The Truth about Safe Money

A Guide to Retirement Planning Using Annuities

By Brent Meyer
President and Co-Founder of SafeMoney.com

Introduction

If you've reached or you're approaching retirement, the pathway to financial security can be less than clear. There's a lot of thick, confusing information out there about retirement planning. And with the economic turmoil in recent years, many people are feeling pressured about whether they'll have enough money for their retirement.

If you're concerned about protecting your hard-earned retirement money, annuities can offer a strong alternative to the risks your money assumes with the stock market. Working together with other parts of your portfolio, annuities can help you enjoy lifelong income, have protection against market risk, and have more peace of mind. But not all annuities are always equal in what they provide. That's why we put together this guide – to help you become educated about what's available and to enable you to make well-informed, confident decisions about your future.

If you and your loved ones ever have any questions, don't hesitate to contact us or your SafeMoney.com financial professional. It is my hope that by reading this guide, you are equipped with knowledge that will help you make the right decisions based on your needs and goals.

- *Brent Meyer*

Table of Contents

What is an Annuity?

What exactly is an annuity? Well, here's a solid definition:

An·nu·i·ty

Noun

Noun: **annuity**; plural noun: **annuities**

- A fixed sum of money paid to someone each year, typically for the rest of their life.
- A form of insurance entitling someone to a series of annual sums.

What makes up an annuity and what is it used for?

In more detail, an annuity is a contract in which an insurance company guarantees an interest rate and/or guarantees to make a series of income payments or annuity payments at regular intervals to the annuitant.

- The rates at which an annuity pays out are called the annuitization rates.
- The rate that is credited to a deferred account value is called the annuity rate.
- The party who receives the annuity payments over time is called the annuitant.

An annuity does not have to be used for income purposes. However, people often purchase an annuity for future retirement income or for its future value, whereby they will take advantage of tax deferral or triple compounding interest.

An annuity is the only vehicle that can pay a guaranteed lifetime income and can last as long as you live or for a specific guaranteed period. An annuity is neither a life insurance nor a health insurance policy. It is not a savings account or a savings certificate.

What are the Types of Annuities?

There are many types of annuities available for purchase:

- **Fixed Annuities** – This type of annuity provides a fixed interest rate annually.
- **Multi Year Guarantee Annuities (MYGA)** – This type of annuity provides a guaranteed interest rate annually.
- **Fixed Index Annuities –** This type of annuity provides a minimum interest rate or the ability to earn interest based on an external index. If the index loses value, principal and earned interest remain intact.
- **Variable Annuities** – This type of annuity is subject to market volatility and therefore may lose value.
- **Immediate Annuities (SPIA)** – This type of annuity is designed to provide immediate income (or in other words, it is only used for income).

Here are some terms to help identify specific features within an annuity:

- **Flexible or Single Premium Annuities** – This means having the ability to add money or not having the ability to do so.

Annuities are issued by insurance companies. All vary within their contract design. Clearly there are a variety of annuities to help fit many individual needs, but not all annuities are created equal. In fact, some can be quite confusing. It's important to understand the pros and cons behind different annuity options before you determine if an annuity is right for you.

In today's crowded financial marketplace, an annuity can provide you with a solid option for financial stability in your retirement. It can provide you with safeguards for your wealth and a protection against inflation. Furthermore, it may offer you the option of a guaranteed lifetime income if you so choose.

Annuity Scams

When you're looking for the annuity product that fits your needs, keep in mind: *not all annuities are the same in terms of what they really deliver.*

There are many annuities with different contract variations to consider. There are also some misleading sales tactics that make out different annuities to be more "generous" in what they guarantee than what they really are. Should you be too hasty and buy an annuity product with promises that sound too good to be true, it will likely have serious implications for your financial future.

These annuity products appear great on the surface. But a closer look at some annuity contracts may show they have features that are not an appropriate fit for your needs, goals, and situation. Some annuity agents are even unaware that these adverse risks are at stake.

One of the most important attributes of any annuity is the contractual guarantee associated with it. If you come across a simple annuity ad online with some attractive terms like "8% guaranteed income for life" or "17.2% guaranteed," there is probably more to the story.

Annuities can be very beneficial to your retirement portfolio. However, the annuity product you choose must the one that best fits your needs and unique circumstances. Annuities are not and never should make up your entire financial portfolio. After all, as the old financial chestnut goes, strategic portfolio diversification is what helps to prepare you and other retirement savers for a more secure financial future.

When selecting an annuity product, it's advisable to consult with an independent financial professional. At SafeMoney.com, you can connect with someone who can help you sort through the hundreds of annuity products available. Request a personal consultation, at no obligation to you, to discuss your needs, goals, and overall financial picture.

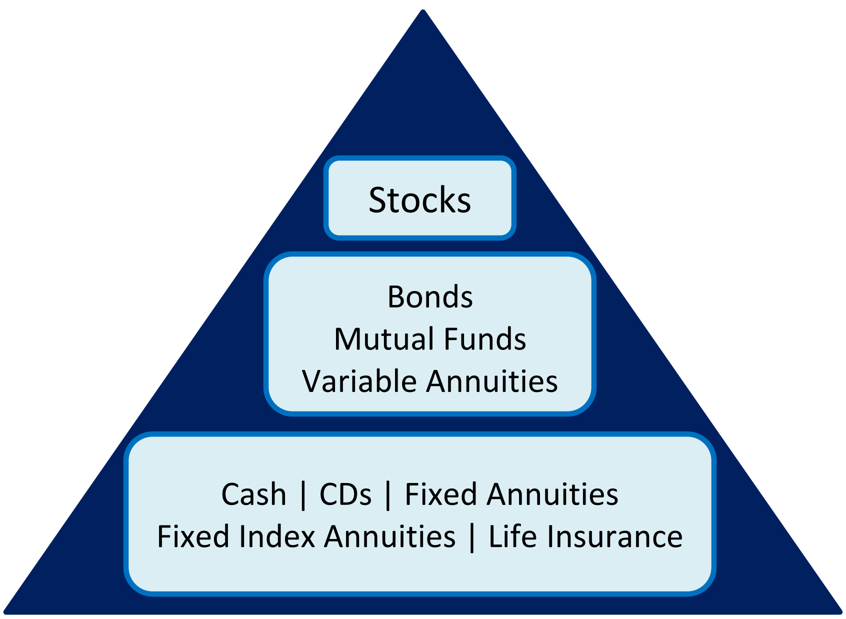
Call us at 877-GROW-SAFE (877-476-9723) for a financial professional referral.

Building Your Plan with "Safe Money First" Principles and Why

When you're coming up with a plan for your retirement, two important factors to consider are the growth potential and market risk of different vehicles. If you're approaching retirement age or you've reached it, your tolerance and capacity for risk become a weightier factor in how you decide to allocate your hard-earned money.

According to "Safe Money First" principles, a retirement plan will account for these varying levels of risk associated with different financial options.

A "Strong Foundation First" would look like this:



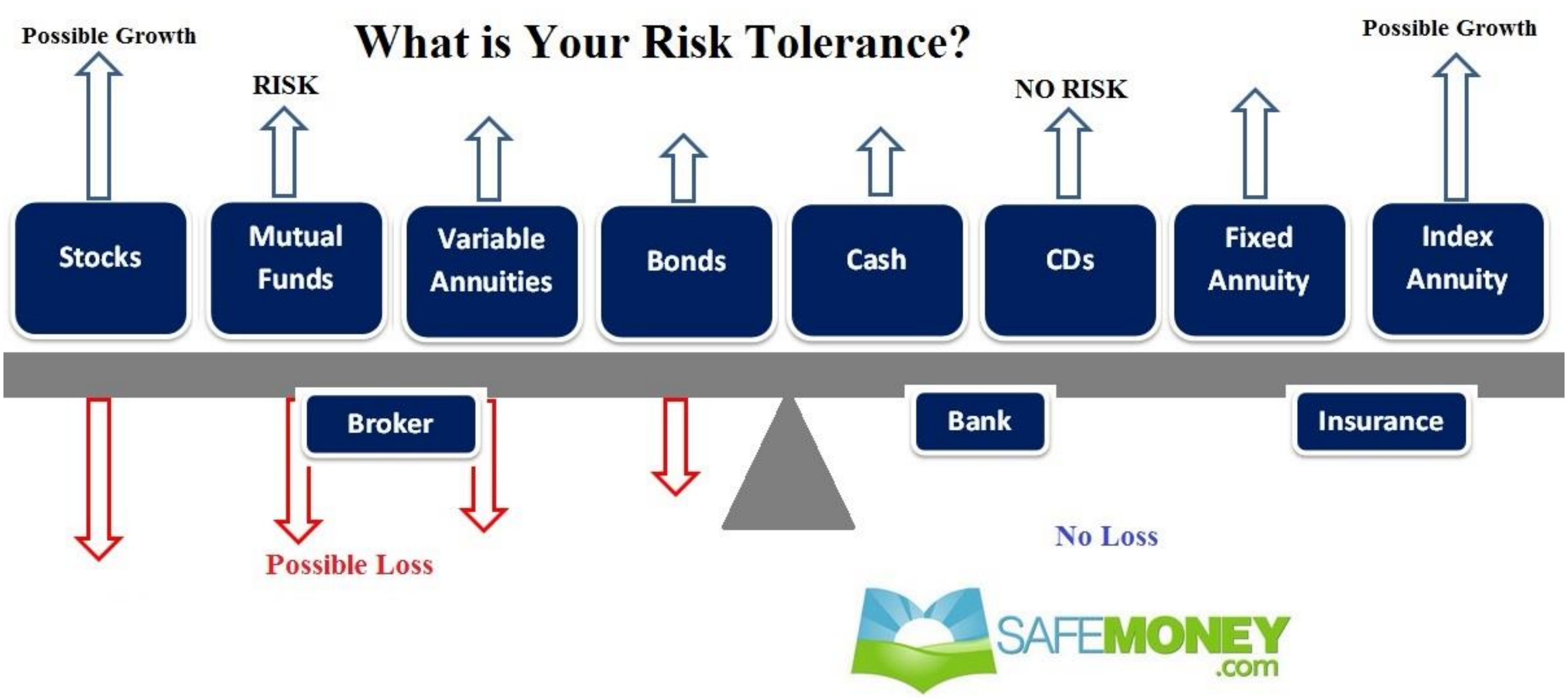
The financial vehicle options in the upper portions of the pyramid are the ones with the greater market risk. For illustration, consider the following scenario of when "-30 + 43 = 0."

Building Your Plan with "Safe Money First" Principles and Why (Continued)

When Does -30 + 43 = 0?

When it involves placing your hard-earned money directly into the market. If during the first year you lost 30%, it would take a 43% rebound the following year just to get you back to where you started! If you're in a time crunch to build up your retirement savings, that can be an unfavorable outcome.

Therefore, your financial plan should reflect the level of risk tolerance you're comfortable with at this stage of life in your portfolio. Here's a basic overview of the growth potential and risk for losing past gains – or even your principal amount – posed by different financial product options.



Building Your Plan with "Safe Money First" Principles and Why (Continued)

With these elements in mind, here's a breakdown of product benefits features that can help provide further guidance as you work with a financial professional on a comprehensive retirement strategy.

Product Features

Feature	Stocks	Mutual Funds	Variable Annuities	Bonds	Fixed Annuities	Index Annuities
Tax Deferral	NO	NO	Yes	NO	Yes	Yes
Premium Bonus	NO	NO	NO	NO	Yes	Yes
Guaranteed Lifetime Income	NO	NO	NO	NO	Yes	Yes
Minimum Interest Guarantee	NO	NO	NO	NO	Yes	Yes
Dividends	Yes	Yes	Yes	NO	NO	NO
Surrender Charges	NO	Yes	Yes	NO	Yes	Yes
Death Benefit	NO	NO	Yes	NO	Yes	Yes
Market Risk	Yes	Yes	Yes	Yes	NO	NO
Avoid Probate	NO	NO	Yes	NO	Yes	Yes

This does not represent monies within qualified plans such as IRAs. This is for feature understanding purposes only.

Should any of these terms be unclear, we offer a helpful Terminology Section at SafeMoney.com.

Please don't hesitate to call us at 877-GROW-SAFE (877-476-9723) with questions, as well.

What are the Rules of 72 and 108?

Two rules worth knowing to double your money: The Rule of 72 and the Rule of 108.

1. The **"Rule of 72"** estimates how long it takes **tax-deferred** money to double given an anticipated growth rate. Simply divide 72 by the anticipated growth rate to determine the number of years. For example, tax-deferred money growing at 5% would double in approximately 14 years (see table).
2. The other rule worth considering is the **"Rule of 108."** This estimates the time needed for **taxable money** to double, assuming an anticipated growth rate. Taxable money will double in approximately 22 years at a 5% growth rate.

Growth Rate	Rule of 72 (Tax Deferred)*	Rule of 108 (Taxable at 33%)
2%	**36 years**	**54 years**
3%	**24 years**	**36 years**
4%	**18 years**	**27 years**
5%	**14 years**	**22 years**
6%	**12 years**	**18 years**
7%	**10 years**	**16 years**
8%	**9 years**	**14 years**

*** Once money is withdrawn from a tax-deferred annuity, it becomes taxable.**

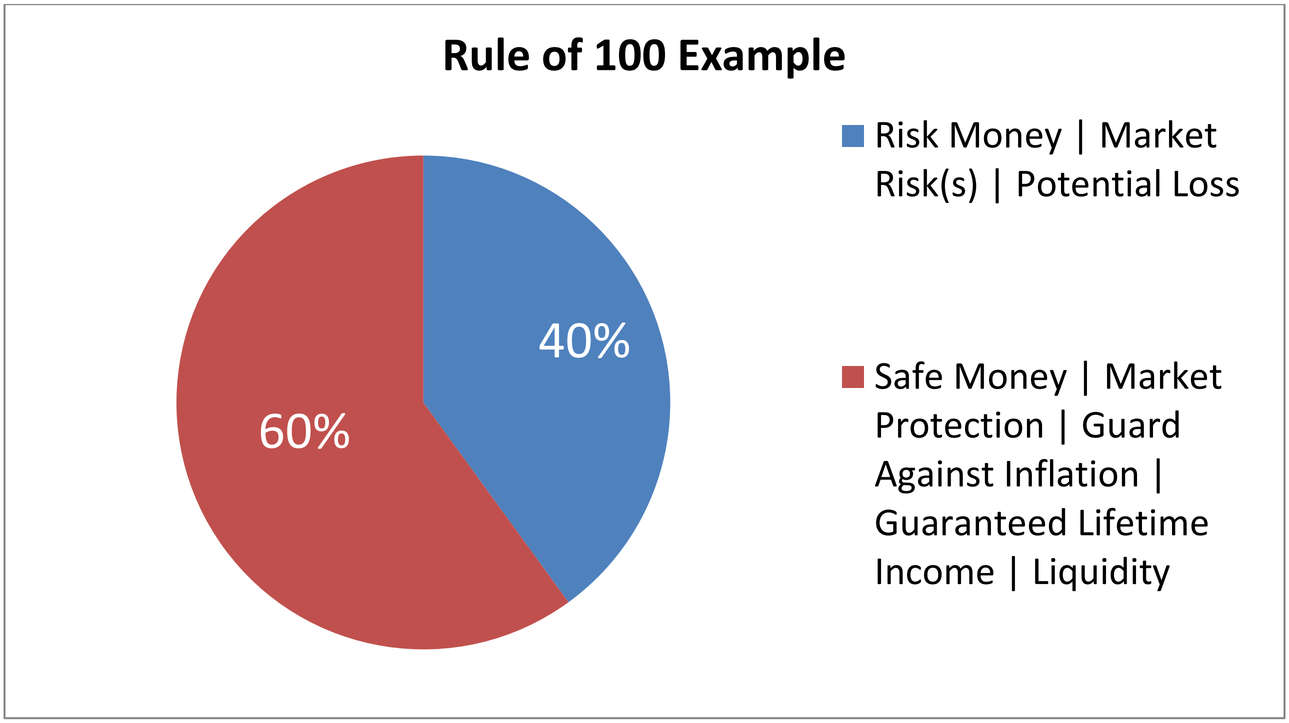
What is the Rule of 100?

Perhaps the simplest financial rule of thumb, but it is also one of the most widely abused!

Simply put, you take 100 and subtract your age from it. The resultant sum suggests the maximum amount of your portfolio you should have exposed to market risks.

So, for example, if you're 60 years old, 100 – 60 = 40. Then according to this rule, you would have 60% of your portfolio protected from market losses and 40% in the market to optimize your long-term growth (your age is equal to the safe portion in percentage).

Then there is the senior community (the people who hold 80+% of U.S. savings and investment dollars). If you're age 70, according to this rule of thumb, then you would have no more than 30% of your assets exposed to market risk (100-70=30). I frequently come across seniors who have portfolios with one of the major brokerage firms that might have too much exposure to market loss risk.



Captive vs. Independent Advice

Financial professionals can also differ in the value they extend. Aside from their experience, knowledge base, and financial expertise, it matters whether they are captive or independent financial professionals.

Captive Advisors

When someone is a "captive" advisor (or captive agent), he or she works for only one insurance or financial company. Therefore, he or she is obligated to give business only to that company. His or her foremost priority is business development for this parent company above all others.

Captive advisors may also receive several benefits from their parent company:

- Office allowance
- Benefits package
- Pension
- Oftentimes starting resources

Because they are closely aligned with this one insurance carrier, captive financial professionals can face accountability measures from the carrier related to their performance. The insurance carrier can also do a number of other things that can directly impact the captive advisors' practices. These negative-facing dynamics include:

- The insurance carrier can prohibit cross-selling of products from other insurance carriers, which limits the options a captive advisor can offer a client
- The insurance carrier can discontinue selling certain lines if they're unprofitable, which may cause a captive advisor to lose clientele
- An insurance carrier pushes certain product types (e.g., whole-life insurance), which limit client options
- The captive agent is required to meet strict quotas at risk of being terminated and is forbidden from referring clients to products from "outside" the company

Captive vs. Independent Advice (Continued)

Independent Advisors

Unlike captive advisors, independent advisors represent multiple insurance carriers and/or financial companies. As a result, they are often fundamentally better-positioned to work on behalf of their clients and provide a larger variety of better-fitting solutions for their needs.

Because of their independent status, these financial professionals are more self-supporting:

- Independent agents have the freedom to sell products from multiple carriers with quotas
- They use their own resources to start their practices
- They have the freedom to cross-sell other lines of insurance
- Independent agents are free from the strict regulations of one insurance carrier to sell only that company's products

With these dynamics at play, independent advisors can therefore offer more value to their clients in three ways:

- They can draw upon a much more diverse product selection
- They are able to compare prices, products, features, and services from among a variety of insurers
- They are able to sell a policy through another insurer if the primary insurer can't write the policy

Therefore, independent financial professionals have greater flexibility and ease with which they can evaluate, discuss, and meet client needs.

Through SafeMoney.com, you can connect directly with independent financial professionals – advisors and agents not bound to just one or a few insurance carriers.

Should you need a referral for a financial professional, call today at 877-476-9723).

Important Questions to Ask Before Buying an Annuity

Before you purchase an annuity product, there are a number of questions that need to be answered. It's prudent to have your financial professional answer all of these questions so you're fully apprised of your options.

What Questions Should I Ask My Financial Professional?

The first questions are related to the annuity itself and the income benefits it delivers:

- Is this a single premium or flexible premium contract?
- Is this a fixed, variable, multi-year guarantee, fixed index, or immediate annuity?
- What is the initial interest rate and how long is the interest rate guaranteed?
- Does the initial rate include a bonus rate? If so, how much is the bonus? Is it a vested bonus or premium bonus? If vested, how long until it is 100% vested?
- 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?
- Most important of all— does the company publish its renewal rates?

Then it's best to ask about details relating to ending the annuity contract early, as well as if there's a market value adjustment (MVA) provision and/or death benefit in the annuity.

- Are there withdrawals, 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, terminal illness, or just because I need a little extra cash?

Important Questions to Ask Before Buying an Annuity (Continued)

- Is there a market value adjustment (MVA) provision in my annuity? (If you're unsure about the MVA provision, you can look it up in our Terminology Section)
- 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? If so, how is it set? Can it change?
- What income payment options can I choose? Once I choose one payment option, can it be changed?
- Does this annuity offer an income rider without annuitization? If so, is there a fee and how is it calculated?

Annuity Benefits and Restrictions to Keep in Mind

Some annuity benefits to consider include:

- Tax deferral (compounded interest)
- Income, if you so desire (not mandatory)
- Guaranteed principal protection (protection from market volatility)
- Money growth that is locked in every year
- An interest rate that often is better than what the bank offers
- Probate may be avoided

Also keep in mind that annuity guarantees rely upon the financial strength and claims-paying ability of the issuing insurer.

Some annuity restrictions to keep top-of-mind are:

- 10% penalty by IRS if money is withdrawn before 59.5 years of age

Important Questions to Ask Before Buying an Annuity (Continued)

- Some control over money accessibility — access to money in emergencies of more than 10%
- Withdrawals are treated as ordinary income for tax purposes
- Surrender charges if liquidated early

Summing It Up

Annuities can offer a number of benefits to your retirement. However, it's important to keep in mind is that not all annuities are the same and each annuity is contractually designed with specific benefits.

Some annuities offer more liquidity (or in other words, more free access to your money, as needed). Some annuities have shorter contract periods than others. Some annuities offer guaranteed annually credited interest, whereas others may offer the potential to earn interest linked to an index.

The point is that with every annuity contract comes varied benefits. Therefore, it's imperative to pick the correct annuities to complete your diversified retirement plan, if annuities make sense for your financial picture.

Disclaimer:
This is meant to be a general annuity educational guide for seniors, retirees, and pre-retirees considering the purchase of an annuity. This educational guide is not designed to be a recommendation to buy any specific financial product or service.

*** SafeMoney.com does not provide tax, legal, accounting, fiscal, or investment advice. Please do your homework and consult with a financial professional qualified in these areas for guidance with regard to your personal situation.**

If you are ready for personal attention, visit SafeMoney.com to get started.

8 Common Mistakes Annuity Buyers Make

Now that you know what questions to ask your financial professional before making an annuity purchase, it's helpful to cover what not to do.

8 Common Mistakes of Annuity Buyers

1. **Diversification:** One of the most common mistakes consumers make in their purchase of an annuity is regarding the amount of liquidity and emergency access to their annuity funds. You first need to realize and quantify your retirement assets before you start the retirement planning process. Annuities only allow for a stated amount of liquidity within each individual contract. Consider the following questions before making any decisions: *"What are my objectives with this money and at what level of importance is principal protection to me?"* Once you understand what your expectations are and whether annuities meet your objectives, then you will be able to plan for product placement.

    Benefits:

    - Help maximize retirement income
    - Consolidating IRAs and 401(k) accounts
    - Retiring early (potentially depending on how much money you have and where your money is currently allocated)
    - Help minimize income taxes through tax deferral
    - Simplifying and consolidating my current investments
    - Principal protection
    - Transfer of wealth? If transfer of wealth is of high importance, then an annuity may not be the best choice for these funds. Life insurance may be a better alternative.

8 Common Mistakes Annuity Buyers Make (Continued)

- Minimize estate taxes—you may avoid probate
- Support for relatives

2. **Understanding the various types of annuities available and how they differ:** single premium immediate annuity (SPIA), fixed annuity, multi-year guaranteed annuity (MYGA), fixed indexed annuity, and variable annuity. An annuity can be extremely valuable within your retirement plan if it's properly selected and used for the correct objective. Each annuity differs in the purpose it serves.

   Purpose of Different Annuities
   - SPIA's can provide immediate income for a period of five years and up to a lifetime, guaranteed.
   - Fixed rate annuities will protect your principal and grow tax deferred providing a guaranteed interest rate annually.
   - Fixed indexed annuities allow you to enjoy growth opportunities tied to a market index; if the index goes up you earn interest that may be a percentage of the index increase and if the index goes down, you earn zero for that year.
   - Variable annuities offer the greatest potential for growth but also allow for the greatest chance of loss.

3. **Asking your advisor the right questions:** When you're looking for the right annuity for your needs, be sure to ask your financial professional the right questions (we covered these in our "Important Questions to Ask Before Buying an Annuity" section above).

8 Common Mistakes Annuity Buyers Make (Continued)

4. **Understanding the terms of the contract:** The terms of the contract are explained in the disclosure statement of each product. Make sure you ask your financial professional to answer any questions you have. There's no such thing as an unintelligent question. If you do not recognize what certain words mean, visit our Financial Terminology section.

5. **(FIA) Fixed Indexed Annuities – not knowing pros, cons, and variations between contracts:**
   Many pros and cons were already discussed, but there are variations to every fixed index annuity. For example, some annuities offer more liquidity (or in other words, give you more access to your money in times of need). Some annuities have special features that others do not. Fixed index annuities have changed drastically over the years. Now they provide benefits that you need to look into and assess as to whether they meet your goals and objectives.

   Pros:
   - Guaranteed interest rate
   - Ability to earn interest tied to an index, like the S&P 500
   - Principal protection
   - Tax deferral
   - Potential to avoid probate
   - Lifetime income guarantees
   - Without annuitization (All annuity contracts are different, so not all pros can be addressed in this guide)

8 Common Mistakes Annuity Buyers Make (Continued)

Cons:

- Understanding the best product to fit your needs
- Terms
- Surrender charges
- Potential fees
- Living benefits and how they work (All annuity contracts are different, so not all cons can be addressed in this guide)

Keep in mind that a negative for one situation may be a positive for another. There are many insurance carriers that offer annuities, all of which are different. Make sure you fully understand the contract rules before purchasing.

6. **Knowing your maturity date (free and clear) and/or death benefit:** You need to understand what a surrender charge is and how it works. Every annuity has a surrender fee/charge based on the term (duration) of the contract. Some have decreasing surrender charges (i.e., a ten-year annuity contract may look like this; 10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%, 1% surrender charge on the portion of money liquidated above the free withdrawal amount). While not common, other annuities may have surrender values that work differently from the example.

   Death Benefit: Most annuities offer full accumulation value at death. The full value, including earned interest, transfers to the beneficiaries at death, in a lump sum at once. In most cases, this value serves as the heirs' new cost basis for tax purposes. Other annuity contracts must be taken by the beneficiary over a 5-10 year period. SPIAs work differently. If you request a "life-only" payout option, you will receive a greater income for your lifetime, but no commuted value will go to your beneficiaries. This only comes into play with a life-only SPIA. All other annuities should have a death benefit.

8 Common Mistakes Annuity Buyers Make (Continued)

Make sure to understand the annuity's death benefit before purchasing the annuity in order to help you plan accordingly.

7. **Forgetting about your annuity and not reviewing annually:** It is of the utmost importance for you to communicate with your financial professional at the very least every year. Make sure he or she is keeping in touch with you about your annuity in order to make sure you have made the right decisions and that you are utilizing your finances in the most efficient way. For example, you may have money that you would like to deposit into your existing annuity because you can benefit from it later on. You may need a little extra cash and not realize you can take up to 10% from your existing annuity penalty-free. Your circumstances might call for a change in your retirement strategy somehow. There are many great reasons why your financial professional should stay in touch with you.

8. **Believing the media's blanket discussions about annuities:** Some annuity buyers listen to the media and believe what they are told about annuities. Then they run to their financial professional to change their current strategy. There are many misconceptions about annuities that were created by various media many decades ago that don't apply. Be wary of any blanket statement about annuities, or any financial instrument for that matter, until you study it. Trust yourself by empowering yourself with knowledge. Only work with an expert you trust. Make sure the representative you are taking advice from gives you the time you need to understand and validate an annuity before purchasing it. Not all annuities are created the same; not all annuities are good and not all are bad. The first thing you need to do is determine your goals and then it comes down to which one is the right fit.

Where to Get the Best Annuity Advice

SafeMoney.com was created to help you see through the confusion called the financial industry. We've seen this industry from every angle: as financial advisors, as consumers, as consultants, and even as financial guides to the consumer and financial coaches to independent financial service professionals. We've had countless opportunities to see the difference that great financial advice can create. Unfortunately, we've also witnessed what can happen when people receive mediocre financial guidance: costly, unnecessary mistakes that put their goals and dreams in jeopardy.

If you're looking for a financial plan with an emphasis on retirement income planning, I'd encourage you to take a close look at the information at SafeMoney.com and ask us anything on your mind!

We want to help you see through the smoke-screen of confusing retirement planning and help you get back to the basics. That way you can truly create a plan that is guaranteed to fulfill your expectations. If you are ready for personal guidance with your retirement financial future, please visit SafeMoney.com and contact your financial professional to get started. We invite you to request an initial strategy session at no obligation to you.

Don't hesitate to contact us with any questions or feedback.

Closing

I sincerely hope this information has been helpful to you, and I would greatly appreciate your feedback. If you have suggestions for improvement, or words of encouragement, please reach out to your SafeMoney.com financial professional or to us.

I hope that by reading this information you are now armed with knowledge that will help you make the right decisions based on your needs and goals. If you know anyone else who may benefit, feel free to send them a copy. Or better yet, just have them go to - SafeMoney.com and request their own. You can also contact us with questions anytime.

It is my wish that you do the best you can with the resources you have. Continue to educate yourself, and surround yourself with those who care about your well-being more than their own. Never assume there is only one correct way to do anything, including preparing for retirement.

Thanks again for reading,

Brent Meyer

About Your Financial Professional

As Director of Operations & Business Relationships, Erica engages in relationship-building with retirement investors and advisors. Her role consists of helping consumers, connecting them with independent advisors who offer expert retirement guidance and income strategies. On the advisor side, Erica helps financial professionals utilizing Safe Money Broadcasting's programs to make the most of their marketing dollars and to drive meaningful results in their practices.

Erica has 10+ years of experience in financial services and marketing. Her background makes her extremely relatable to small business owners. Her experience includes collaborating with financial advisors nationwide to optimize their marketing and to streamline their business efficiency.

Prior to her work in the financial industry, she had award-winning achievements with district and nationwide regional business development roles. Her career includes top-level sales development, vendor negotiations, startup business development, and personnel & operations management. As the chief point-of-contact for business, Erica plays a vital role in ensuring SMB's operations are running on point and with efficiency. She is passionate about helping advisors grow their practices and seeing how SMB's strategic programs can help them overcome business gaps.

Resources

http://en.wikipedia.org/wiki/Annuity
http://www.investmentnews.com/
http://www.naic.org/
https://livingto100.com/
http://www.nolhga.com/policyholderinfo/main.cfm/location/ga
http://www.safemoney.com