a recent study by the CDC.[4]
- According to another study, two-thirds (around 67%) of Americans say they believe they may outlive their money in retirement.[5] Moreover, 34% say they think there is a likelihood of 51% or greater.[6]

These findings underscore the importance of being sure you will have enough income for your retirement lifetime. In an article he wrote for Harvard Business Review, Dr. Robert C. Merton notes that much of the retirement planning landscape is focused on the value of investments, investment returns, and investment volatility – namely, investor net worth.[7]

Dr. Merton is a widely respected economist and a Nobel laureate in economics. He asserts this focus must be readjusted so Americans are prepared for monthly income needs in retirement: "Our approach to saving is all wrong. We need to think about monthly income, not net worth."[8]

WILL YOU HAVE THE INCOME YOU NEED FOR YOUR RETIREMENT?

What will you do if you don't have the income you need in retirement? This is a question facing millions of retirees. According to LIMRA, over 1.5 million people in the United States will retire every year from now until 2025, or over 120,000 people will retire per month.[9] The total number of U.S. retirees is projected to reach 82.1 million by 2040.[10] The graph below shows this growing trend.



Graph created by associates at SafeMoney.com with research information from LIMRA. Source: "Why 'Past Performance Does Not Guarantee Future Results,'" LIMRA Secure Retirement Institute, 2015, Source-point Access Here, Accessed 7.8.2016.

Realistically speaking, any income gaps could have strong effects on someone's standard of living. It might mean a change in lifestyle or disruptions to personal goals in retirement. Retirement monies which otherwise could have funded a new business, charitable causes, vacations, hobbies, day trips, eating out, or other activities now may have to be allocated toward everyday needs. In other cases, the only options may be to reduce spending, save more, work longer, get yet another job, or even a combination of these actions.

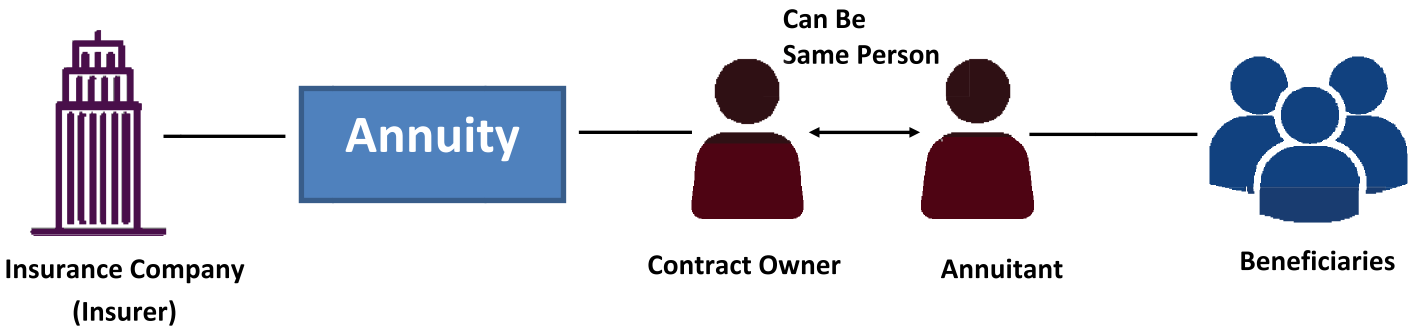
One way financial professionals can help retirees and pre-retirees achieve their financial goals is through using guaranteed insurance contracts, or annuities.

WHAT IS AN ANNUITY?

An annuity is a contract between someone and an insurance company. You entrust money to the insurance company. In exchange, the insurance carrier ensures certain guarantees over a set period. The guarantees can give assured income, a specified interest rate for growth, or certain withdrawal benefits. Note that guarantees will vary, depending on annuity type and contract design.

Who's Who in an Annuity?

The way an annuity is structured affects income payments and death benefit. The schema below provides an overview of the parties involved in an annuity.



Insurance company – This is the party which issues the contract. It allocates the money according to the owner's specifications. The insurance company is responsible for the guarantees. The guarantees are backed by the insurer's financial strength and claims-paying ability.

Contract owner – The contract owner is the decision-making party in the annuity. They decide how much money will be contributed, how the money will be allocated, who the annuitant and beneficiaries will be, and other matters.

Annuitant – The annuitant and contract owner may or may not be the same person. Either way, the insurer uses the annuitant's life expectancy to calculate income payments.

Beneficiaries – The person(s) who receive the annuity's death benefit. Depending on the contract, they may receive the death benefit if the owner or annuitant dies. It is critical to name a beneficiary and to update this information if changes are made. Otherwise, the money in the annuity could be subject to probate.

How Do Annuities Work?

Annuities are specifically designed to help you reach long-term financial goals. Please note they are not an investment. The insurance company is contractually obligated to the terms, conditions, and pledges of what it agreed to uphold. The risks are placed on the insurance company, not the contract holder. So annuities are a conservative, low-risk vehicle compared to other financial products.

You pay a one-time lump sum or premiums over time. In exchange, you will receive a steady, regular income stream in the future. Based on what the contract specifies, these income payments can last for a certain period (5, 10, or 15 years, for example) or the rest of your life.

Depending on the type of annuity you choose, the income payments can start immediately or some years down the road. This distinction is found in immediate annuities and deferred annuities, which we cover a little bit later in this section.

When you pay premium, you will have a variety of options, features, and benefits which you will want to consider. Depending on the type of annuity you get, you may have a choice between annuitization and a lifetime income rider.

Both are ways you can get guaranteed income in the future. It is critical to choose carefully (You also have the opportunity to take your money in a lump sum at the end of the term if you so choose).

Why Do People Buy Annuities?

People tend to purchase annuities for one or more of the following reasons:

- Having guaranteed income for a certain period or life
- Supplementing income from Social Security or other sources
- Building up retirement nest egg
- Protecting money from market volatility
- Benefiting from tax-efficient arrangement
- Leaving a legacy for heirs
- Providing future income for partner or loved ones

FIVE TYPES OF ANNUITIES

Annuities come in all sorts of shapes and sizes. There are many options available, and each insurance company offers its own variations on different features. At present, there are five types of annuities: immediate annuities, fixed annuities, variable annuities, fixed index annuities, and multi-year guarantee annuities.

Immediate Annuities

In this annuity, you pay a one-time lump sum. This type of annuity is also known as a single-premium immediate annuity (SPIA). You pay a one-time lump sum and in exchange, you begin receiving income right away. Some immediate annuity contracts may let you delay income payments until a year after your premium payment date. If you need supplementary income or have immediate income needs, this may be an option to consider.

The insurance company promises you this income for the rest of your life. Generally speaking, because the turnaround for getting income is so quick, immediate annuities tend to be more attractive to seniors and older retirees.

In exchange for the assured income, you lose control over your contributed money. Should you need access to all of your money, your options are highly limited. It may come down to selling your annuity on the secondary market for pennies on the dollar.

Income payouts depend on a number of actuarial variables, including longevity. If you are considering different immediate annuities, be wary of the payout rate. A common tactic is to entice consumers with high payout rates. On the surface, an immediate annuity with a high payout rate can seem more appealing than a CD, which tends to offer low payout rates. However, it isn’t a real indicator of your income payments over time. Instead, pay attention to the actual amount of monthly or annual income you will receive, along with how long the guaranteed time period lasts for.

Remember, an immediate annuity provides protection against longevity risk – the possibility of outliving your money – and market risk – the risk of your income decreasing due to falling stock values or declining interest rates. It is advisable to consider the benchmarks of income and the length of the guaranteed period in any annuity purchasing decisions.

Depending on your goals, immediate annuities can be customized in a retirement portfolio for different purposes. Purchases with non-qualified money (after-tax dollars) can leave your annuity income largely tax-free. If of interest, discuss with your financial professional different options to lower your tax liability for when you start taking income. Another strategy is through careful pairing of an immediate annuity with another annuity, such as a fixed deferred annuity or a fixed index annuity. Using strategic laddering techniques, an immediate annuity with one or more other annuities can generate even more retirement income.

An immediate annuity can also be adapted for legacy planning. Say you want to leave money to your loved ones. When you reach age 70.5, required minimum distributions kick in. Of course, any account withdrawals are taxable, which will reduce the amount of money you can give to heirs.

One strategy is to put the money into an immediate annuity, and then use the proceeds from the annuity to fund a life insurance policy. Using this approach, you spread out your tax liability and meet government-imposed withdrawal rules.

Fixed Annuities

A fixed annuity is a long-term contract. It pays a fixed interest rate for a specific period of time. When you decide to take income, you can receive a set period or the rest of your life. Income payouts will be taxed, so that is important to keep in mind.

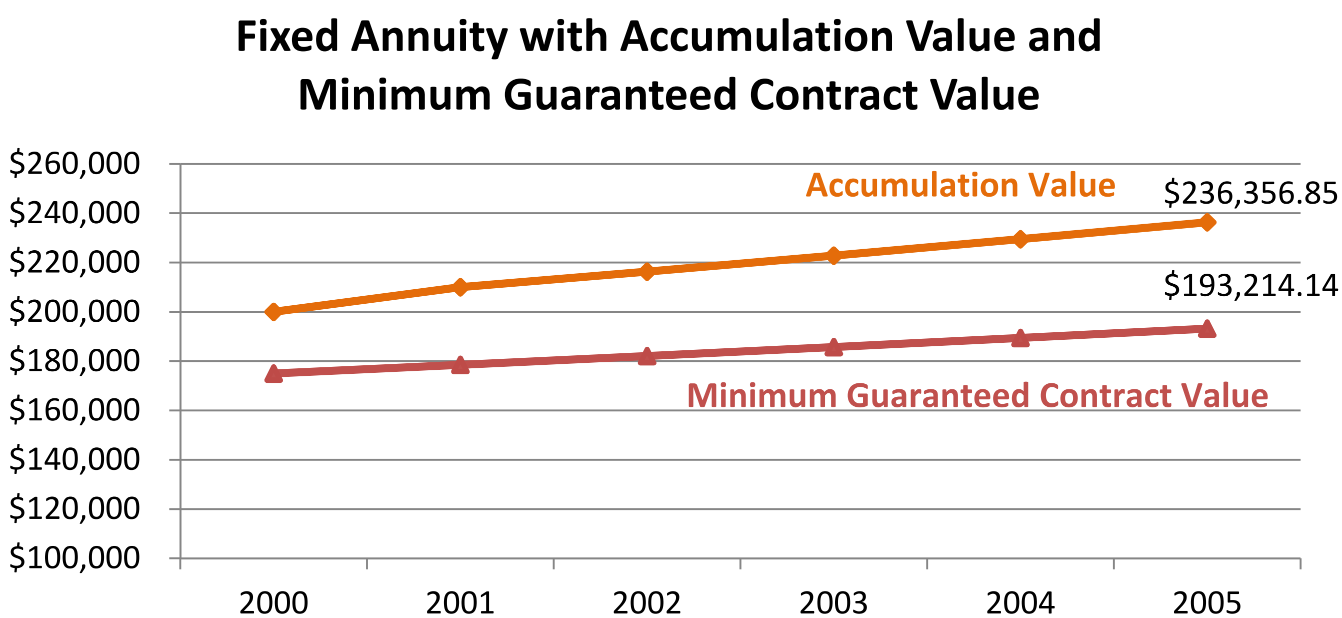
A fixed annuity doesn't have annual fees for its base contract. The contract fees are built into the interest rate or the income payout amounts. Like other types of deferred annuities, a fixed annuity lets your money grow tax-deferred. So it has the benefit of triple compounding interest: interest on your principal, interest on previously credited interest, and interest on the income tax you didn't pay.

Fixed annuities also offer a higher-quality guarantee. At present, current fixed rates range from 1-4%. Generally speaking, the longer the contract term is, the higher the interest rate will be. On the whole, the initial rate guarantee tends to last for three to 10 years.

To increase their appeal, some fixed annuities come with higher rates their first year, or with premium bonuses. Once the set period has passed, there will be a renewal rate should you decide to stay in the contract.

Unlike an immediate annuity, a fixed annuity gives you more “majority control” of your money during the accumulation phase. After the first contract year, many contracts allow for penalty-free withdrawals of up to 10% per year. Keep in mind, though, that a withdrawal reduces the amount of money in the contract, which lessens the amount of money which can grow and can reduce the death benefit.

If your contract hasn’t matured yet, early withdrawals above 10% will be subject to a penalty fee. Say you made an excess withdrawal early in your contract, or you are just considering making an excess withdrawal. If you would like to recover or maintain the sum of your original premium, you should carefully consider whether the penalty fees are worth any more excess withdrawals.



Created by associates at SafeMoney.com. These are hypothetical concepts created for illustrative purposes only. All examples in this graph assume a $200,000 initial premium with no withdrawals and/or surrenders. Assumes a 1-year guarantee period, a 5% initial guaranteed rate and a 3% base rate declared by insurer thereafter. Should not be considered representative of your annuity’s current or future performance. For hypothetical purposes only.

For illustrative purposes of how a fixed annuity can grow, here is a graph with an example of a fixed annuity. It assumes a $200,000 initial premium, a 5% initial guaranteed rate, and a 3% rate declared thereafter, all over a five-year period.

Variable Annuities

Before we go into a discussion of the variable annuity, let's clarify an important point. <u>This guidebook talks about safe financial strategies, so variable annuities are outside of its scope.</u> With that said, here are some variable annuity basics.

Unlike other annuities, variable annuities come with market volatility risk. Policyholders take on this risk directly.[11] Variable annuities are also registered as securities with the SEC, unlike other annuities.[12]

A variable annuity comes with an investment feature. You have the option to participate in "subaccounts," or allocate premiums into stocks, bond funds, commodities funds, or other types of funds.[13] Because these are account products with changing market values, principal and earnings are potentially exposed to losses.[14] These investments grow tax-deferred, so long as the money is kept within the structure of the variable annuity.[15]

The variable annuity is also well-known for costly fees. Fees and expenses can range from 2-8% per year, depending on whether the market is rising or declining.[16] These annuities frequently have complicated features and benefits, making them among the most complex annuity products, as an Investopedia writer notes.[17]

Let's consider a hypothetical to examine the impact of fees. Say the cumulative fees for a variable annuity added up to 4.25%. With a $250,000 investment in a variable annuity, that would come out to $10,625 in annual fees. Over the years, thousands of dollars in fees would add up significantly. And in the years of investment losses, those fees would be even more impactful.

As for illustration of market volatility and its potential effects, consider the following data findings:

- As a market-based investment, a variable annuity can potentially be exposed to market losses. Financial losses could be especially costly in events such as the market crashes of the 2000s.
- Say a variable annuity was tied to the S&P 500. In 2008, the S&P 500 had an annual return of -36.55%. Earlier in the decade, the S&P 500 put up annual returns of -9.03% in 2000, -11.85% in 2001, and -21.97% in 2002.[18]
- According to Morningstar research, historical average fees for variable annuities can be as high as 3.4% – or even higher![19]
- Let's look at the effects of fees on annual returns. Assuming 3.4% in annual variable annuity fees, and factoring those into return calculations – from 2000-2016, the S&P 500 produced negative annual returns 37.5% of the time.[20]

The point of this data is to illustrate the effects of market losses on a variable annuity. A falling market eats away into the value of your investments, which can be disastrous for retirement financial goals.

Fixed Index Annuities

Unlike the variable annuity, a fixed index annuity doesn't subject your premium dollars to market volatility risk. This type of annuity is linked to an index or, in some cases, a set of indices. An example of an index would be the S&P 500®. When the index goes up, you can benefit from a percentage of its rise in value. Your money has the potential to grow with positive index changes. Note, however, that the extent to which you can participate in this is limited by certain measures.

Just like a fixed annuity, a fixed index annuity offers a guaranteed minimum, fixed rate. However, it has the potential for earning additional interest based on how the linked index performs.

Interest is credited based on the increasing values of this index. If the index records positive change, additional interest is credited to your annuity. And should the index drop in value, your principal and the credited interest are locked in. You won't lose money due to falling index values.

When the index rises in value, you receive a percentage of that increase – not the entire increase. Insurance companies have a number of management techniques at their disposal to offer reasonable growth potential and to maintain their own financial strength. The methods an insurance company uses to measure how much you get vary, but there are five primary mechanisms which affect your annuity's growth.

The indexing method is the means used to measure change within the index, if any. There are many indexing methods which can be utilized, and we will cover some of the most commonly used ones in a while.

The cap is a preset limit on the index-linked interest you can get. It is the maximum rate of interest the annuity can earn. For example, say the index rose 10% within a year. If your fixed index annuity were capped at 7%, you would be credited only 7% for that period. The cap is also known as a "ceiling."

The participation rate is used to decide how much of the rising index value will be used to calculate the earned index-linked interest. It determines what percentage of the index gains you will be credited for. For example, say a fixed index annuity has a participation rate of 80%. If the index rose 10%, you would get only 8% based on the participation rate, absent the influence of a cap.

The spread or margin is part of an increase in index value which you don't get. In many cases, the administrative fee for a fixed index annuity is built into this part. The interest credited to your contract is calculated by subtracting the spread or margin percentage from the overall index increase. Say you were looking at 8%; with a margin rate of 1%, you would be credited 7%.

The floor is what provides protection against a falling index. Should the index drop in value, the value of your annuity would be retained. Your original premium plus any credited interest are locked in. The trade-off for this protection is that many fixed index annuities are credited 0% when the index records a negative change.

As for some common indexing methods:

Annual reset – This is also known as “ratcheting” or “ratcheting up.” Index-linked interest, should you earn any, is based on the difference between the index value at the end of the contract year from the index value at the beginning of the contract year. Interest is credited to your annuity yearly during the term. This earned interest is locked in. The prior year’s endpoint is the following year’s starting point. This method may lead to more credited interest than other methods would give if frequent index fluctuations arose during the term.

High watermark – Any index-tied interest, if any, is found by evaluating and comparing index values at various points within the term. This usually happens on the yearly anniversaries of when you purchased the contract. Interest is based on the difference between the highest index value and the index value at the start of the term. You earn interest at the end of the term.

When you have an annuity with this design, you may be credited higher interest than other designs should the index reach a high point early or middle in the term, and then decline at the end.

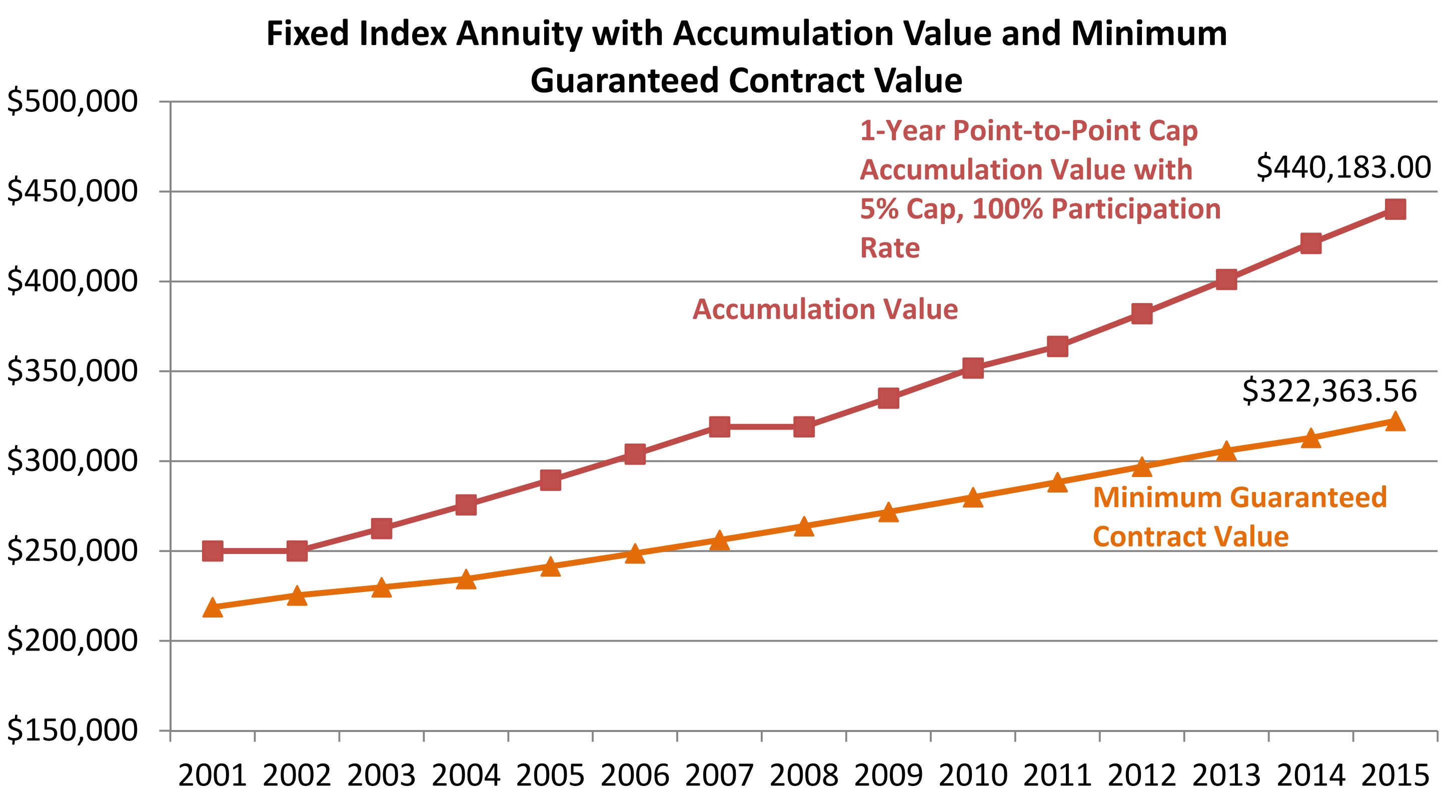
Short-term point-to-point – Index-linked interest is based on the difference between the index value at the term’s start and the index value at each anniversary every year. With an annual reset, earned interest is locked in annually and retained. With the potential for credited interest each year, annuities with this design often come with lower participation rates or caps.

Long-term point-to-point – Index-linked interest is decided via subtraction of the index value at the end of the term from the value at the start of the term. You are credited the interest at the term’s end. With interest being calculated at the end-of-term, annuities with this crediting method often come with a higher participation rate than annuities with other methods.

It is important to choose a suitable crediting method for your annuity contract. This will determine the interest you earn, so choose carefully! At SafeMoney.com, you can connect with financial professionals who can help you evaluate different methods and understand your options. They can go over the details of each option so you can make decisions with confidence.

Aside from your choice of crediting method, another option may be to purchase more than one fixed index annuity with different crediting options. With this approach, your annuities could earn interest in different index environments.

The graph below gives an illustration of how a fixed index annuity might grow. It assumes a 5% cap, a 100% participation rate, and all examples assume an initial premium of $250,000. It is also assumed to be linked to the S&P 500® Index.



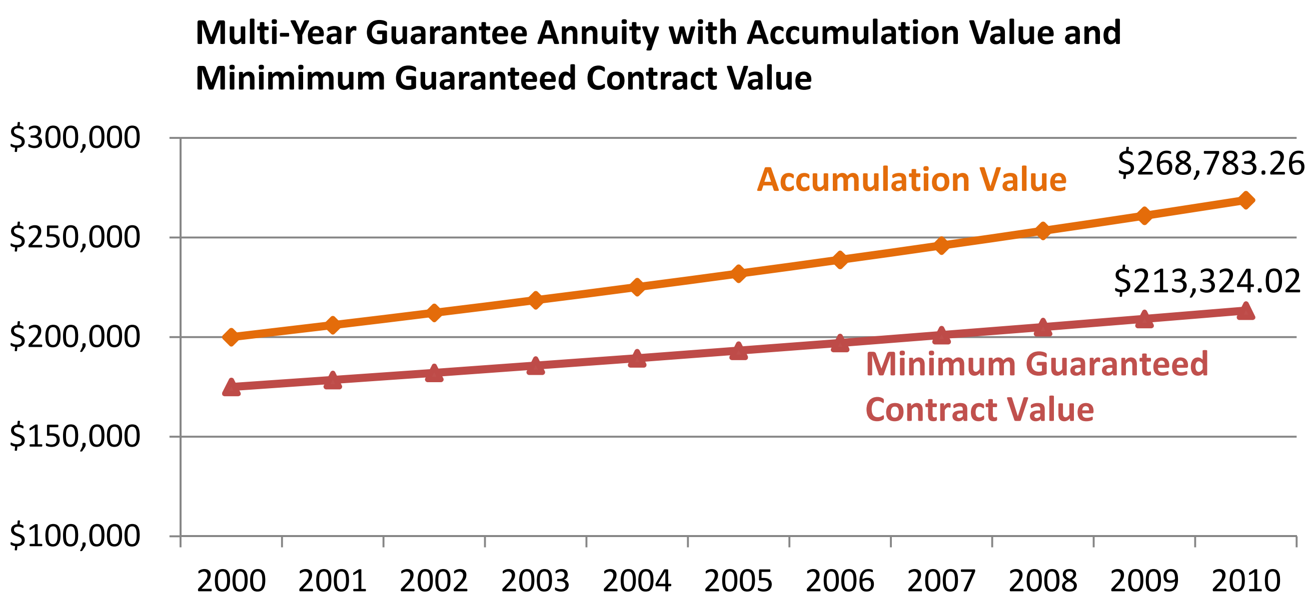
Created by associates at SafeMoney.com. Assumes 10/1/01 start date and 10/1 anniversary dates. These are hypothetical concepts and comparison for illustrative purpose only. Historical performance of the S&P 500®Index should not be considered a representation of current or future performance of the Index or your annuity. Each example above assumes a $250,000 initial premium with no withdrawals and/or surrenders. All elements, including the Cap and the Participation Rate, are for hypothetical purposes only. Please contact a SafeMoney.com financial professional for current Caps, Participation Rates, and other information.

Multi-Year Guarantee Annuities

Multi-year guarantee annuities are also known as "fixed rate annuities." They may be ideal for retirees and pre-retirees with a longer-term time horizon. It differs from a fixed annuity, which guarantees a fixed rate for a certain period, often a year. This annuity guarantees a certain percentage yield over a specified period.

The length of this period depends on the contract. The guarantee period often lasts anywhere from two to 10 years, after which you decide whether you would like to remain in the contract. It usually is paid for with a one-time lump sum. In many ways, a multi-year guarantee annuity functions similarly to a CD. However, it grows on a tax-deferred basis and offers triple compounding growth. Money taken out from the contract is taxable.

Like many annuities, multi-year guarantee annuities have a contractual provision allowing for penalty-free withdrawals of up to 10% of your accumulation value. The graph below illustrates how a multi-year guarantee annuity might grow.



Created by associates at SafeMoney.com. These are hypothetical concepts for illustrative purposes only. This assumes a 10-year initial guarantee period, which may be renewed. Each example above assumes a $200,000 initial premium with no withdrawals and/or surrenders. Assumes a 3% current first-year rate and a 3% current base interest rate thereafter. Should not be considered representative of your annuity's current or future performance.

It assumes a 10-year guarantee period, a $200,000 initial premium for all examples, a 3% yield, a 3% initial interest rate, and a 3% current base rate thereafter.

Other Annuity Need-to-Knows

At times we have discussed how you can benefit from immediate or deferred income payments. This brings up another way annuities can be split into different classifications: immediate and deferred annuities.

Immediate annuities start giving out income no later than one year after you pay the premium. You usually pay for an immediate annuity with a one-time lump sum for the initial premium payment.

Deferred annuities often start income payments many years later. A deferred annuity has two parts: the accumulation period and the distribution or payout period. During accumulation, money you put into an annuity earns interest on a tax-deferred basis, less any applicable charges.

In the payout period, the insurance company pays income to you or someone you choose. You may have a number of withdrawal options at your disposal.

Another distinction to remember is whether an annuity is a single-premium or a flexible-premium contract. Single-premium contracts are those in which you pay a one-time lump sum. As for flexible-premium contracts, you pay premiums over time. There are two types of flexible-premium contracts. The first one lets you pay as much premium as you want, when you want, within certain limits. The second type could have a scheduled-premium setup, in which you have certain payment sums scheduled at certain times.

HOW SOLID ARE THOSE ANNUITY GUARANTEE CLAIMS?

You may be wondering how an insurance company can ensure its guarantees. This depends on a range of factors. The first point concerns the financial strength of an insurance company, which is reported in company ratings administered by well-respected rating agencies.

Company Ratings

Rating firms such as A.M. Best and Standard & Poor's grade thousands of life insurance companies based on their company financial strength. The company ratings are based on a broad range of criteria, including quantitative and qualitative metrics.

For general purposes, you can review company financial ratings as a means of judging an insurance company's creditworthiness. For a generic overview, here are some details on A.M. Best's ratings[21]:

- In A.M. Best's framework, overall, ratings range from A+ to D.
- A+ indicates a "Superior" distinction and D indicates a "Poor" grade.
- In this model, E and F grades are status symbols.
- Companies receiving these E and F statuses are impaired insurance companies. They fall under heavy regulatory supervision, control, or restraint (E status), or they are publicly liquidated by a court of law or due to forced liquidation (F status).
- Rated insurance companies receiving an S status symbol have had their company rating suspended. This occurs when "sudden and significant events impact operations" and the rating implications cannot be evaluated.
- Companies receiving an NR status symbol have not been rated yet. This can include previously rated companies or companies not yet rated by A.M. Best.

In regard to financial strength ratings, insurance companies can receive "rating notches," or change from their initial financial strength rating. Improvements are indicated with a "+" while declining strength is indicated with a "-." The rating notches are achievable from ratings C to A+.[22] Companies receiving a C- or lower rating have weak or poor capacities to meet their obligations.[23]

Rules and Regulatory Bodies

Another point is how insurance companies differ from financial institutions like banks or credit unions. Since insurance carriers operate in different business conditions than banks or credit unions do, they fall under different rules. Because they are different entities than banks or credit unions, the insurance companies don't have their funds backed by the FDIC or NCUA, either. Nor are they under the authority of the FDIC or the NCUA. Instead, the insurance companies are regulated by their respective state insurance commissions.

The National Association of Insurance Commissioners (NAIC) operates on a nationwide level. Its purpose is to serve as a centralized hub for setting standards and supporting regulations in the U.S. insurance industry.[24] The NAIC is governed by the chief insurance regulators from all 50 states, Washington, D.C., and five U.S. territories.[25]

Via the NAIC, state insurance regulators have a framework to set standards and industry best practices, conduct rigorous policy reviews, and maintain regulatory oversight.[26] Along with being the voice of state insurance regulators, the NAIC promotes general public and consumer protection interests with its involvement. One of its chief accomplishments is the establishment of uniform financial reporting standards for insurance carriers.[27]

Members of this national organization, along with the NAIC's own resources, form the national system of state-based insurance regulation.

Insured Funds

Many insurance companies have a "reinsurance system," or a setup in which an insurance company is reinsured by other insurance companies as a means of risk management. This provides annuity owners with a powerful safety net against insurance company insolvencies. On an individual company level, consumers also have powerful protections in the reserve requirements insurance companies are obligated to maintain, as we discuss next.

Reserves

Like banks and credit unions, insurance companies are subject to legal reserve requirements. However, these requirements are different from those of banks and credit unions. Insurance companies are required to maintain at least a 1:1 ratio in their reserves. In other words, they must have a dollar in reserves for every dollar they have made in contractual guarantees.

As a result, should insurance companies need to pay out on every annuity contract they have issued, they have the financial resources to do so. Many carriers keep more than the required dollar-for-dollar in their reserves. These legal reserve requirements are set by state insurance departments.

Surplus Reserves and Solvency Ratios

When looking at insurance companies, be sure to check out their ratings. Their ratings include a solvency ratio, or how much they hold in surplus capital as financial cushioning to uphold the guarantees they have agreed to pay.

For example, say an insurance company has a solvency ratio of 103. That means for every $1 dollar contributed to an annuity, they hold $1.03 in reserves to back their guarantee of principal. Similarly, a solvency ratio of 105 would indicate an insurance company has $1.05 in reserves for $1 dollar put into an annuity.

It shows how much surplus an insurance carrier holds above the dollar-for-dollar reserve requirement.

Reserve Requirements: Insurance Companies versus Banks

A question that often arises is how the reserve requirements for banks differ from those for insurance companies. Actually, banks have less stringent requirements.

According to the Board of Governors of the Federal Reserve System, based on certain factors banks must maintain a 3%-10% ratio of reserves to total liabilities.[28] So that would be $0.03-$0.10 in reserves for every dollar deposited.[29] Reserves must be in the form of cash or cash-equivalent assets.

In contrast, say an insurance company had a solvency ratio of 104 – it would have $1.04 in reserves for every $1 dollar put into an annuity.

Because of the robust capitalization requirements, the comprehensive legal reserve system, and the protection measures in place – the reinsurance system used by many insurance companies, namely – annuity buyers enjoy a substantial safety net.

And there is the matter of insurance company failures in general. As one writer-contributor with CBS MoneyWatch noted[30]:

> “Although bank failures have caused a lot of concern about the stability of all financial institutions, it's important to recognize there are critical differences between failures of banks and insurance companies. Here are some key differences:
>
> -- It's hard to start a "run on an insurance company" like a "run on a bank." While you can always withdraw the money from your bank accounts, you would have to die for life insurance benefits to be paid, and with immediate annuities, you'd have to wait each month to receive your check. Unlike with a bank, there's generally a longer timeframe in which to address financial problems at insurance companies.
>
> -- Insurance companies usually aren't as leveraged as banks, so when they fail, their liabilities might be only 10 to 20 percent higher than their assets. A bank's liabilities, on the other hand, can be far higher than its assets.”

These insurance company safeguards (surplus capital and reinsurance measures) have arguably worked well even in tough economic times. For instance, let’s look at the number of bank failures and insurance company failures per year, noted in the chart below. It shows insurance company failures and bank failures during the mid-1980s – when bank failures were high – the 1990s – when insurance company failures reached an all-time high – and bank and insurer failures in the wake of the financial crisis of 2007-2008.

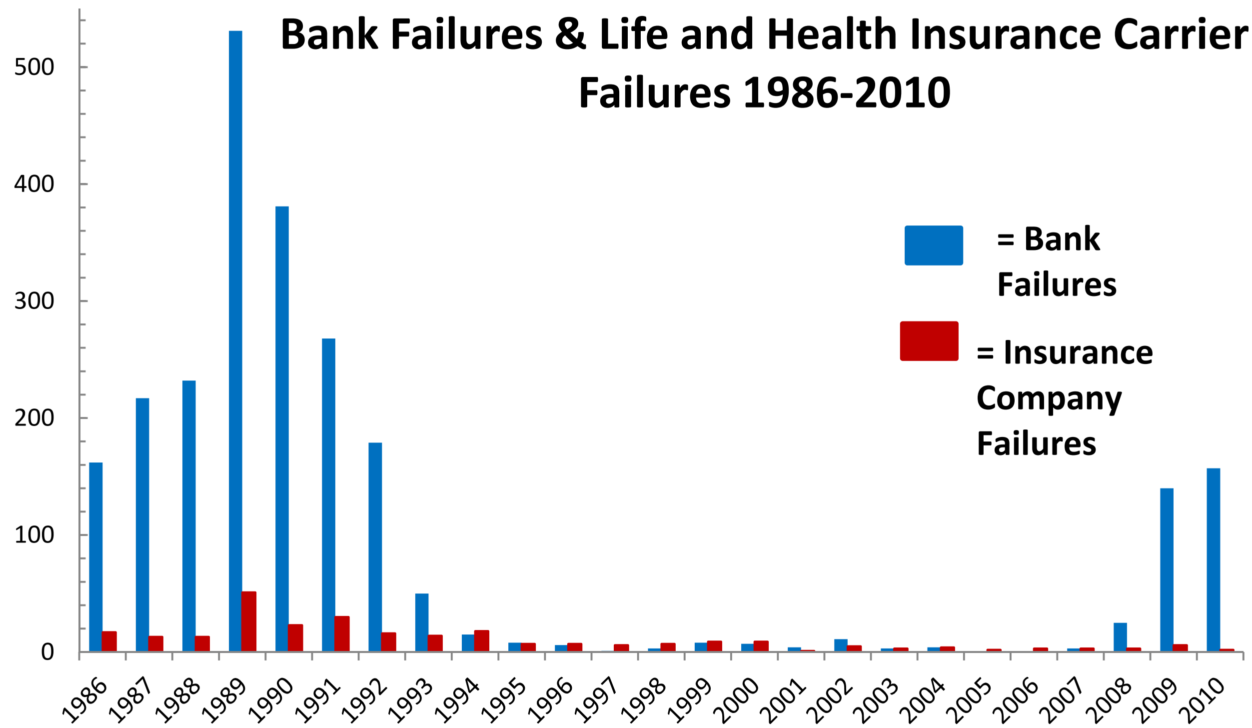


Chart created by associates at SafeMoney.com. Source: "Comparative Failure Experience in the U.S. and Canadian Life Insurance and Banking Industries from 1980 to 2010," Robb et. al., March 2013.

As was noted in a testimony for a hearing before the U.S. House Financial Services Subcommittee on Insurance, Housing, and Community Opportunity, the frequency of insurer failures reached highs in the 1990s.[31]

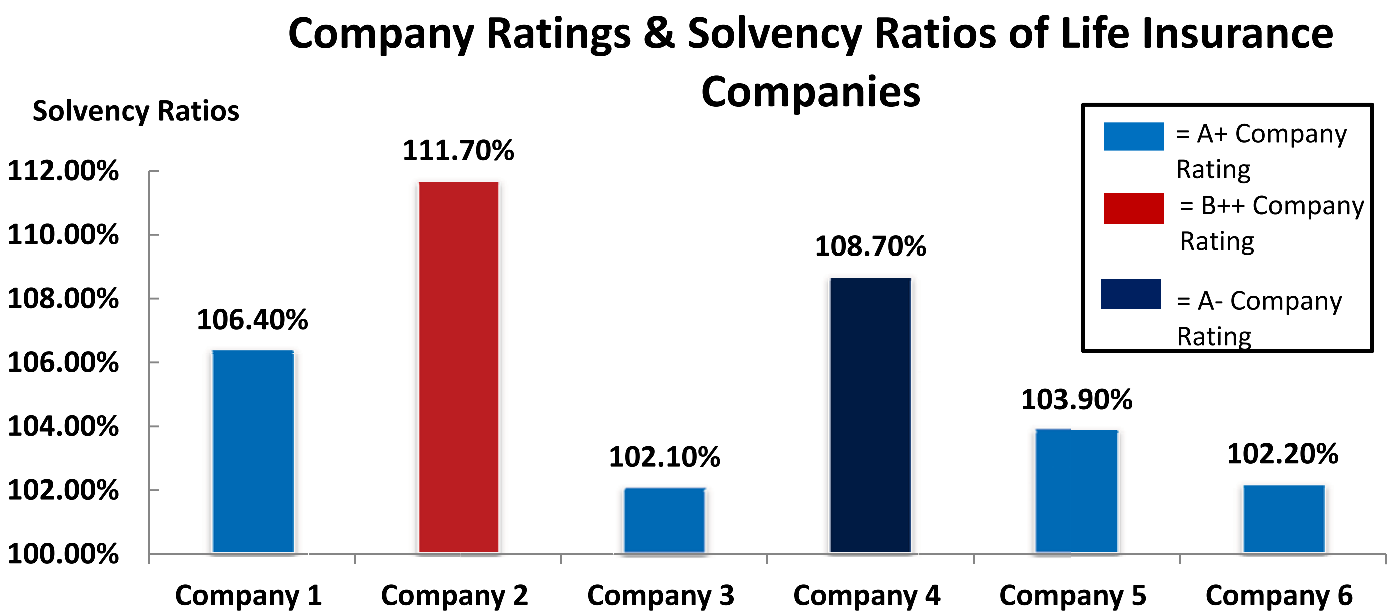
Nevertheless, there were very few liquidations of insurance companies in the wake of the 2008-2009 financial crisis, despite the crisis' wide-reaching effects. As reported in the prior-mentioned congressional testimony:

> "Nearly 400 commercial banks and thrifts, several major investment banking firms and hedge funds, finance companies, government-sponsored housing entities, and other firms" went into bankruptcy during this time.[32]

As this congressional testimony also notes, of 13 life and health insurers which were liquidated since January 2008, total policy liabilities were around $900 million. This is a contrast to the initial general creditor liability of Lehman Brothers, which was reported to be $765 billion at the initiation of its bankruptcy filing.[33] **The point is insurance companies are well prepared to meet their contractual promises to annuity owners.**

What is the Most Important Factor?

At surface glance, the company financial strength rating may seem the important factor in evaluating an insurance company. However, this is not necessarily the case. The rating is important, but it doesn't capture the whole picture, as the graph below illustrates.



Source: SafeMoney.com Statistical Analysis of Company Ratings and Solvency Ratios from A.M. Best. Data is from A.M. Best.

At times an insurance company can have a lower financial strength rating and a higher solvency ratio. In many cases, an insurance company may have a lower rating than another company, but have a higher solvency ratio.

We took information from A.M. Best and analyzed whether there might be a connection between company ratings and solvency ratios. As the data shows, this is not always the case. Note this data is taken for companies in staggered time periods ranging from 2013 through 2015.

To draw some comparisons, in this graph:

- Company 2 has a B++ financial strength rating, but a solvency ratio of 111.7%.

- Company 4 has an A- financial strength rating, but a solvency ratio of 108.70%.
- Even though they all have A+ ratings, Company 3, Company 5, and Company 6 have lower solvency ratios than these prior companies, respectively.

Remember, the better a solvency ratio is, the greater capacity that insurer may have to uphold its guarantees. As we can see, some of the companies with weaker ratings may be in a stronger position to uphold their contractual obligations. So it is advisable to examine financial strength ratings and solvency ratios when investigating insurance carriers.

Is There Anything Else to Look For?

Of course, company ratings can be helpful in evaluations of insurance carriers. They are opinions issued by third-party agencies who judge insurers' ability to meet ongoing contractual and policy obligations. However, there are other factors to consider besides company ratings and solvency ratios. As an overview, the variables to weigh include:

- <u>Company ratings and solvency ratios</u> – We have discussed the role of these factors in an insurance company's creditworthiness and dependability. They offer quantitative insights into how reliable an insurance carrier may be in assuring its guarantees it has agreed to uphold.
- <u>Philosophy of the management team</u> – What is the philosophy of the company management? Are they committed to long-term performance, company stability, and dependability? Their decisions have a significant impact on the company's future and ability to meet contractual obligations.
- <u>Risk management</u> – Does the insurance company have a solid record in "bad" times? Has it shown it has suitable risk management capacities, or where it can weather market extremities? Is the insurance company well-prepared to back the contractual obligations to which it has agreed? These are some questions worth asking about an insurer's risk management capacity and abilities.

We recommend that these factors be carefully considered in the context of the entire picture, including a specific annuity product, its benefits, and its negatives.

ANNUITIZATION AND INCOME RIDERS: WHAT'S THE DIFFERENCE?

You may recall when we discussed earlier annuitization and lifetime income riders. Many retirees and pre-retirees wonder which option may be better for them. There can be lots of confusion surrounding them, so let's discuss them in detail.

Annuitization is when your initial premium is turned into a steady income stream. Your annuity's accumulation value is used to determine these income payments. Once you have "annuitized" your premium, your decision is irrevocable. Here are some important points to remember:

- Your decision to annuitize therefore can't be taken back.
- The amount of income you receive depends on the premium you put into your contract, present interest rates, and the life expectancy of the annuitant (which is often the annuity owner).
- With annuitization, you get four income payout options: "life only," "life annuity with period certain," "period certain," or "joint and survivor."
- You will receive these income payments for however long the contract specifies, ranging from a set period to your remaining lifespan.
- Note, your income payments are guaranteed, but you give up control of access to your principal (i.e., the leftover sum of your initial premium).
- Remember, after all, your premium has been transformed into future guaranteed income – so only the assurance of future guaranteed income remains.

An **income rider** provides lifetime income without annuitization. It is an add-on to a base annuity contract and is usually optional. However, some income riders are built into the base contract. Some fixed annuities may come with income riders. However, for the most part, these riders are available with many fixed index annuities.

When you purchase an annuity with an income rider, the accumulation value is set up for your annuity and an income account value is set up for your rider. This income account value is also known as an income base, a rider value, an income value, or an income base value. It is used solely to determine future lifetime income payments based on your rider; it is completely separate from the accumulation value.

The income account value is never available as a lump sum or as a surrender value. It is strictly for calculations of lifetime income payouts.

In many cases, a specific interest rate is applied to the income account value. This interest rate may be guaranteed for the life of the contract; in other contracts, it may be guaranteed for a set period. For instance, that rate may be guaranteed for a year and reset for another one-year period.

Lifetime payments are deducted from the accumulation value. Even if the accumulation value reaches zero, the insurer is required to keep paying lifetime income. Income riders can vary in terms of cost, as well. Some riders cost nothing and others cost up to 2% or even more. If you would like to know about rider fees and any other information, be sure to carefully read the income rider disclosure materials.

There are some important points regarding income riders:

- Lifetime income riders may also be called lifetime income benefit riders, guaranteed lifetime withdrawal benefits, and guaranteed lifetime income benefits.
- You retain access to your remaining principal, unlike with annuitization.
- Some fixed index annuities with income riders permit you to turn income payments on and off at will (subject to limitations and restrictions).
- This ability helps you avoid paying taxes on income you may not need at certain times. It lets your money grow even more, which can increase future income payments.

- Some annuities and income riders let you get continuing interest credits even after the rider has been turned on. However, not all of them offer this, and this feature may come with certain conditions, limits, and at additional cost.
- <u>Once again, you will continue to receive income even if your accumulation value is fully depleted.</u>
- Some income riders permit you to withdraw an additional sum from your annuity without penalty, but it comes with certain conditions and limitations. Additional cost may be involved.

Some of the limitations of income riders are:

- If an income rider isn't part of the base contract, it comes at an annual cost. This fee is taken from the accumulation value.
- In some contracts, the fee is deducted from the accumulation value as well as the minimum guaranteed contract value – however, this is not always the case.
- If the income rider is in the base contract, "costs" may be in the form of a lower cap on your fixed index annuity or other limited features. Insurers balance the benefit of a built-in rider by limiting other parts of the annuity contract.
- Say you withdraw too much money from your annuity contract, called an excess withdrawal. Excess withdrawals reduce the value of the annuity as well as the death benefit. Surrender charges apply.
- In general, withdrawals from your annuity decrease the value of the annuity and death benefit. Keep in mind withdrawals are taxed as ordinary income, and your tax liability will depend on what tax bracket you are in.
- If you make early withdrawals while under age 59.5, you may have to pay up to a 10% penalty as well as income tax to the IRS.

How Do the Accumulation and Income Account Values Work?

As we discussed, there are two values for when an income rider is paired with an annuity: the accumulation value and the income account value. You may be confused about how they are different.

To recap, the accumulation value is tied to the annuity, and the income account value is used for lifetime payout calculations. So the income account value is strictly a number upon which the future income percentage will be based. You can't withdraw any sum from your annuity based on this value; withdrawable sums are based on the accumulation value less applicable surrender charges and/or other fees.

We have found it helpful to examine these values in the context of income riders. When you think of how income riders work, the values become clear. The table on the next page shows the differences between the accumulation value and the income account value.

How Income Riders Work		
Values	**Accumulation Value**	**Income Account Value**
What is It?	The original premium paid plus any interest credited or premium bonus credited (if applicable). The accumulation value is also known as the contract value.	The value set up for an income rider. Initial premium plus any simple or compounded interest credits and indexed-interest credits (if applicable), minus any withdrawals.
What are Its Functions?	Used as the basis for many benefit calculations, including the death benefit, surrender value, and value at contract maturity. This value may be used for payout calculation if it is higher than the income account value when you decide to withdraw income.	Used solely to calculate lifetime income payments which the annuity will give to you. If the accumulation value is higher than the income account value when you decide to withdraw income, the accumulation value is used for payout calculation.
How Does It Grow?	It depends on the annuity type and other choices you make. With that said, the method for crediting interest to this value may be fixed or index-based.	A separate interest rate. It may be simple or compounding interest. A guaranteed compound interest rate (often ranging from 4-6%) or a guaranteed fixed simple interest rate (up to 10%) may be credited. In some cases, it may be tied to an index.

There are a variety of ways which the income rider fee may be calculated. Most rider fees are based on the income account value. In that case, the rider fee increases every year, regardless of whether the income account value grows or not. It is important to clarify how this fee is calculated.

Different Options for Income Growth

Depending on the annuity and the rider, you may have a few options to receive increasing income payments:

- A “level income” option – income stays the same
- An inflation-adjusting/cost-of-living adjusting income option
- An index-linked income option

With the level income option:

- In the first option, your income payments will stay the same for life. If you are receiving $10,000 per year, you will always get an annual sum of $10,000.

With the inflation-adjusting income option:

- The inflation-adjusting option is tied to movements within the CPI-U (Consumer Price Index – All Urban Consumers – Not Seasonally Adjusted).
- The Consumer Price Index tracks changes in the price level of a basket of various goods and services purchased by American households. Changes in the CPI are used to calculate inflation.
- With this inflation-adjusting option, your income can increase based on changes in the most recently published CPI-U. You receive a lower initial income, but it may grow over time.
- How much your income grows will likely be capped. Some riders cap maximum income growth at 10%. Your income can grow for a set amount of years or until your accumulation value reaches zero, whichever happens first.

In the case of the index-linked income option:

- The index-linked option is for riders paired with a fixed index annuity.
- When your accumulation value is credited interest, your income account value can receive a portion of those interest credits.
- When the annuity’s linked index has negative changes, the fixed index annuity will have no interest credited. So your income account value would not be credited for anything, either.

Remember, the more "bells and whistles" an annuity or a rider has, the more you are giving up in some form or fashion somewhere else in the contract. This could be in terms of limits on growth potential, additional costs, or other factors. Always be sure to check the disclosure materials for any annuity product and rider options you are considering.

Should You Choose an Income Rider or Annuitization?

Given this information, you may ask, "What is better for me: annuitization or an income rider?" The answer is it depends on your needs, circumstances, and goals. Cash-flow is an important component of your retirement strategy, and both options offer different possibilities for lifetime payouts. Because everyone has different cash-flow needs, the choice really is situational. It is important to have numbers run and see what makes sense financially.

With that said, many consumers are attracted to income riders because of their flexibility. But remember, they do come at additional cost. Some points of consideration include the following:

- With a guaranteed interest rate, your income account value grows over time. If you are okay with keeping your annuity in deferral for a longer period, the rider payouts tend to exceed annuitization payouts in later years.
- Overall, income riders offer more flexibility than annuitization. Once you annuitize, you can't take it back and you are stuck with the same monthly income payout for the life of the contract.
- With annuitization, you give up access to your remaining initial premium, and with an income rider, you retain control of access.
- An income rider lets your money continue to grow, even as you are taking income. You may have the option to turn income on or off at will.
- Income riders give you "majority control" of your remaining principal, less any applicable surrender charges.

- The best time to choose annuitization or an income rider is when you consider income to be of foremost importance. Be sure to check the specifics of any annuity contract you are considering.
- The trade-off for flexibility with an income rider? Greater cost. A good general principle is to remember that the more flexibility you have in your contract, the more you will be paying in fees.

Be sure to ask your advisor about these points and what costs may be involved. This will help you figure out what is best for your individual needs.

What the “8% Guaranteed Rate” and Other Promises Really Mean

At some point, you may have heard of promises such as “8% rollup, guaranteed!” or “17.2%, guaranteed!” Or maybe it was a sales pledge that was along those lines. Now that we have covered the differences between the accumulation value and the income account value, we can explain what these really entail.

When someone tells you they can get you “8%, guaranteed,” they are really referring to your income account value. It isn’t a reference to your accumulation value. Remember, the insurance carriers take annuity premiums and invest them in a variety of assets. A large proportion of this is usually in conservative assets such as t-notes or investment-grade bonds. <u>If their return on investment is lower than 8% per year, how would they be able to offer an 8% “return” to annuity owners?</u>

So, when someone offers a “10% rollup” or another attractive rate, remember:

- They are talking about the interest rate at which your income account value will grow.
- This isn’t an interest rate which is actually credited to the money you paid into the contract.
- <u>So, really, it indicates how much the income account value can grow, which can increase your future guaranteed lifetime income. Also, this is when the annuity is in deferral, or when you haven’t opted to start receiving income yet.</u>

- The fee is deducted from your principal to pay for the rider.

Say you are told you can receive "17.2%, guaranteed!" That is a reference to a bonus rate plus another interest rate which you would receive over the duration of a contract. If you held a 20-year contract, it could mean you would be credited just .86% on an annual basis – which would come out to 17.2% in total over all those years.

The point is to exercise caution when considering any of these promises. Consulting with a financial professional with strong annuity knowledge can help you determine what annuities are right for your retirement portfolio.

Customized Income Strategies: Work with an Annuity Expert

As we can see, annuity contracts can be configured in many ways. Consumers have many options which they can customize for their unique income needs and situation. Working with an annuity specialist with deep knowledge of these contracts and their terms can greatly help.

At SafeMoney.com, you can connect directly with financial professionals who understand different annuity contracts and what they can offer. We invite you to visit SafeMoney.com to locate a financial professional and request a no-obligation consultation.

If you are interested in maximizing income, various annuity strategies can help you get more income per premium dollar. With strategic annuity laddering and contract management techniques, you can enjoy even more income throughout your retirement lifetime. Ask your financial professional for more information.

ENHANCED BENEFIT RIDERS: DO YOU NEED THEM?

You may have come across "enhanced benefit riders," particularly confinement benefit riders and death benefit riders. These riders are available with some fixed and fixed index annuities. They come with different benefits, but are they appropriate for your needs? Based on our experience, we advocate that you consider them in the context of your individual requirements and needs.

Confinement Benefit Riders

Just like with any rider, be sure to consider confinement benefit riders in the context of your retirement situation and financial picture. You will want to consider family history and your personal medical history in this decision, among other factors. In some cases, a confinement benefit rider may make sense for special cases.

A confinement benefit rider is a means to pay for healthcare costs. If you are moved into a skilled nursing care facility and meet eligibility requirements, your income can double for each year you qualify.

Death Benefit Riders

An enhanced death benefit rider strengthens annuity guarantees for the death benefit. Should the annuity owner die, beneficiaries will get what the full enhanced value of the annuity is at the time of death. Like with all riders, the enhanced death benefit rider is available at additional cost.

Please note, withdrawals or surrenders can erode the legacy you leave behind. Also, part of the death benefit may be subject to taxation, even if the annuity was purchased with non-qualified monies (i.e., after-tax dollars). Any credited interest which is part of the death benefit will be taxable. Please confer with a qualified tax professional for guidance.

Be Aware of Rider Appropriateness & Judge Carefully

So, there are many options for riders. Depending on your needs and situation, some riders may make sense, but others may not be right for you. Remember, even though a rider may look good on the surface, it may really be unnecessary.

Any unnecessary riders drain the value of your annuity contract with additional costs. We recommend you always consider riders in this context: Do the benefits make the extra fees worth it? Before committing to any annuity or rider, with a financial professional go through a comprehensive review of your financial circumstances, goals, and needs, and then determine if it makes sense.

SURRENDER PERIODS AND MARKET VALUE ADJUSTMENTS: ARE THEY A DEALBREAKER?

What about surrender periods and market value adjustments? They may be off-putting, but in reality, the insurance company uses them as a safeguard to uphold its contractual promises to you. Let's examine why this is the case in detail.

The Fundamentals of Surrender Periods

Here are some basics. The surrender period is a set period for when excess annuity withdrawals or a voluntary exit from an annuity contract are subject to penalty. Surrender periods can range from five to 15 years. Most surrender periods last for around 10 years. The penalty is called a "surrender charge."

However, you do retain some access to your money. Many annuity contracts allow free withdrawals of up to 10% of your contract value without penalty. So, in other words, your access to your money during the surrender period is limited. But you are foregoing this access for the purpose of growth. As the value of the annuity rises, so does your retirement income later on.

Some reasons for surrender periods are:

- It helps insurers maintain their reserve requirements. After all, they must keep a dollar in reserves for every dollar they promise in contractual guarantees.
- It helps keep annuity dollars secure – you may recall the "bank runs" of the Great Depression, or where banks were unable to give deposit funds to everyone requesting them. Surrender periods are a safeguard against this – they help prevent "annuity contract runs."
- To meet their reserve requirements, insurance companies put a majority of the monies into secure investments. These are typically more long-term instruments, such as investment-grade bonds.
- If they put the monies into shorter-term investments or more volatile investments, it could undermine insurers' ability to maintain reserve requirements.

In summation, surrender periods are a safeguard insurance companies use to strengthen their contractual promises to you.

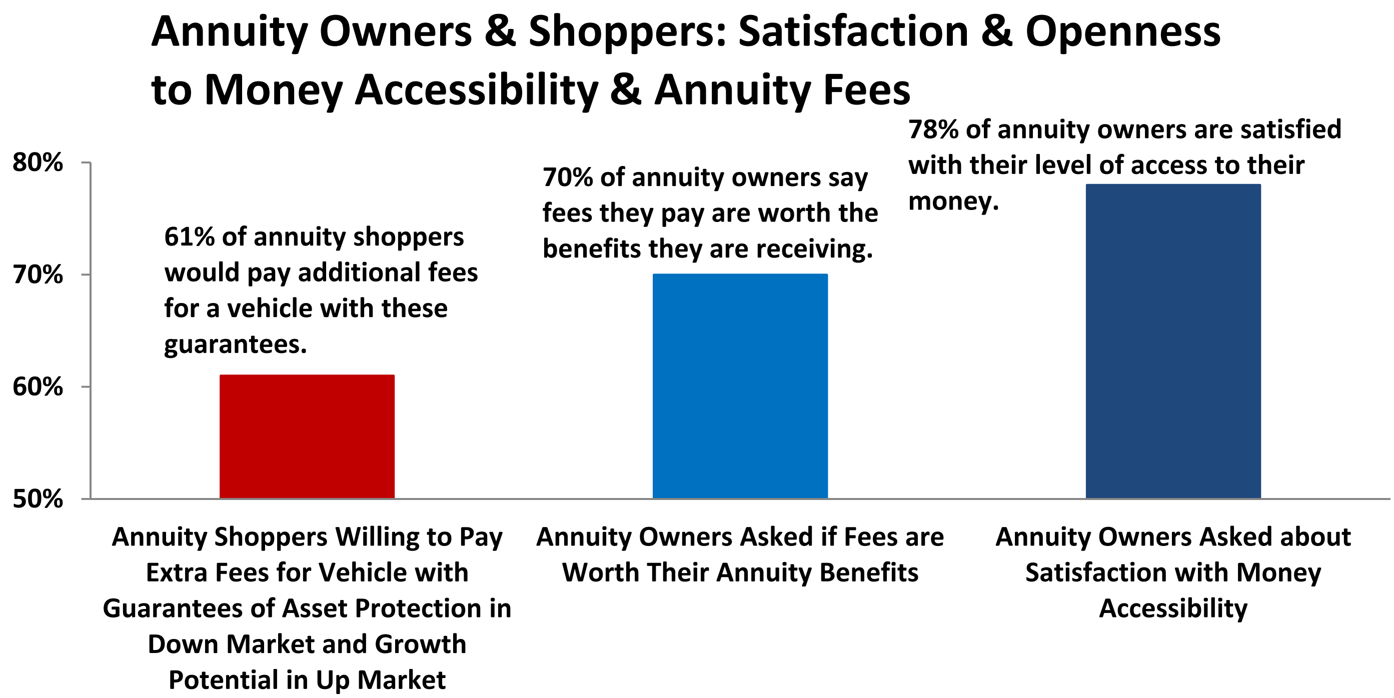
Surrender Charges and Bonuses

Surrender charges vary, usually ranging from 7-10% of your contract value. To come up with fair rates for surrender charges, the insurance companies work closely with the state departments. Generally speaking, as another year passes in the surrender period, the surrender charge goes down.

What about surrender charges “above” 10%? You may have heard of surrender charges as high as 20%. However, this isn’t just the surrender charge – it involves a premium bonus as well. In this case, the annuity buyer got a 10% bonus with their contract. Now that the buyer doesn’t want their annuity anymore, the insurance company wants its bonus back. Hence the annuity buyer is asked to pay the 10% surrender charge and pay back the 10% bonus they originally received.

Annuity Buyers’ Satisfaction with Money Access and Annuity Fees

Despite surrender periods, research findings show once people become annuity purchasers, they are satisfied with their access to their money. As one study reports, the majority of annuity owners are satisfied with the level of access they have to their money.[34] In regard to fees, the majority of annuity owners say the benefits they are receiving make their annuity fees worthwhile.[35] The majority of annuity shoppers say they would be willing to pay additional fees if they could enjoy the guarantees which annuities provide.[36]



Graph created by associates at SafeMoney.com. Source: "Don't Fear Annuities," Eric Taylor, LifeHealthPro, November 2013, http://www.lifehealthpro.com/2013/11/07/dont-fear-annuities?page_all=1&slreturn=1468348293. Accessed 7.12.2016.

So once consumers become annuity owners, their perceptions of surrender periods change. These findings can be seen in the graph above.

Don't forget: Anytime you put money into any sort of financial vehicle, you give up something in exchange for the benefits of that vehicle. In general, this is an example of an opportunity cost, as defined in economics. If you put money into a CD or bond, you are foregoing what could be higher returns from the stock market. But in exchange, you will be less exposed to losses.

The same principle applies to annuities and surrender periods. These benefits may differ from those of other financial instruments, but annuities can keep your money safe from market downturns and offer some growth potential.

What is a Market Value Adjustment?

Market value adjustments (MVAs) may seem negative, but they are a means of safeguarding risk (and, again, helping insurers uphold their contractual promises). MVAs are attached to fixed annuities. These modified annuities are called "market value adjusted annuities." When you purchase a market valued adjusted annuity from the insurance company, you take on some of the interest rate risk associated with your contract. The risk is thereby shared between you and the insurer. In return, you are paid a higher interest rate by the insurance carrier.

When someone buys an annuity, the insurance company offers the contract with the understanding that the buyer has a long-term commitment. The insurance company puts premium dollars into bonds of a set duration or other long-term instruments based on that understanding. If interest rates have changed from when the policy was issued to when it was surrendered, an early surrender can disrupt the insurer's pricing.

<u>To be clear, market value adjustments come into play with excess withdrawals or contract surrenders during the term of the contract.</u> Generally speaking, an excess withdrawal is when you withdraw more than 10% of your accumulation value. It could lead to you paying a bigger penalty.

Can a Market Value Adjustment be Beneficial?

The answer is yes, it can. It depends on a number of factors, including interest rate risk. Interest rate risk comes in the form of rising or falling interest rates. Say the Board of Governors of the Federal Reserve opts to raise interest rates. When interest rates increase, the market value of bonds goes down. Let's say you held a $10,000 bond with a 4% yield and the Fed raised interest rates to 5%. Investors would then have the ability to purchase a $10,000 bond with a 5% yield, so the market price of your bond would drop due to demand.

Market value adjustments are tied to the performance of the 10-year treasury. So if the 10-year treasury rises in value from when the contract was issued, the MVA will be positive and lower surrender charges. Should it decline in value from when the contract was issued, it will be negative and surrender charges will be higher.

Therefore, a market value adjustment is essentially a rise or decline in the value of assets held by an insurance company. Insurers use it to combat changes in the value of their investments due to market forces. By assuming some of the risk, your accumulation value can increase or decrease, depending on whether interest rates fall or rise. From this standpoint, it can be to your advantage in some cases.

It depends on the interest rate environment. If an MVA annuity is of interest, ask your advisor about how the present interest rate environment affects things.

CONSIDERING AN ANNUITY FOR YOUR PORTFOLIO

So, is an annuity right for your retirement portfolio? The answer is it depends, and any annuity purchasing decisions should involve careful due diligence and financial evaluation. Having said that, to recap, there are many benefits to having an annuity: lifelong income security, guaranteed asset protection, and tax-deferred money growth, to name a few.

How Tax Deferral can Strengthen Your Retirement Strategy

In general, one of the way annuities can help strengthen your retirement strategy is their ability to offer tax-deferred growth. During when your contract is in the accumulation stage, or in deferral, any interest credited to your annuity is tax-deferred. If you bought your annuity with after-tax dollars, you would pay taxes on just your earned interest, not your premium dollars, when you began making withdrawals. Tax deferral is also an advantage offered by retirement accounts such as 401(k) plans and IRAs. But annuities don't come with contribution limits imposed by the IRS like these retirement accounts do.

In general, the advantage of tax-deferred money growth can be seen in the chart below. It compares the performance of a tax-deferred vehicle and a taxable vehicle. Let's assume both vehicles had an initial sum of $100,000, were subject to 33% ordinary income tax, and grew at 4% compound interest annually.

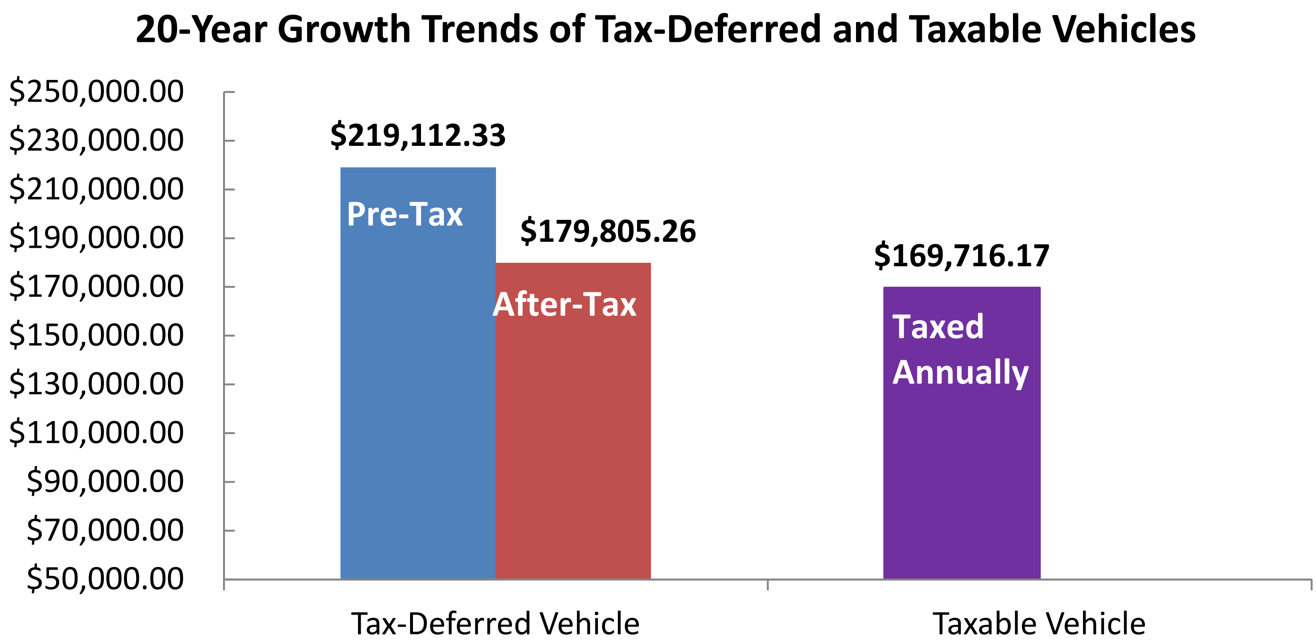


Chart created by associates at SafeMoney.com. For illustrative purposes of showing tax-deferred versus taxable growth only. Presented as hypothetical concepts only. Should not be considered representative of how annuity contracts or any other financial product will perform currently or in the future. Assumes 33% ordinary income tax rate levied on taxable earnings and period-end of tax-deferred earnings. Actual tax liability may vary, for example tax on capital gains or qualified dividend income. Assumes 4% growth rate yearly. Interest rates are completely hypothetical.

Over a 20-year period, the amount that grows in the tax-deferred vehicle exceeds that in the taxable vehicle, even after the money is taxed at 33%. So if you want to put away a greater amount of money than 401(k) plans and traditional IRAs allow, annuities may be a good option. They may also be worth consideration if your yearly saving goals already exceed what you are permitted to put into your retirement accounts.

Ask Your Financial Professional the Right Questions

Whether you are considering an annuity or other financial product, careful analysis is critical. We believe your decision should weigh many factors, including annuity pros and concerns and how a particular annuity would benefit you. A key part of due diligence is asking the right questions.

We recommend you answer these questions or get answers from a financial professional who understands annuity contracts:

- Is this a single premium or flexible premium contract? In other words, does the contract involve a one-time lump-sum payment, or a series of multiple payments?
- Is this a scheduled premium annuity contract or a flexible premium annuity contract? What are the terms?
- What type of annuity is this?
- What is the initial interest rate and how long is it guaranteed?
- Does the initial rate include a bonus rate, and how much is the bonus?
- What is the guaranteed minimum interest rate?
- What renewal rate is the company crediting on annuity contracts of the same type that were issued last year?
- Are there withdrawals or surrender charges or penalties if I want to end my contract early and take out all of my money? If so, how much are they?
- Can I get a partial withdrawal without paying surrender charges for reasons such as death, confinement in a nursing home, or terminal illness?
- Is there a market value adjustment (MVA) provision in my annuity?
- What other charges, if any, may be deducted from my premium or contract value?
- If I pick a shorter or longer payout period or surrender the annuity, will the accumulated value or the way interest is credited change?
- Is there a death benefit? How is it set? Can it change?
- What income payment options can I choose? Once I choose one payment option, can it be changed?

If you are considering any fixed index annuity products, ask the following:

- How long is the term?
- What is the minimum guaranteed interest rate?
- What is the participation rate?
- For how long is it guaranteed?
- Is there a minimum participation rate?
- Does the contract have an interest rate cap?

- What is it?
- Does the contract have an interest rate floor?
- What is it?
- Is interest rate averaging used?
- How does it work?
- Is interest compounded during a term?
- Are there any fees in the contract?
- What indexing method is used?
- What are the surrender charges or penalties if I want to end my contract early?

Your decision is ultimately in your hands. We hope these questions help illuminate any unclear factors, as they have helped many consumers. Should you have any more questions or would like more information, call us at 877.GROW.SAFE (877.476.9723).

Concluding Thoughts

We have covered much ground in this guidebook. In the end, is an annuity right for you? Ultimately, it depends on your needs and situation. We hope this guidebook has shed some light on annuities and how they can strengthen a retirement portfolio.

With that said, if you would like to learn how to incorporate annuities into your retirement strategy, we urge you to read *The Retirement Simplified Roadmap.* This provides an overview of how safe financial strategies, using annuities, can be optimized to achieve a balanced retirement portfolio and future goals.

As we hope this guidebook has shown, all annuities have different purposes. As you consider different annuity options, please be mindful the annuity you purchase be for the reason it is intended for. If an annuity is used for another reason besides its intended functions, it can be a disappointment in due time. This shows the importance of working with a financial professional who not only understands the various types of annuities, but each type's specific purposes, strengths, and weaknesses.

At the heart of it, we believe an annuity should be bought for its contractual guarantees. Remember, it is a transfer-of-risk product. The insurance company takes on longevity risk and market risk, and you receive certain promises upheld under contract. These guarantees often center on having a permanent income stream or protection of retirement money, no matter how the market performs.

There are multiple riders you can add onto an annuity to strengthen its value, but the more you do so, the more you are giving up in other ways (greater cost, reduced guarantees, for example). But those benefits can be valuable.

Remember, not all annuity advisors are equal in the advice they deliver. Should you ever have any questions about any of this material, or be interested in scheduling a strategy session to get a non-biased assessment of whether annuities may be suitable for your needs, we can help. Please don't hesitate to call us at 877.GROW.SAFE (877.476.9723) for any inquiries, feedback, or requests for personalized guidance.

We wish you the best in your retirement success.

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Throughout this guidebook, we have attempted to keep references to SafeMoney.com at a minimum. This is because we believe education is such an important step of any financial decision. You deserve to have a non-biased take on annuities: what they are, what they aren't, and how they may be of benefit to your retirement financial security.

Sound decision-making begins with individual understanding and confidence. There are no shortcuts to making well-informed decisions without a strong educational foundation. I hope this guidebook is valuable for your retirement planning process, whether you are currently retired or not quite there yet.

Having finished this guidebook, you may want to read *The New Retirement Report* (if you haven't read it yet) and *The Retirement Simplified Roadmap.* These are two premium, best-in-class resources we offer along with *The Annuity Insights Guidebook* as a consumer education series. These two publications can help you become even more informed about the challenges we face today, and possible solutions to enjoy a comfortable lifestyle.

If you are ready for personal guidance in making any annuity decisions, SafeMoney.com can help you. Financial professionals stand ready to assist you, whether you are beginning your research on annuities or need a second opinion on annuity contracts you have already been recommended. Or maybe you are looking for better contract alternatives to an annuity you already own.

At SafeMoney.com, you can connect with a financial professional and discuss your needs, situation, and goals – in an initial meeting or phone call at no obligation to you. To get started, we invite you to visit our Locate a Licensed Advisor resource and find someone. If you need a referral for a financial professional, please don't hesitate to call us at 877.476.9723.

Along with this guidebook, we offer resources on a variety of other topics. If you would like any of them, please call us and request a copy.

If annuities make sense for your portfolio, we hope you find this resource valuable in finding the right choice for you. Thanks for your confidence and the opportunity to help you make decisions about your retirement future with confidence.

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