Summary of Annuity Options

1. Immediate (pension) – Only for older ages needing income

- How much you will receive will depend on your age at the time initiated
- You will want to know if the amount goes up with inflation (not all offer this protection)
- Income for life or for a fixed term (10 years, etc.)
- There are tax advantages if you are using non-IRA type funds – usually about 80% could be non-taxable

Disadvantages

- Lose control – you can't get it once it is put into the annuity
- Most of the time if you die you lose the balance - you can have a right of survivorship if you are willing to accept less annual payout

2. Fixed – Alternative to a CD when taxes are affected

- Can expect from 2% to 4.5% depending on the term chosen (be cautious since some companies will entice you with a higher rate the first year then reduce it)
- A CD can often push a person into the next tax bracket with the interest that is earned.
- Taxes can be deferred with an annuity (taxes will be paid on growth when withdrawn)

Disadvantage

- Limited liquidity during surrender term

3. Variable Annuity (Not Recommended because of high fees)

Disadvantages - NOT FOR RETIREES

- Think Mutual Funds – you can't insure them and they can go up and down
  - Were popular in the 1990's when the market was always going up and they had guaranteed returns to be used for income (don't have this anymore)
- Not good in volatile or down market because of mutual funds risk
- Fees can range from 2.5% to 4% regardless of performance
- These fees don't show up on statements and are difficult to determine
- Administration fee – could be ½ % a year (on $500K balance that is $2,500 yr)
- Life Insurance fee – often it is there to cover the difference between the market value and the original amount deposited, should you die
- Mutual Fund fees – each mutual fund has its own fees that must be paid
- Rider fees – this is a fee for any bell's and whistle's added to the annuity
- Gain is not tax-free to heirs – they will pay tax on any growth

4. Fixed Index Annuity (FIA) – Ages 45 to 85

- These are considered Hybrid annuities – that started about three years ago
- They combine the best of three different type of annuities
- **The Fixed Annuity, Indexed Annuity, Immediate Annuity**

- Has the advantage of market upside based on index chosen but no downside risk
- Compare caps – best if you can find one with no caps or highest caps
- They have a floor or guaranteed amount of return – 2% to 8% depending on term (can only be used for income)
- Fees are very minimum - .4% to 1% for the income riders and normally are not collected if index goes negative and doesn't affect the floor or the guaranteed income balance
- Provide guaranteed life time income (can be inflation protected)
- You never lose control of your money – can always stop income and take the money

Disadvantage

- Limited liquidity during surrender term (can always get 10% of amount deposited)

How they work:

- They never invest the principal
- They secure bonds and treasuries and invest the interest only – if gains are made they increase the principal – thus your gains, if they lose your return stays at zero
- They use an index for crediting your account for gains – sometimes you only get a percentage of the gain or have a cap on the upside
- You can never lose principal – when the market goes down you are credited with zero (which can be a big win)
- They sometimes offer a bonus for starting one – the bigger the bonus the lower the cap and gains will be

Protection – for funds housed with insurance companies

The FDIC does not provide protection for insurance companies; insurance companies actually have something better in the Insurance Guarantee Association. This is a fund that gets its contribution from any insurance company licensed to sell insurance and annuities in a particular state. It is a unique legal reserve system, and these funds are never comingled with the states funds.

Insurance companies, by law, are required use the states legal reserve system. This compares to a bank that is allowed to loan $1 to $9 for every $1 in reserve. This extreme leverage, and the risk they took with it, is why so many banks got in trouble in 2008 & 2009.

If something happened to an insurance company the first level of protection would be the bonds or treasuries they have purchased. The second level of protection would come from the states Insurance Guarantee Association, and the third level would be the re-insurance company. Most insurance companies have between one and fourteen re-insurance companies backing them up.

Our recommendation (ages 45 to 75) would be #4 (FIA). Its only disadvantage is limited liquidity during the surrender period of 10 years. After that you have compete control.

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