

Fixed Index Annuity (FIA)

If there is a message to be learned from the last 13 years in our volatile market place, it's this; **"never underestimate the power of zero."** We have learned that losses can be devastating to ones retirement portfolio. When losses are calculated into the equation actual returns are always lower than average rates of return (*see my tutorial on Actual versus Average*). No one, and I mean no one, knows what the future holds, especially me. But we do know of a strategy to eliminate potential losses while still participating in the markets upside. That can provide an income stream you can never outlive. That allows you to stop paying annual management fees to stockbrokers and money managers.

This strategy uses a **Fixed Index Annuity** (FIA as we will refer to it). It is an insurance product designed to protect your life's savings. A tax-deferred, long-term financial tool designed for growth and safety, especially for those who are fed up with the sleepless nights that stock market volatility creates. It is also one of the few exclusive retirement vehicles that has the ability to guarantee* an income stream for life – an income stream you can't outlive.

Consider this a 30,000-foot view. This is not designed to provide a detailed list; it is simply intended to give you an overview.

- **FIA's provide tax-deferral** (an IRA also provides tax-deferral)
 - Tax-deferral can be critical to your financial future.
 - The best way to illustrate this is to use the dollar-doubling story. If you took a \$1 and doubled it every year for twenty years what would you have? \$1,048,576, yes over \$1 million. What would you have if you had to pay taxes of 25% on that money each year after doubling? Would you believe just \$72,570? If you paid the 25% at the end of 20 years you would have \$786,482 ($\$1,048,576 \times .25 = \$262,144$). Obviously, tax-deferral can make a huge difference in your retirement savings.
- **FIA's provide insurance for your nest egg**
 - It's important to understand that, at its core, an annuity is an insurance policy. An insurance policy for your life savings. It insures your retirement nest egg against loss (critical in a volatile market).
 - A good analogy would be: If you owned a \$500,000 home free and clear and you weren't forced to buy insurance protection, would you still buy it? In other words, would you spend a few hundred dollars a year to make sure you could replace one of your most valuable assets if it was destroyed by fire or some other peril? Of course you would.
- **FIA's provide upside potential with no downside market risk**
 - This can get complicated to explain, but believe me these insurance companies have figured out how to do it. It is not too good to be true. These products do exist. With an FIA you are able to participate in all or a portion of a market index's gains in positive years, but at the same time, never sustain losses during the negative years (a tutorial explaining is available).
 - Never experiencing a loss means that your average and actual return will always be the same – always – because this strategy is contractually guaranteed to never have a negative return.
- **FIA's generally charge no annual management fee**
 - In its basic form, without optional policy additions, called riders, a Fixed Index Annuity does not charge any annual management fee or expense to the owner. There is no 1% or 2% drawdown of a client's total account. This alone can make a huge difference over a 30- or 40-year investment horizon.
 - Individuals selling annuities do get a commission, but that money gets paid in a one-time, up-front, lump-sum commission and is not an ongoing percentage of the client's total portfolio value. This means that if you put \$100,000 into an FIA, you still have the full \$100,000 in the annuity working for you.

- FIA's generally have a surrender charge that lasts for a certain number of years, however, this surrender charge is generally assessed only on amounts withdrawn above the penalty-free withdrawal allowed within the FIA (10% in most cases).
- **FIA's pay an initial deposit bonus**
 - If not having to deduct commission out of your contribution was good, then you are really going to love this feature. The FIA's we deal with all have up-front deposit bonuses of at least 5%. So if you put in \$100,000 you get to start with \$105,000 on your side of the ledger. This meets our definition of FREE MONEY.
- **FIA's offer penalty-free withdrawals**
 - Once an FIA has been in force for 12 months, the owner is allowed to take a penalty-free withdrawal of 10% each year. This normally provides enough liquidity without being charged a surrender fee. If you are using your FIA within an IRA you have government regulated limited availability anyway.
- **FIA's provide a guaranteed lifetime income**
 - This can be one of the most powerful and beneficial aspects of these annuities. This is especially true when setting them up 10 to 15 years prior to taking the income. Unfortunately these riders have become one of the most misunderstood benefits. We believe this misunderstanding may be one of the leading reasons why annuities wrongly fall under perennial attack from some in the financial community.
 - An FIA in its basic form is a savings tool used to accumulate money, just like any other savings vehicle. However, we are of the belief that people in their early 50's and 60's should set these up for the guaranteed income riders. The ability to turn an accumulated pot of money into a lifetime income stream is what most people want when saving their money. This replaces the pensions of yesteryear that must rely on a company or government.
 - While this is a great feature, it is never mandatory. It is simply an option. But a very powerful and significant option. This income is totally elective and never needs to be chosen unless it is desired and the best fit for your specific needs.
- **FIA's lock in gains**
 - If an FIA has a 'special sauce' this would be **IT** – the reset provision. This provision not only protects the annuity owner's original premium amount from market losses, it also protects every gain that is credited to the account as well. Once a gain has been added, it becomes protected and can never be lost.
- **FIA's can offer avoidance of probate**
 - Because an annuity is an insurance contract with listed beneficiaries, just like a life insurance policy, it generally pays the benefit owed to the beneficiary very quickly, without being involved in the long, arduous, and expensive task of having to struggle through probate. This allows the heirs to receive their money within days or weeks instead of months or years.

The goal of our suggesting an FIA is to 'insure' that you are guaranteed never to lose any of your hard earned savings and that you have a 'guaranteed'* minimum income (private pension) for life.

** We are talking about guarantees provided by the insurance companies based on their claims-paying abilities (we only deal with 'A' rated companies).*

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