

## **Private Pension Plan via Fixed Index Annuities (FIA)**

People who have pension plans are often looking forward to retirement because they know they are going to receive a monthly paycheck for the rest of their lives. The company or government entity offering the pension is taking all of the risk. What could be better?

Actually, using your assets and setting up your own personal pension plan using a Fixed Index Annuity (FIA) with a guaranteed income rider is better because it is guaranteed by an insurance company (100% protected by the legal reserve system and the Insurance Guarantee Association), not a city, state, or company that could have financial problems (think Enron, WorldCom & Arthur Andersen) and not meet its future obligations. It can also be **tailored to personally fit your plan with more flexibility**. In today's environment insurance companies will even guarantee you a 6.25% to 6.5% (rates vary depending on your age) compounded annual rate of return to generate that income.

### **A Way to Insure Your Retirement**

Again, transferring the risk to an insurance company seems to be the best solution. Consider buying a solid Fixed Index Annuity (FIA). These vehicles allow you to participate in the market upside without participating in the downside. Their goal is to eliminate the risks involved while protecting and growing assets. Here's generally how they work:

- Your annuity would be linked to an outside index (like the S & P). The insurance company hedges the performance of the outside index. If the index were to go up, you're going to get positive interest credited to your annuity, whereas, if the index were to go down, you're not going to get any index credit, but you're also not going to lose any money.
- The BEST new feature (only available since 2007) is the income benefit riders. As people are approaching retirement they are interested in securing a guaranteed level of income, which will last their lifetime. These new Lifetime Income Benefit Riders (LIBR) solve that problem. They do it by guaranteeing you a certain return for a certain number of years (usually 20) to create a balance that can be used to generate a guaranteed life time income 'paycheck.' The good ones allow the 'paycheck' to be inflated each year to keep up with inflation.
- If the market goes sideways (up and down and back to where it started a number of years ago – like the last decade), these FIA's prosper. They work best in a volatile market that is going up big time and down big time. Why? Because they can only go up, lock in that growth, and never go down.
- Think of it this way. It's like going to Vegas with just a small portion of your account. The rest stays at home, tucked away snug and happy. If you lost a portion of your money gambling in the market, you still have your nest egg. Knowing that you have set yourself up for a guaranteed income stream to cover all of your basic needs, regardless of what the market does, enables you to gamble with some of your funds.
- Decision choices – being able to go a different direction should the annuity not be the best place to have your money in 10 years. The good annuities have a 10-year surrender period, which gives you the opportunity to evaluate it worth at that time.

Please don't let your past knowledge of annuities affect your thinking. Good annuities are not 'too expensive or too illiquid'. Don't let the word 'guarantee' throw you. We are talking about guarantees provided by the insurance companies based on their claims-paying abilities (only deal with A rated companies).

Remember what Warren Buffett says; ***'Investing isn't simply about being sure you're right, but about making sure you are protected if you turn out to be wrong.'***

Annuities are another insurance product that has been completely misunderstood. There are many misconceptions floating around about them. I agree that the quantity of annuities and the amount of misinformation can be somewhat mind boggling, but when you spend the time we have understanding them they start to make complete sense. They also solve two critical financial planning problems - **how to eliminate market volatility (risk) and how to insure that you won't run out of money.**

It seems we use insurance to protect us from all kinds of other risk. We insure our cars, our homes, our health, and hopefully our ability to create income (life insurance), so why shouldn't we insure our retirement income? We should, but we often don't know how to do it. These new fixed index annuities with the guaranteed income riders now offer all of the guarantees of traditional pension plans.

The only negative with today's annuities it is lack of liquidity. This is easily negated by using money that is destined for later in life, usually 10 years in the future, like retirement funds inside an IRA, which can be transferred into these vehicles with no tax implications. However, they have more liquidity than traditional pension plans, which you can't get to at all until you retire. With these annuities you can always get 10% without penalty, anytime.

We must ask ourselves why we are saving money. Normally it is because we want to have enough assets at some point to generate income to live off of for the rest of our lives. I know when I was accumulating my assets I didn't think about how I was going to create income from them. Who knew that the market would erode my assets, instead of doubling them, right before I needed them to start creating income? Who knew that the interest rate environment would be the lowest in history when I was ready to retire, and that you could safely generate less than \$10,000 a year from an asset of \$1 million (CD with no risk for the \$1 million)? I was expecting at least \$40K to \$50K. With these new annuities it is best to set them up 10,15 or 20 years before you have a need for the income, then you can protect yourself from this type of situation, and give yourself options should things change.

Please give us a call and let us help you understand why you should have some of your valuable assets protected in these types of vehicles.

**Dan M. Maga & Dan M. Maga II**

American College Funding

**Maga Financial Associates**

444 Skokie Blvd. - Suite 302

Wilmette, IL 60091

847-920-9680

[www.americancollegefunding.net](http://www.americancollegefunding.net)

[www.magafinancial.com](http://www.magafinancial.com)

