Special Report – December 2014
Ten Objections Regarding Index Annuities
<u>And Why Those Objections Don't Hold Water</u>

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Hello! My name is Steve Geist, I'm a Financial Strategist and Insurance Specialist. More specifically, I help my clients tackle complicated retirement issues and guide them towards easy-to-understand solutions designed to safely preserve and grow their retirement wealth.

In this Special Report I want to focus on the subject of Annuities. I'm doing this because this topic is not well understood by the general public. And, unfortunately it sometimes happens that decisions to purchase annuities, especially Index Annuities, are negatively influenced by your broker, your neighbor or from the completely irresponsible stories you read from the Wall Street Propaganda Machine.

An example would be the belligerent full page ad frequently run in the Denver Post by Wall Street Power Broker Ken fisher. His deceptive ad is enough to scare anyone away from the positive benefits of annuities.

Unfortunately, the many misconceptions that still exist about annuities are reinforced by media outlets who do not understand anything beyond "traditional" Wall Street investments. Another problem: the Internet searches that reveal outdated information. Quality, accurate education is essential in order to eliminate your misconceptions about annuities; especially index annuities.

It's important not to be misled by inaccurate or misleading information when purchasing any investment product, especially an index annuity, which is able to offer safe, guaranteed solutions for retirement. So to help enlighten the misinformed, and to counter self-serving power brokers like Ken Fisher, I have prepared this Special Report that addresses ten objections that I've run into when discussing index annuities. I want to address these objections and explain why they simply <u>do not</u> hold water. So let's start with the first objection.

<u>Objection #1: Index Annuities have surrender charges.</u>
Well, I have four Important Points in Response:

#1 There are over 250 index annuity products in the market today. Therefore, different annuity designs will have different surrender charge periods ranging anywhere from 5 years to 16 years. Your personal need for the annuity will dictate the proper surrender charge period. Keep in mind that an annuity with a 16-year surrender charge period, along with its many associated benefits, can be perfectly suitable for certain retirement situations.

#2 There are <u>many</u> situations with an Index Annuity where <u>there are no withdrawal or surrender charges</u> on money withdrawn from the Annuity. Examples would be the 10% annual free withdrawals, the death benefit that passes to your beneficiaries, annuitizing the annuity, using the annuity to address a terminal illness or Long-Term Care need or exercising the return of premium rider or lifetime income rider that are available today on many Index Annuities.

#3 The surrender charges of annuities are fixed and within your control as to how they are incurred. With index annuities, you will incur a surrender charge only if you exceed the typical 10% penalty-free withdrawal in any given year. I tell people if they need more than 10% of their annuity, in any given year, go ahead and take it. It's not the end of the world. Yet just like a bad political commercial, Wall Street media would distort the truth and have you believe otherwise.

#4 With your stocks, bonds or mutual funds, your prospectus for the investment has no printed schedule which shows the <u>exact</u> amount of loss that you may incur as a result of downturns in the market. I have met with many clients who show me statements with losses of as much as 50% in their brokerage accounts. But because the loss potential was not shown as an exact figure in the prospectus these people ignored the risk warning and bought the investment anyway. Remember, surrender charges are in your control. The market's volatility, resulting in investment losses that are potentially far greater than any surrender charge is <u>beyond</u> your control.

<u>Objection #2: Because of Surrender Charges, your money will be tied up in an Index Annuity</u>
I have two Responses to this objection:

#1 Deferred Annuities, whether Fixed, Variable or Indexed, are all designed as long term investments. They are not intended as <u>short term</u> locations to keep liquid funds.

If you want safe, 100% liquidity without any penalty, then keep your money in savings accounts or money market account at a bank. Those locations offer 100% penalty-free liquidity but also pay rock bottom yields. My point is, never keep money that you may need for an emergency in an annuity <u>or</u> in the stock market.

And by the way…why doesn't Wall Street say to keep all your money in savings accounts or money markets in order to stay 100% liquid? Well, for one reason, Wall Street admits that your money needs to grow at least enough to fight inflation and that won't happen in <u>penalty-free</u>, <u>risk-free</u>, liquid money locations

#2 Where is your money now? If you say I'm invested in stocks, bonds and commodities, then technically, your money is <u>already tied up</u>.

Now I realize you can sell your stocks bonds and commodities anytime you want. But what if you had called your broker to withdrawal some money from your brokerage account at the bottom of the recent recession in March 2009 at which point 57% of the market value had been eradicated. How much of your investment would he have sent you? Let's say you originally gave him $100,000 to aggressively invest for growth but in March of 2009 you suddenly needed some liquid funds. Out of the $100,000 that you gave him to invest, he sends you back $50,000. You call him up to tell him you received the $50,000 and ask how long it will be before you get the other $50,000. He informs you that if you want that $50,000, you have to return the first $50,000 and then wait for the market to recover ….and that might be several years.

Can you see that being invested in the volatile stock, bond and commodity markets is another form of tying up your money but one with more uncertainties? With a typical indexed annuity, the worst your liquidity could be damaged would be to get back all your money less the stated surrender charge. And this surrender charge occurs only during the surrender period and only in the event you take an early withdrawal that's in excess of the typical annual 10% penalty-free withdrawals that you're entitled to.

<u>Objection #3: With an Index Annuity you don't get all the market upside</u>
Yes, it's true that in the past, in positive stock market years, indexed annuities have credited less than the full index growth due to the caps, participation rates and spreads that are used to calculate the interest earned in index annuities.

But, you also can't ignore that in negative stock market years, index annuities have no losses and provide total protection of the annuity's <u>accumulated account value</u>. Index annuities are not designed or intended to replicate stock market returns.

So put another way…It's true that you don't get all the upside with an Index Annuity; but there's nothing wrong with getting <u>some</u> of the up and <u>none</u> of the down.

Actually, if you currently have a so called "diversified portfolio" of bonds, stocks and commodities, not only are you not getting all the up that the market has to offer, but you're participating in some of the down as well. As Warren Buffett points out; diversified portfolios reduce your return. If you had put all your money in just the winner, you would have made more, but because you don't know who the winners are in advance, you diversify and that results in the losers partially or totally offsetting the winners. The result is a diminished overall return on your portfolio just as a stock broker might criticize is happening with an index annuity.

Objection #4: There isn't enough horsepower in an Index Annuity - you can make more in mutual funds.
We already know that the best way to grow money is to never have to make up for a loss, even for one year. Growing your index annuity in up-markets, realizing and locking in the growth, and then holding the growth during down-markets will compete very favorably with investments that are tied to the volatile market that continuously takes back previously-earned gains.

Remember gains in securities are only paper gains until sold. I like to point out that the time period from the year 2000 to 2010 has become known as the Lost Decade for the stock market because many people put up the capital, took the risk and had nothing to show for it in that 10-year period. If you had been in an Index Annuity for the same period of time, the story would have been much different and vastly better.

Objection #5: People age 65+ should not own Index Annuities because they are complex and confusing
To begin, I consider it an insult to people age 65 and older to infer they are not capable of making responsible financial decisions. Nonetheless, I have three responses to this objection:

First, the average age of the typical annuity owner is already over 65, so the buyer profile for Index Annuities goes against this objection.

My second response is directed to those who say that the most confusing parts of an Index Annuity are the methods used to calculate the gain in the index. The reason some index annuity products have several crediting methods and more than one index to work with is to offer the annuity owner a variety of choice. It is of course important that before you buy an index annuity, you should understand the various features of this investment and be prepared to ask your financial professional lots of questions about whether an index annuity is right for you. Legitimate financial professionals should fully understand and be able to clearly explain any product they are offering.

And on that thought, my third response is that while an index annuity may seem confusing, perhaps it has just not been clearly explained to you by your financial professional. Let's not forget that your advisor is obligated to explain the complex fundamentals of any investment you are considering including risk-based stocks, bonds, mutual funds, commodities and variable annuities.

Yes, Index Annuities have their crediting methods but at least they offer many guarantees including preservation of your principal. With risk-based investments how often does your financial professional take time to clearly explain the risks involved and the reasons for his/her recommendations? Do you fully understand all of the complex fundamentals used to support their recommendations? Wall Street acts as if the complexities of investing in the market are simple to comprehend and only Index Annuities are confusing.

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In case you belong to a group, club, church, association or any type of organization that invites outside speakers to give interesting talks – please know that as a community service, I would be delighted to speak at your next group meeting. And I would speak on a topic that would be both informative and relevant to Retirement. Just call my office and let me know how I might be of service.

Objection #6: Don't trust an insurance company with your money
To this objection I have several responses worth noting.

First, I find it interesting that people trust insurance companies with insuring their homes, autos, health and life, but not their nest eggs and income. If we can feel okay about trusting insurance companies with all of these other issues, then we ought to be okay with having them insure our nest eggs and income as well.

Insurance companies are the only financial institutions with the financial strength and the reserves to provide the guarantees that are available in annuities. The only other investments today that guarantee return of principal are bank products such as CDs, money markets and savings accounts. And these types of investments don't provide the yields or the tax-deferred accumulation of an annuity.

Insurance companies are overseen by state regulators and are required by statute to be inspected by state authorities at least once every three years. They may even be inspected more often if the state's Department of Insurance deems it necessary. Insurance is one of the most regulated industries in the United States.

In addition, insurance companies are rated by various rating agencies. Rating agencies provide in-depth information about the solvency, financial stability, claims-paying ability, and profitability of insurance companies

The great thing about index annuities is that they offer four levels of protection:

- ***Level 1 of Protection:*** and above all stands the strength of the insurance company that issues the annuity. The size of the company, the length of time in business, its financial strength and the rating it has earned from independent rating agencies are all important considerations.
- ***Level 2 of Protection:*** is the important issue of Capital Reserves. Federal law requires insurance companies to set aside funds known as reserves in order to meet their contractual obligations to their policyholders. These reserves are protected from creditors and may be used only after all policyholder claims have been paid. This means that for you as the annuity owner, your claims are placed ahead of all shareholders, bondholders, and creditors. This reserve requirement provides more protection than found in any other financial organization.
- ***Level 3 of Protection:*** is that even if your insurance company failed, the value of your annuity (up to $100,000, or more in many states) is guaranteed by your state insurance guaranty fund. In other words, your annuity is backed by a government guarantee similar to the way the FDIC insures bank deposits. As a sidebar, it's interesting to note that bank products that are insured by government agencies such as FDIC are not always backed by capital reserves. Instead, they are supported by the government's ability to impose taxes or print money.
- ***Level 4 of Protection:*** is that a promise is put into writing by the insurance company that you are protected against loss as long as you abide by the terms of the contract. Your principal is protected from day one because of this contractual guarantee.

Combining these levels of protection with the involvement of state regulation and federal oversight of insurance companies, the insurance-buying public is provided with a greater level of safety than is available from any other investment source.

Objection #7: My Broker / Financial Planner / Banker doesn't like Index annuities

Typically, brokers don't sell the safe stuff. And bankers typically don't sell index annuities. If they sell you an annuity it will probably be a variable annuity which is a risk-based investment and can lose principal.

Let's be realistic. It shouldn't surprise you that your broker and banker don't like anything they view as having the possibility of taking away their accounts. Once money goes into a fixed or index annuity, they can't earn commissions from trading it anymore and may not be able to charge fees for managing it. Financial advisers have a charming term for this phenomenon — annuicide. You insure, and their revenue dies. So, many of them will try to talk you out of it.

Also, because not many brokers or bankers sell index annuities, they usually don't understand them, much less have the ability to fairly and accurately explain them to their clients. The same is true with Financial Planners. And because your broker or banker or financial planner doesn't usually fully understand index annuities they will often fill your head with misconceptions.

I always ask people if their broker/advisor or banker owns the same products that they are recommending. I tell my clients that I own Index Annuities and that I have experienced firsthand, after two market downturns in the last fourteen years, the tremendous ability of index annuities to credit above-average interest without risk to my principal and without me having to worry about the next downturn that would otherwise take back my gains.

Objection #8: The fees are high in Index Annuities

Actually, with an Index Annuity, there are no fees, expenses or commissions that come out of your pockets. If you purchase an income rider and attach it to the Index Annuity there can be a small fee which can range from 0% to 0.95% annually.

Here's how it works. To cover the costs of doing business, the insurance company invests your premiums in conservative investments which earn interest. The yield from its investment portfolio is used to cover the insurance company's cost of doing business. Some of the costs include cost of the pre-determined options, covering minimum guarantees, agent commissions, administration expenses and a profit to its shareholders.

It's important to note that the funds to cover these expenses are not taken from the annuity owner's account balance. So 100% of the contract owner's money in the index annuity is always at work for the contract owner. In a year where the annuity credits zero growth because of a flat or declining market, the Annuity owner gets a true zero -- not zero minus 2 to 3 percent in management fees, which is what can happen on brokerage accounts, variable annuities and mutual funds.

Objection #9: The Index Annuity Agent gets paid a high commission

Currently, insurance agents receive an average commission of 6 percent on an indexed annuity contract. Commissions can actually be as low as 1.5% on some Indexed Annuity products. And, the commission does not come out of the annuity owner's pocket. This allows 100% of their money to go to work for them right away.

Also, keep in mind that this Index Annuity commission is paid only once at point-of-sale, and yet the annuity agent is expected to service the contract for the life of the annuity. Compare this to the generous, consistent fees that are paid on Assets under Management. The broker or financial planner who is telling you not to buy an index annuity because of high commissions is, in all likelihood, being paid 1% of your portfolio value per year, which over 10 years would be 10%. And that fee is usually coming out of your pocket.

Annuities usually pay all their commissions up front, so the percentages can appear high. But all financial products have to cover the provider's sales and marketing expenses. Over time, the margins built into an annuity to cover commissions are often lower than the sales and marketing expense margins built into competing financial products such as stocks, mutual funds, bonds and commodities.

SPECIAL REPORT TIMEOUT

I'd like to point out that in addition to hosting the Retirement Guy radio show, which I have done now for almost five years, I also conduct free (open to the public) educational events. I hold these workshops throughout the Denver area throughout the year. I have made these presentations to thousands of people both in and near retirement over the past several years. If you would like to meet me in person and learn about retirement, in a public setting, then please call or email me with a request for the date, time and location of my next event.

Objection #10: Index Annuities aren't appropriate for qualified plans such as IRAs and 401(k)s

Obviously tax treatment should not be the only consideration when one is considering buying a product or making an investment? It's true that from a tax standpoint an annuity offers the same tax deferral as a qualified plan such an IRA or 401k.

But what about guarantees, opportunity and liquidity? All of these factors should be considered, as well. When looking at the complete picture most people agree that it makes sense to have part of their retirement portfolio in Index Annuities. In 2010, about half of $30 billion in annuity sales were held in IRA's or other qualified vehicles.

In Conclusion

So in wrapping up this special report dealing with objections to Index Annuities, let's not forget the many benefits of owning an Index Annuity:

1. Index Annuities are secure and guaranteed locations for part of your retirement assets.
2. Index Annuities are excellent investment alternatives when applying the Rule of 100 for asset allocation.
3. Index Annuities provide for controlled taxation of interest earnings (tax deferral).
4. Index Annuities have no sales charges, annual fees or expenses that come out of your pocket.
5. Index Annuities provide an opportunity for reasonable upside earning potential without market risk.
6. Index Annuities, as an example of passive investing, eliminate the "trust me" factor and market timing.
7. Index Annuities provide liquidity with multiple income options and lump sum distributions.
8. Index Annuities efficiently distribute your assets at death and avoid the costs and delays of probate.
9. Index Annuities sometimes offer Bonus Interest as a kick start to the growth of the annuity
10. Index Annuities offer a lifetime of guaranteed income without loosing control of the annuity

I wish you a long, happy and financially secure retirement. And if I can be of any assistance, please do not hesitate to contact me.

Sincerely;

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