Annuity Insights

Guidebook

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...ad:

- Stra... ...ard Annuity Facts
- How to ... ...etirement with ...ranteed ...manent Income
- ... ...surance Companies Really Sta... ...ehind Their Promises and muc... ...ore...

FORWARD

Before we get ahead into *The Annuity Insights Guidebook*, we want to communicate some important information. First, thank you for your time a[illegible] interest in reading this guidebook. If you ever have any questions, fee[illegible] need anything at all, please call us at 877.476.9723.

Second, this book is created to be an educational guide [illegible]rpose [illegible]ng greater clarity and understanding to annuities and any fina[illegible]ecision[illegible] make about them. It doesn't have to be read from cover to cove[illegible] though many people do. If there is an area where you need m[illegible]formati[illegible] something needs to be clearer, we encourage you [illegible]ction.

Remember, there are hundreds upon hundreds [illegible]oduct opti[illegible]n the annuity marketplace. This is great in terms of being able [illegible]r many [illegible]sumer needs, but it makes things complex.

Everyone is different. So any annuity [illegible]propria[illegible]t be configured to your own financial picture. We hi[illegible] recomm[illegible]u use t[illegible]as a reference point for when you consult wit[illegible]r or an age[illegible]t about annuities.

Just as not all annuities are [illegible]l, neithe[illegible]ll financial professionals. They can differ in terms of the knowle[illegible]d guidance they are able to give on annuities. Working with an inde[illegible]dent, k[illegible]lgeable annuity specialist can go a long way toward finding th[illegible]ity stra[illegible]for your retirement needs.

If you are ready [illegible]hel[illegible] g[illegible]er different annuity options and see if any ma[illegible]se for you, w[illegible]t Saf[illegible]oney.com can assist you. Please visit [illegible]ney.com to co[illegible]n an agent or an advisor for your needs. Or if you ever nee[illegible] else, we invite to call us at 877.GROW.SAFE (877.476.9723) at [illegible]

Disclaimer – This guidebook gives information on issues people may want to consider in decisions of whether to buy an annuity, and should they decide to purchase, which type of annuity, annuity benefits, and additional riders may be suitable for their goals and needs. This information is general in nature [illegible]nt only for educational purposes. This information is not designed or in[illegible]ded to [illegible] a recommendation or any means of solicitation or induc[illegible]ment for b[illegible]ng a[illegible] specific financial product or service. At certain points, c[illegible]t is reem[illegible]zed when relevant. This is done for educational purposes, whe[illegible]enient.

This material should not be construed in itself as, and should not [illegible]ed upon for, investment, legal, tax, or accounting advice. Plea[illegible] a profe[illegible]al specializing in these areas for specific financial, leg[illegible] or tax-p[illegible]ng needs.

This guidebook includes references to studies a[illegible]er source[illegible]ey can be found in the endnotes. If you would like to request [illegible] of [illegible]of these sources, please call us.

Please note any examples given withi[illegible]this gui[illegible]k are no[illegible]pany-specific, they are concepts given to help [illegible]rstand ho[illegible]ese products function. Contracts can vary and change[illegible]ot a[illegible]ty contracts, benefits, riders, and rider features may be avail[illegible] your sta[illegible]

At times, this guidebook refers t[illegible]antees offered with annuity contracts. Please note annui[illegible]ees dep[illegible]n the financial strength and claims-paying ability of [illegible] insu[illegible]mpany issuing the annuity contract.

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INTRODUCTION

Is an annuity right for you? Depending on your needs, goals, and circumstances, it could be a powerful addition to an overall retirement strategy. Annuities help you reach long-term goals, whether you want to put away money for the future, protect assets from market downturns, enjoy dependable income for retirement, or all of these.

As we saw in *The New Retirement Report,* we are in the throes of economic uncertainty. Do you have the right safeguards in place for your retirement lifetime?

Rising health costs, market volatility, growing pressure on guaranteed government programs like Social Security and Medicare, widespread shortfalls in savings, inflation… these are just a few of the retirement challenges we face. If unplanned for, even a small misstep could prove a costly mistake [illegible] even be disruptive to your retirement lifestyle.

The point is to enjoy a secure, comfortable retirement, we must prepare carefully… and thoroughly. Annuities [illegible] permanent income security and help balance portfolio risk with their contractual guarantees. They are one of only a few vehicles which can do this, but this doesn't mean they are right for everyone – they should fit well into the scope of your retirement financial picture.

We at SafeMoney.com have prepared this guidebook to give you straightforward insights into annuities, their benefits, and their downsides. It is my sincere hope that you find this to be a valuable resource to evaluate your income and asset protection strategies. If you ever have any questions, have any input, or need help, please don't hesitate to call us at 877.476.9723.

[illegible]ll th[illegible],

Brent Meyer

SHOULD AN ANNUITY BE PART OF YOUR PORTFOLIO?

You may be attracted to annuities for a variety of reasons, but are they right for you? Each annuity offers various benefits and downsides, depending on how it is applied. Another factor that can affect their appropriateness is your g[illegible] you would like for your money to achieve? To those ends, it helps to [illegible]derst[illegible] the purpose of these financial vehicles.

There are misconceptions about annuities; two common m[illegible]rstand[illegible] “they all have high fees” and “when someone passes away, the [illegible]f their money goes to the insurance company.” However, this i[illegible] true. Th[illegible]ities which tend to have high fees are variable annuities[illegible]ensive [illegible]osts have led to the perception that all annuities must be [illegible]y. In fact, [illegible] annuities tend to be fairly low-cost. And as for the money goin[illegible]e insuran[illegible]ompany? That’s the case only when you choose a life-only an[illegible]yout option (an option where someone receives guara[illegible]ome pay[illegible] for life, but the payments cease at death), and it sho[illegible] be us[illegible]y for un[illegible]nsumer needs.

Let’s clarify the purpose of the[illegible], then. <u>An[illegible]ties are designed to be tools of risk management</u>. <u>The[illegible]elp m[illegible] risks with contractual guarantees.</u> These guarantees range fr[illegible]et protect[illegible] growth potential and assured income, to name a few factors.

Americans find an[illegible]pealing [illegible]ost of reasons, as shown by various research resour[illegible]

- Most peo[illegible]e bu[illegible]nnuit[illegible]o supplement income they receive from Social [illegible]curity and p[illegible]ns[illegible]cording to LIMRA.[1]
- Othe[illegible]italize[illegible]nnuities giving the benefit of tax-deferred money [illegible]re motivated to accumulate assets for retirement.[2]
- [illegible]ome Ame[illegible]ns use annuities to supplement or enhance retirement income, [illegible] if they have other income sources like 401(k) plans. Part of [illegible]ay be tied to concerns over having enough money for a retirement lifetime.

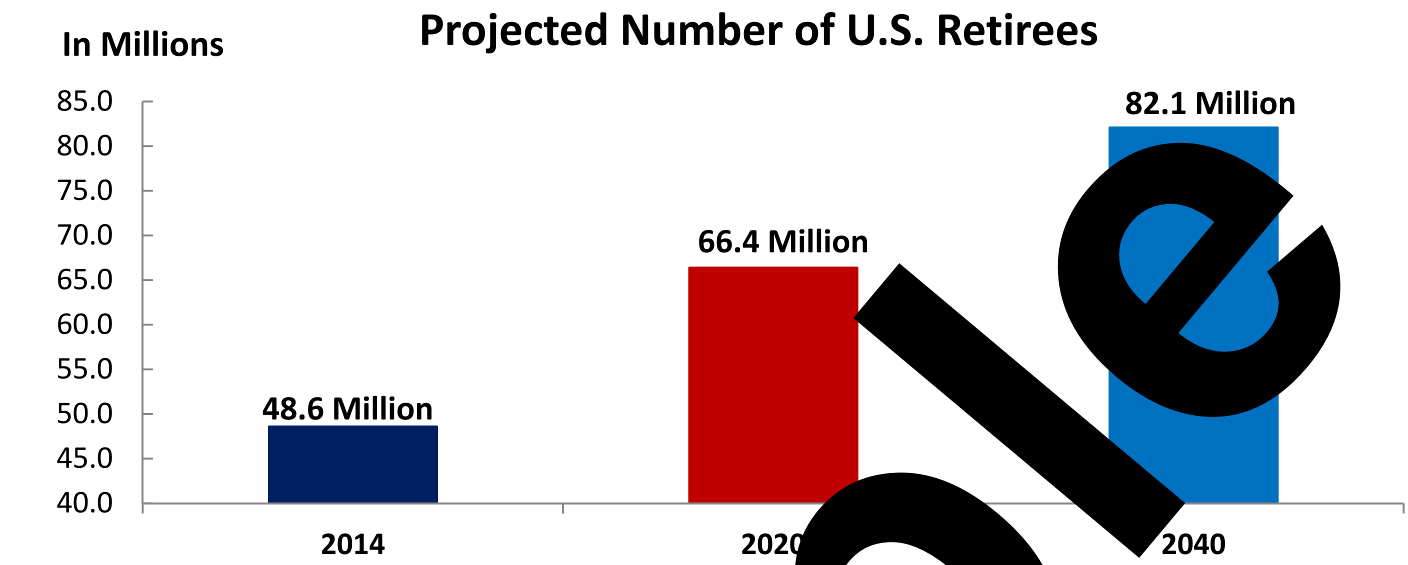
- In one study by LIMRA, among workers with access to defined-contribution plans in their workplace – like 401(k) plans – just 16% said they felt “very confident” about having enough money to last their entire retirement.[3]
- Another way that annuities are tapped as a solution is for “long[illegible] insurance,” or to ensure they have enough income for retirem[illegible]. Peo[illegible] are living longer, and it brings a longer period of ti[illegible] for whic[illegible] need income. There has been a 40% increase in th[illegible]ber of [illegible]cans living past age 100, according to a recent study by the [illegible]
- According to another study, two-thirds (around 67%) of A[illegible] say they believe they may outlive their money in retire[illegible]reover, [illegible] say they think there is a likelihood of 51% or gre[illegible]

These findings underscore the importance of [illegible]ure you wi[illegible]ve enough income for your retirement lifetime. In an article [illegible] for [illegible]vard Business Review, Dr. Robert C. Merton notes that [illegible] of the re[illegible]nt planning landscape is focused on the value of i[illegible] investme[illegible]urns, and investment volatility – namely, inv[illegible] net wort[illegible]

Dr. Merton is a widely respecte[illegible] econ[illegible] and a Nobel laureate in economics. He asserts this focus must be [illegible]sted so A[illegible]ns are prepared for monthly income needs in retirement: [illegible]pproach t[illegible] saving is all wrong. We need to think about monthly i[illegible]me, not [illegible]orth.”[8]

WILL YOU H[illegible] TH[illegible]COME [illegible]OU NEED FOR YOUR RETIREMENT?

What will you d[illegible] you[illegible]on’t [illegible]he income you need in retirement? This is a [illegible]acing millio[illegible]f re[illegible]es. According to LIMRA, over 1.5 million people in [illegible]e United States will [illegible]very year from now until 2025, or over 120,000 [illegible]eople [illegible] month.[9] The total number of U.S. retirees is projected to [illegible]1 millio[illegible]2040.[10] The graph below shows this growing trend.



Graph created by associates at SafeMoney.com with research [illegible]ation from L[illegible]. Source: “Why ‘Past Performance Does Not Guarantee Future Results,’” LIMRA Se[illegible]rement Ins[illegible], 2015, [Source-point Access Here], Accessed 7.8.2016.

Realistically speaking, any income gap [illegible]e strong [illegible] on someone’s standard of living. It might mean a ch[illegible]ge in li[illegible]or disru[illegible]s to personal goals in retirement. Retirement [illegible]hich othe[illegible]se could have funded a new business, charitable causes, va[illegible]tions, [illegible]s, day trips, eating out, or other activities now may have t[illegible]ocated to[illegible]veryday needs. In other cases, the only options may be to re[illegible]ending, save more, work longer, get yet another job, or eve[illegible]binatio[illegible]se actions.

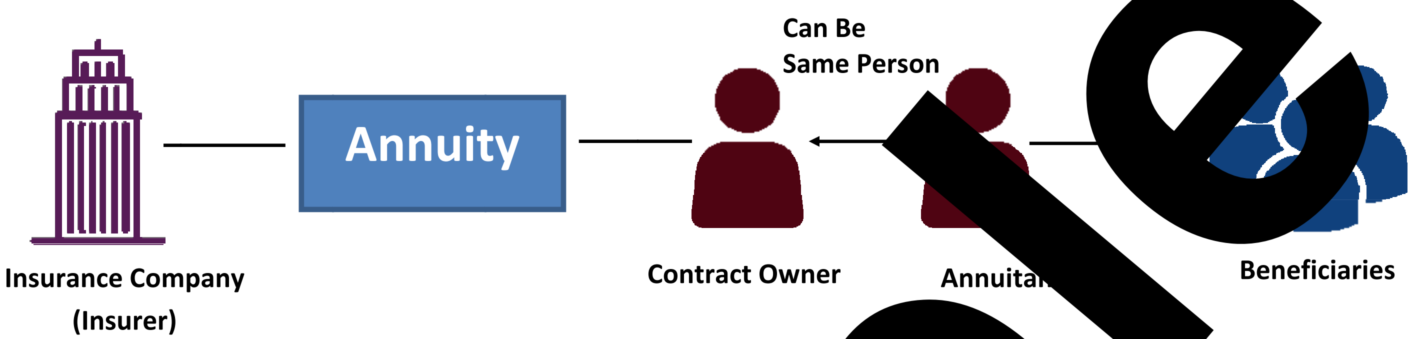
One way financi[illegible]rofes[illegible]an help retirees and pre-retirees achieve their financial goals i[illegible]rou[illegible]usin[illegible]anteed insurance contracts, or annuities.

[illegible]AT IS AN ANNUITY?

An annui[illegible]tract between someone and an insurance company. You [illegible]ey t[illegible] insurance company. In exchange, the insurance carrier [illegible]es certain g[illegible]ntees over a set period. The guarantees can give assured income[illegible] interest rate for growth, or certain withdrawal benefits. Note that g[illegible] will vary, depending on annuity type and contract design.

Who's Who in an Annuity?

The way an annuity is structured affects income payments and death benefit. The schema below provides an overview of the parties involved in an annuity.



<u>Insurance company</u> – This is the party which issue [illegible] e con [illegible] t allocates the money according to the owner's specifications [illegible] nsurance c [illegible] pany is responsible for the guarantees. The guarantees a [illegible] ked by t [illegible] nsurer's financial strength and claims-paying abili [illegible]

<u>Contract owner</u> – The contract owne [illegible] n-maki [illegible] y in the annuity. They decide how much money will b [illegible] ontribut [illegible] the m [illegible] y will be allocated, who the annuitant a [illegible] ries will b [illegible], and other matters.

<u>Annuitant</u> – The annuitant [illegible] ontract [illegible] may or may not be the same person. Either way, the insur [illegible] the annu [illegible] ant's life expectancy to calculate income payments.

<u>Beneficiaries</u> – T [illegible] ho rece [illegible] e the annuity's death benefit. Depending on the contract [illegible] e death benefit if the owner or annuitant di [illegible] critical to na [illegible] a be [illegible] ficiary and to update this information if changes [illegible] e. Otherwise [illegible] y in the annuity could be subject to probate.

[illegible] ow Do [illegible] ork?

[illegible] are spe [illegible] ally designed to help you reach long-term financial goals. Please note the [illegible] <u>not</u> an investment. The insurance company is contractually obligat [illegible] erms, conditions, and pledges of what it agreed to uphold. The risks are placed on the insurance company, not the contract holder. So annuities are a conservative, low-risk vehicle compared to other financial products.

You pay a one-time lump sum or premiums over time. In exchange, you will receive a steady, regular income stream in the future. Based on what t[illegible] specifies, these income payments can last for a certain period (5, 10[illegible] 15 ye[illegible], for example) or the rest of your life.

Depending on the type of annuity you choose, the income [illegible]nts ca[illegible] immediately or some years down the road. This distinction is fo[illegible] immediate annuities and deferred annuities, which we cover a litt[illegible] later in [illegible]ction.

When you pay premium, you will have a variety of [illegible]ions, [illegible]es, and benefits which you will want to consider. Depending on t[illegible]ype of ann[illegible] you get, you may have a choice between annuitization and a[illegible]e income [illegible]er.

Both are ways you can get guaranteed in[illegible]e in the [illegible] is critical to choose carefully (You also have the opportun[illegible]ur mon[illegible] lump sum at the end of the term if you so choose).

Why Do People Buy Annuities[illegible]

People tend to purchase a[illegible]s for one [illegible]re of the following reasons:

- Having guaranteed inco[illegible] a certain period or life
- Supplementi[illegible]e from [illegible] Security or other sources
- Building u[illegible]tire[illegible]st egg
- Protectin[illegible]one[illegible]rom[illegible]t volatility
- [illegible]efiting fro[illegible]x-effi[illegible]nt arrangement
- Leaving a legacy[illegible]s
- [illegible]re income for partner or loved ones

FIVE TYPES OF ANNUITIES

Annuiti[illegible] com[illegible]ll sorts of shapes and sizes. There are many options available, and ea[illegible]ance company offers its own variations on different features. At present, there are five types of annuities: immediate annuities, fixed annuities, variable annuities, fixed index annuities, and multi-year guarantee annuities.

Immediate Annuities

In this annuity, you pay a one-time lump sum. This type of annuity is [illegible]kno[illegible] as a single-premium immediate annuity (SPIA). You pay a one-time l[illegible]p sum[illegible]nd in exchange, you begin receiving income right away. So[illegible]mmediat[illegible]y contracts may let you delay income payments until a year [illegible]our pr[illegible] payment date. If you need supplementary income or have imm[illegible] income needs, this may be an option to consider.

The insurance company promises you this income [illegible]the r[illegible]your lif[illegible] Generally speaking, because the turnaround fo[illegible]ng incom[illegible]o quick, immediate annuities tend to be more attractive [illegible]iors and [illegible]r retirees.

In exchange for the assured income, you [illegible] control [illegible]r contributed money. Should you need access to all [illegible]ey, your [illegible]s are highly limited. It may come down to selling [illegible]ur annu[illegible]the seco[illegible]y market for pennies on the dollar.

Income payouts depend on [illegible]mber of [illegible]ial variables, including longevity. If you are considering differen[illegible]ediate ann[illegible]es, be wary of the payout rate. A common tactic is to entice cons[illegible]with high payout rates. On the surface, an immediate annuit[illegible]h payou[illegible]e can seem more appealing than a CD, which tends to [illegible]r low[illegible]ates. However, it isn't a real indicator of your income paymen[illegible]over[illegible]me. I[illegible]d, pay attention to the actual amount of [illegible]r annual in[illegible]e y[illegible]will receive, along with how long the guaranteed [illegible]me period l[illegible] for.

Rem[illegible]diate annuity provides protection against longevity risk – the [illegible]ty of out[illegible] your money – and market risk – the risk of your income decreasing due[illegible]lling stock values or declining interest rates. It is advisable to consid[illegible]chmarks of income and the length of the guaranteed period in any annuity purchasing decisions.

Depending on your goals, immediate annuities can be customized in a retirement portfolio for different purposes. Purchases with non-qualified money (after-tax dollars) can leave your annuity income largely tax-free. If of interest, discuss with your financial professional different options to lower your tax liability f[illegible] you start taking income. Another strategy is through careful pairing [illegible] immediate annuity with another annuity, such as a fixed [illegible]eferred an[illegible]ty [illegible] fixed index annuity. Using strategic laddering techniques, [illegible]mmedia[illegible]uity with one or more other annuities can generate even more re[illegible]ent inc[illegible]

An immediate annuity can also be adapted for legacy planning. Sa[illegible] want to leave money to your loved ones. When you reach a[illegible]uired m[illegible]um distributions kick in. Of course, any account withd[illegible]als are [illegible]le, which will reduce the amount of money you can give to [illegible]

One strategy is to put the money into an immediat[illegible] then use the proceeds from the annuity to fund a li[illegible]ce polic[illegible] this approach, you spread out your tax liability and mee[illegible]overn[illegible]imposed [illegible]rawal rules.

Fixed Annuities

A fixed annuity is a long-term [illegible]ntract. [illegible] a fixed interest rate for a specific period of time. When you [illegible] to take in[illegible], you can receive a set period or the rest of your life. Income pa[illegible] will be taxed, so that is important to keep in mind.

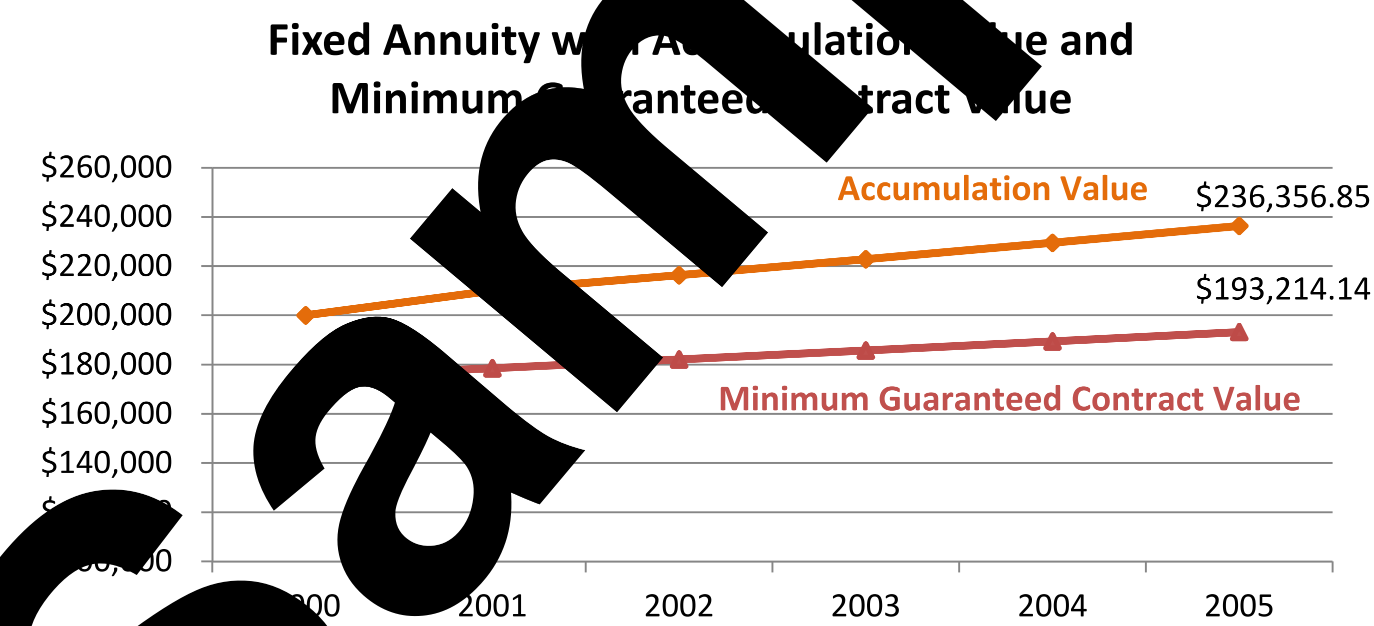
A fixed annuity [illegible]sn't [illegible]ual fees for its base contract. The contract fees are built into th[illegible]ter[illegible] rate[illegible]e income payout amounts. Like other types of [illegible] annuities, a[illegible]d an[illegible]ty lets your money grow tax-deferred. So it has [illegible]e benefit [illegible] co[illegible]ding interest: interest on your principal, interest on [illegible]revio[illegible]nterest, and interest on the income tax you didn't pay.

[illegible]nuities a[illegible]ffer a higher-quality guarantee. At present, current fixed rates range fro[illegible]4%. Generally speaking, the longer the contract term is, the highe[illegible]st rate will be. On the whole, the initial rate guarantee tends to last for three to 10 years.

To increase their appeal, some fixed annuities come with higher rates their first year, or with premium bonuses. Once the set period has passed, there will be a renewal rate should you decide to stay in the contract.

Unlike an immediate annuity, a fixed annuity gives you more “majorit[illegible] your money during the accumulation phase. After the first contract [illegible], ma[illegible] contracts allow for penalty-free withdrawals of up to 10[illegible]er year. [illegible]ind, though, that a withdrawal reduces the amount of money [illegible] contra[illegible] lessens the amount of money which can grow and can reduce [illegible]eath be[illegible].

If your contract hasn’t matured yet, early withdrawals above 10% w[illegible]ubject to a penalty fee. Say you made an excess withdraw[illegible]r cont[illegible], or you are just considering making an excess withdrawal, [illegible]you wou[illegible] to recover or maintain the sum of your original premium, yo[illegible]ld carefull[illegible]nsider whether the penalty fees are worth any more excess withdr[illegible]



[illegible]ates a[illegible]Money.com. These are hypothetical concepts created for illustrative purposes only. All [illegible]his graph a[illegible]e a $200,000 initial premium with no withdrawals and/or surrenders. Assumes a 1-year gu[illegible]tee period, a 5%[illegible] guaranteed rate and a 3% base rate declared by insurer thereafter. Should not be considered represen[illegible]of your annuity’s current or future performance. For hypothetical purposes only.

For illustrative purposes of how a fixed annuity can grow, here is a graph with an example of a fixed annuity. It assumes a $200,000 initial premium, a 5% initial guaranteed rate, and a 3% rate declared thereafter, all over a five-year period.

Variable Annuities

Before we go into a discussion of the variable annuity, let's clarify ar[illegible]port[illegible] point. This guidebook talks about safe financial strategi[illegible] variabl[illegible]es are outside of its scope. With that said, here are some var[illegible]nnuity [illegible]

Unlike other annuities, variable annuities come with market vola[illegible]isk. Policyholders take on this risk directly.[11] Variable ann[illegible] also re[illegible]ed as securities with the SEC, unlike other annuities.[12]

A variable annuity comes with an investment f[illegible] You have [illegible] option to participate in "subaccounts," or allocate premium[illegible] stocks [illegible]d funds, commodities funds, or other types of fu[illegible][13] Becaus[illegible] are account products with changing market values, principa[illegible]gs are p[illegible]lly exposed to losses.[14] These investments grow tax-[illegible]eferred, [illegible] as the [illegible]ey is kept within the structure of the variable an[illegible]

The variable annuity is also [illegible] known [illegible]y fees. Fees and expenses can range from 2-8% per year, de[illegible]g on whe[illegible]er the market is rising or declining.[16] These ann[illegible]ities freq[illegible] have complicated features and benefits, making them am[illegible] compl[illegible]nnuity products, as an Investopedia writer notes.[17]

Let'[illegible]sider a hypot[illegible]ical t[illegible]xamine the impact of fees. Say the cumulative [illegible] a variable an[illegible]d up to 4.25%. With a $250,000 investment in a [illegible]ariable a[illegible]hat wo[illegible] come out to $10,625 in annual fees. Over the years, thou[illegible] in fees would add up significantly. And in the years of [illegible]ent losse[illegible]ose fees would be even more impactful.

As for il[illegible]f market volatility and its potential effects, consider the followin[illegible]findings:

- As a market-based investment, a variable annuity can potentially be exposed to market losses. Financial losses could be especially costly in events such as the market crashes of the 2000s.
- Say a variable annuity was tied to the S&P 500. In 2008, the S&P [illegible] annual return of -36.55%. Earlier in the decade, the S&P 500 p[illegible]up an[illegible] returns of -9.03% in 2000, -11.85% in 2001, and -2[illegible]97% in 20[illegible][18]
- According to Morningstar research, historical ave[illegible]es for [illegible] annuities can be as high as 3.4% – or even higher![19]
- Let's look at the effects of fees on annual returns. Assumi[illegible]% in annual variable annuity fees, and factoring those into [illegible]alculati[illegible]from 2000-2016, the S&P 500 produced negative [illegible]37.5% [illegible] the time.[20]

The point of this data is to illustrate the effects o[illegible] losse[illegible] a variable annuity. A falling market eats away into t[illegible]lue of y[illegible]stments, which can be disastrous for retirement financial [illegible].

Fixed Index Annuities

Unlike the variable annuity, a f[illegible] ind[illegible]uity doesn't subject your premium dollars to market volatility[illegible]his type o[illegible]ity is linked to an index or, in some cases, a set of indices. A[illegible]mple of an index would be the S&P 500®. When the index goe[illegible]you can [illegible] from a percentage of its rise in value. Your money has t[illegible]pote[illegible]to grow [illegible]th positive index changes. Note, however, that the extent [illegible]hich [illegible]rticipate in this is limited by certain measures.

Ju[illegible]fixed annui[illegible] fixe[illegible]ndex annuity offers a guaranteed minimum, fixed [illegible]e. However, it has [illegible]tial for earning additional interest based on how [illegible]he link[illegible]forms.

[illegible] credite[illegible]sed on the increasing values of this index. If the index records positive [illegible]nge, additional interest is credited to your annuity. And should the ind[illegible]value, your principal and the credited interest are locked in. You won't lo[illegible]ney due to falling index values.

When the index rises in value, you receive a percentage of that increase – not the entire increase. Insurance companies have a number of management techniques at their disposal to offer reasonable growth potential and to maintain their own financial strength. The methods an insurance company uses to measur[illegible] much you get vary, but there are five primary mechanisms which aff[illegible] your annuity's growth.

<u>The indexing method</u> is the means used to measure cha[illegible]thin the[illegible] if any. There are many indexing methods which can be utilized, [illegible]e will co[illegible] some of the most commonly used ones in a while.

<u>The cap</u> is a preset limit on the index-linked interes[illegible] It is th[illegible] maximum rate of interest the annuity can earn. Fo[illegible]xample, s[illegible]e index rose 10% within a year. If your fixed index annuity w[illegible]pped at 7[illegible]ou would be credited only 7% for that period. The cap is also kn[illegible]"[illegible]g."

<u>The participation rate</u> is used to decid[illegible]ch of the[illegible] index value will be used to calculate the earned index-li[illegible]d inte[illegible] determi[illegible]hat percentage of the index gains you will be cr[illegible]. For exam[illegible] say a fixed index annuity has a participation rate of 80%[illegible] the [illegible]ose 10%, you would get only 8% based on the participation[illegible]bsent the[illegible]nce of a cap.

<u>The spread or margin</u> is part o[illegible]rease in index value which you don't get. In many cases, the ad[illegible]tive fee[illegible]xed index annuity is built into this part. The interest cre[illegible]u to [illegible]ntract is calculated by subtracting the spread or margin percent[illegible]fro[illegible]he [illegible]ndex increase. Say you were looking at 8%; w[illegible]rgin rate of [illegible], you[illegible]uld be credited 7%.

<u>[illegible]e floor</u> is w[illegible] prov[illegible]tection against a falling index. Should the index drop [illegible]n valu[illegible]f your annuity would be retained. Your original premium plus [illegible]ted inte[illegible]are locked in. The trade-off for this protection is that many fixed index ann[illegible] are credited 0% when the index records a negative change.

<u>As for[illegible]mon indexing methods:</u>

Annual reset – This is also known as "ratcheting" or "ratcheting up." Index-linked interest, should you earn any, is based on the difference between the index value at the end of the contract year from the index value at the beginning of the contract year. Interest is credited to your annuity yearly during the term, and earned interest is locked in. The prior year's endpoint is the following year's starting point. This method may lead to more credited interest than other methods would give if frequent index fluctuations arose during the term.

High watermark – Any index-tied interest, if any, is found by [illegible] and comparing index values at various points within the term. This usually happens on the yearly anniversaries of when you purchased the annuity. Interest is based on the difference between the highest index value and the index value at the start of the term. You earn interest at the end of the term.

When you have an annuity with this design, you may be credited higher interest than other designs should the index reach a high point [illegible] middle in the term, and then decline at the end.

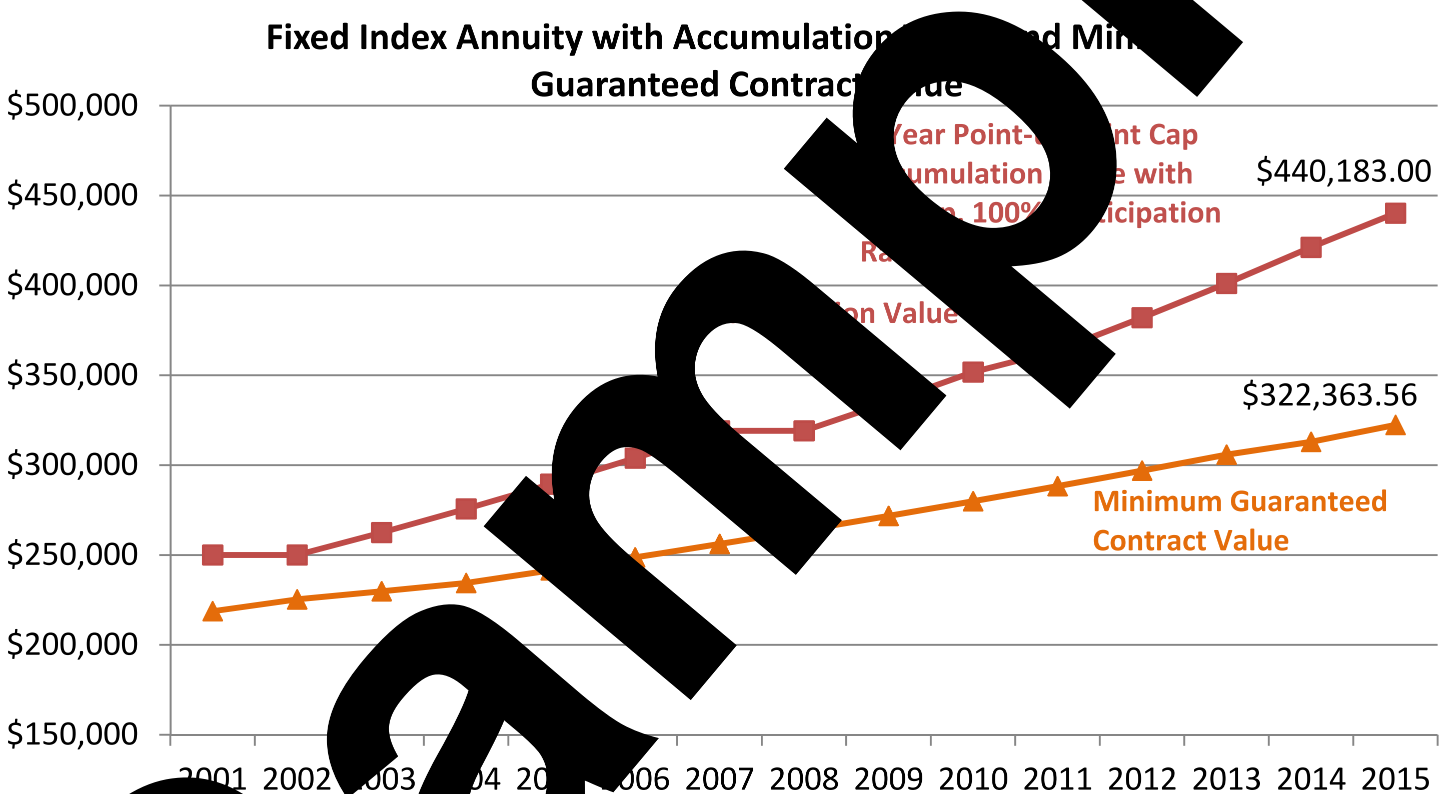
Short-term point-to-point – Index-linked interest is based on the difference between the index value at the term's start and the index value at each anniversary every year. With annual reset, earned interest is locked in annually and retained. With the potential for credited interest each year, annuities with this design often come with lower participation rates or caps.

Long-term point-to-point – Index-linked interest is decided via subtraction of the index value at the end of the term from the value at the start of the term. You are credited the interest at the term's end. With interest being calculated at the end-of-term, annuities with this crediting method often come with a higher participation rate than annuities with other methods.

It's important to choose a suitable crediting method for your annuity contract. This will determine the interest you earn, so choose carefully! At SafeMoney.com, you can connect with financial professionals who can help you evaluate different methods and understand your options. They can go over the details of each option so you can make decisions with confidence.

Aside from your choice of crediting method, another option may be to purchase more than one fixed index annuity with different crediting options. W approach, your annuities could earn interest in different index envir ents.

The graph below gives an illustration of how a fixed ind uity m w. It assumes a 5% cap, a 100% participation rate, and all exam sume premium of $250,000. It is also assumed to be linked to the S& ® Index.



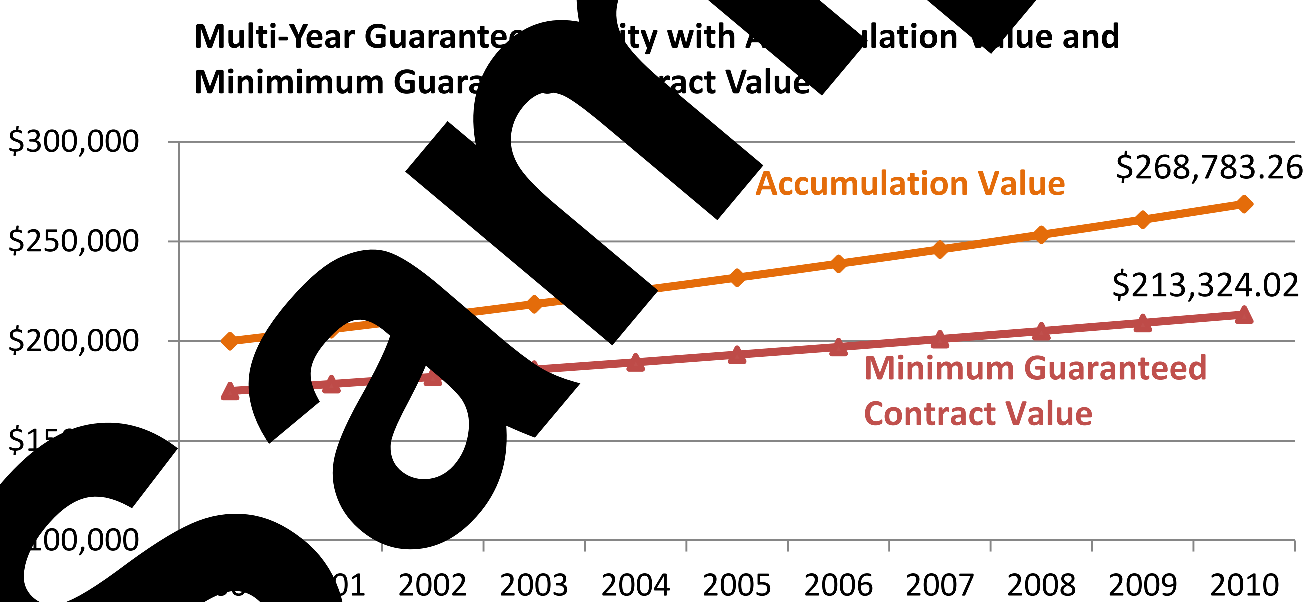
ted by associates at Safe m. Assumes 10/1/01 start date and 10/1 anniversary dates. These are pothetical comparison for illustrative purpose only. Historical performance of the S&P 0®Ind nsidered a representation of current or future performance of the Index or your example e assumes a $250,000 initial premium with no withdrawals and/or surrenders. nts, including Cap and the Participation Rate, are for hypothetical purposes only. Please contact a SafeMoney financial professional for current Caps, Participation Rates, and other information.

Multi-Year Guarantee Annuities

Multi-year guarantee annuities are also known as “fixed rate annuities.” They may be ideal for retirees and pre-retirees with a longer-term time horizon. It differs from a fixed annuity, which guarantees a fixed rate for a certain perio[illegible] year. This annuity guarantees a certain percentage yield over a spec[illegible] peri[illegible]

The length of this period depends on the contract. The[illegible]ntee pe[illegible]en lasts anywhere from two to 10 years, after which you deci[illegible]ther y[illegible] like to remain in the contract. It usually is paid for with a one-t[illegible]mp sum. In many ways, a multi-year guarantee annuity functions similarly to a [illegible]wever, it grows on a tax-deferred basis and offers triple com[illegible]wth. M[illegible]ey taken out from the contract is taxable.

Like many annuities, multi-year guarantee annu[illegible]ve a con[illegible]tual provision allowing for penalty-free withdrawals of up to 10% [illegible]mulation value. The graph below illustrates how a mul[illegible]rantee a[illegible] might grow.



[illegible] by associates [illegible]eMoney.com. These are hypothetical concepts for illustrative purposes only. This assumes a 10-year i[illegible]guarantee period, which may be renewed. Each example above assumes a $200,000 initial pr[illegible] withdrawals and/or surrenders. Assumes a 3% current first-year rate and a 3% current base interest [illegible] thereafter. Should not be considered representative of your annuity's current or future performance.

It assumes a 10-year guarantee period, a $200,000 initial premium for all examples, a 3% yield, a 3% initial interest rate, and a 3% current base rate thereafter.

Other Annuity Need-to-Knows

At times we have discussed how you can benefit from immediate or deferred income payments. This brings up another way annuities can be split into different classifications: immediate and deferred annuities.

Immediate annuities start giving out income no later than one year after you pay the premium. You usually pay for an immediate annuity with a one-time lump sum for the initial premium payment.

Deferred annuities often start income payments many years later. A deferred annuity has two parts: the accumulation period and the distribution or payout period. During accumulation, money you put into an annuity earns interest on a tax-deferred basis, less any applicable charges.

In the payout period, the insurance company pays income to you or someone you choose. You may have a number of withdrawal options at your disposal.

Another distinction to remember is whether an annuity is a single-premium or a flexible-premium contract. Single-premium contracts are those in which you pay a one-time lump sum. As for flexible-premium contracts, you pay premiums over time. There are two types of flexible-premium contracts. The first one lets you pay as much premium as you want when you want, within certain limits. The second type could have a scheduled-premium setup, in which you have certain payment amounts scheduled at certain times.

HOW SOUND ARE THOSE ANNUITY GUARANTEE CLAIMS?

You may be wondering how an insurance company can ensure its guarantees. This depends on a range of factors. The first point concerns the financial strength of an insurance company, which is reported in company ratings administered by well-respected rating agencies.

Company Ratings

Rating firms such as A.M. Best and Standard & Poor's grade thousands of life insurance companies based on their company financial strength. The company ratings are based on a broad range of criteria, including quantitative a[illegible] qualitative metrics.

For general purposes, you can review company financi[illegible]gs as a [illegible]f judging an insurance company's creditworthiness. For a ge[illegible]vervie[illegible] some details on A.M. Best's ratings[21]:

- In A.M. Best's framework, overall, ratings range [illegible]+ to D.
- A+ indicates a "Superior" distinction and D i[illegible]cates [illegible]r" grade.
- In this model, E and F grades are status s[illegible]ls.
- Companies receiving these E and F statuse[illegible]mpaired [illegible]urance companies. They fall under heavy r[illegible]ulatory s[illegible], control, or restraint (E status), or they are [illegible]idated b[illegible]urt of law or due to forced liquidation (F status).
- Rated insurance compani[illegible]ng an S sta[illegible] symbol have had their company rating suspen[illegible]. This [illegible] when "sudden and significant events impact opera[illegible]and the ra[illegible]mplications cannot be evaluated.
- Companies receiving an [illegible]tus symbol have not been rated yet. This can include previ[illegible]ted com[illegible] or companies not yet rated by A.M. Best.

In regard to fina[illegible]l s[illegible]ngth[illegible]gs, insurance companies can receive "rating [illegible]or change f[illegible] the[illegible]nitial financial strength rating. Improvements are [illegible]dicated with a "+" w[illegible]ining strength is indicated with a "-." The rating [illegible]otche[illegible]ble from ratings C to A+.[22] Companies receiving a C- or lower [illegible]e weak[illegible]oor capacities to meet their obligations.[23]

Rules and Regu[illegible]y Bodies

Anoth[illegible] how insurance companies differ from financial institutions like banks or credit unions. Since insurance carriers operate in different business conditions than banks or credit unions do, they fall under different rules. Because they are different entities than banks or credit unions, the insurance companies don't have their funds backed by the FDIC or NCUA, either. Nor are they under the authority of the FDIC or the NCUA. Instead, the insurance companies a[illegible] regulated by their respective state insurance commissions.

The National Association of Insurance Commissioners (N[illegible]C) operat[illegible] nationwide level. Its purpose is to serve as a centralized [illegible] setting[illegible] and supporting regulations in the U.S. insurance industry.[24] Th[illegible]C is gove[illegible] by the chief insurance regulators from all 50 states, Washington, [illegible]d five U.S. territories.[25]

Via the NAIC, state insurance regulators have a fra[illegible]ework to s[illegible]andards and industry best practices, conduct rigorous polic[illegible]ws, and ma[illegible]ain regulatory oversight.[26] Along with being the voice of state ins[illegible]rs, the NAIC promotes general public and consume[illegible]ion inte[illegible]ith its involvement. One of its chief accomplishments is th[illegible]estab[illegible]nt of un[illegible]financial reporting standards for insuranc[illegible]rs.[27]

Members of this national orga[illegible]ation, [illegible] with the NAIC's own resources, form the national system of stat[illegible]d insuran[illegible]ulation.

Insured Funds

Many insurance c[illegible]ave a "[illegible]urance system," or a setup in which an insurance comp[illegible] is re[illegible]y other insurance companies as a means of risk management. T[illegible] pro[illegible]es a[illegible] owners with a powerful safety net against i[illegible] company i[illegible]venc[illegible]. On an individual company level, consumers also [illegible]ave powerf[illegible]otecti[illegible]the reserve requirements insurance companies are [illegible]bligat[illegible], as we discuss next.

[illegible]es

Like ba[illegible]it unions, insurance companies are subject to legal reserve requir[illegible]owever, these requirements are different from those of banks and credit unions. Insurance companies are required to maintain at least a 1:1 ratio in their reserves. In other words, they must have a dollar in reserves for every dollar they have made in contractual guarantees.

As a result, should insurance companies need to pay out on every annuity contract they have issued, they have the financial resources to do so. [illegible] carriers keep more than the required dollar-for-dollar in their reserv[illegible] These [illegible]gal reserve requirements are set by state insurance depart[illegible]ts.

Surplus Reserves and Solvency Ratios

When looking at insurance companies, be sure to check out the[illegible]gs. Their ratings include a solvency ratio, or how much they ho[illegible]rplus ca[illegible] financial cushioning to uphold the guarantees they [illegible]ve ag[illegible] pay.

For example, say an insurance company has a s[illegible]cy ratio of [illegible] That means for every $1 dollar contributed to an annuity, the[illegible] $1.03 i[illegible]serves to back their guarantee of principal. Similarly, a s[illegible]ncy ratio [illegible] would indicate an insurance company has $1.05 in rese[illegible] [illegible]ollar pu[illegible] annuity.

It shows how much surplus an ins[illegible]e carrier [illegible]bove th[illegible]ollar-for-dollar reserve requirement.

Reserve Requirements: In[illegible]e Compa[illegible]rsus Banks

A question that often arises is [illegible]e reserve requirements for banks differ from those for insurance[illegible]ies. Ac[illegible] banks have less stringent requirements.

According to the [illegible]ard [illegible]ors of the Federal Reserve System, based on certain factors b[illegible]s m[illegible] ma[illegible] a 3%-10% ratio of reserves to total li[illegible][28] So that w[illegible]d be [illegible]03-$0.10 in reserves for every dollar deposited.[29] [illegible]eserves must be in th[illegible] of cash or cash-equivalent assets.

In co[illegible] [illegible]surance company had a solvency ratio of 104 – it would have [illegible] reserves [illegible]every $1 dollar put into an annuity.

Because of the[illegible]ust capitalization requirements, the comprehensive legal reserv[illegible] and the protection measures in place – the reinsurance system used by many insurance companies, namely – annuity buyers enjoy a substantial safety net.

And there is the matter of insurance company failures in general. As one writer-contributor with CBS MoneyWatch noted[30]:

> “Although bank failures have caused a lot of conce[illegible] about th[illegible]abi[illegible] of all financial institutions, it's important to recogni[illegible]e are c[illegible] differences between failures of banks and insurance [illegible]nies. [illegible] some key differences:
>
> -- It's hard to start a "run on an insurance com[illegible] a "ru[illegible]ank." While you can always withdraw the money f[illegible] you[illegible] accou[illegible]s, you would have to die for life insurance bene[illegible] be paid, [illegible]with immediate annuities, you'd have to wait each mont[illegible]ceive your[illegible]ck. Unlike with a bank, there's generally a longer timefram[illegible]ich t[illegible]ress financial problems at insurance companies[illegible]
>
> -- Insurance companies usually[illegible]en't as[illegible]ged as [illegible]so when they fail, their liabilities might b[illegible]10 to 20 p[illegible] higher[illegible]an their assets. A bank's liabilities, on th[illegible]d, can be [illegible] higher than its assets.”

These insurance company [illegible]ards (surp[illegible]pital and reinsurance measures) have arguably worked well eve[illegible]ugh economic times. For instance, let’s look at the number of ba[illegible]res and [illegible]nce company failures per year, noted in the chart below. [illegible]ows [illegible]nce co[illegible]pany failures and bank failures during the mid-1980s – wh[illegible]ban[illegible]e high – the 1990s – when insurance company fai[illegible]ached an al[illegible]me hi[illegible] – and bank and insurer failures in the wake of the [illegible] crisis of 200[illegible]

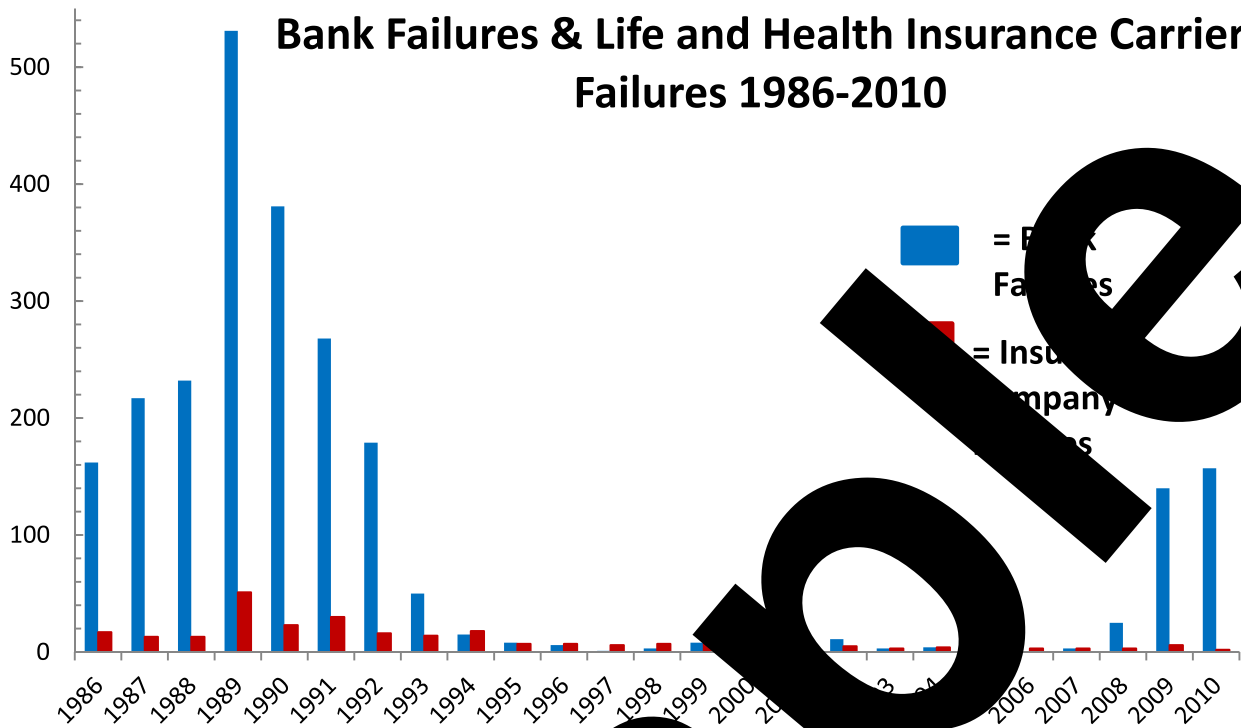


Chart created by associates at SafeMoney.com. Sou[illegible]ative Fai[illegible]rience in the U.S. and Canadian Life Insurance and Banking Industries fro[illegible]980 t[illegible] Robb et. [illegible]h 2013.

As was noted in a testimony for a [illegible]g before [illegible]S. House [illegible]inancial Services Subcommittee on Insurance, H[illegible] Community Opportunity, the frequency of insurer failures reached [illegible] in the 1[illegible][31]

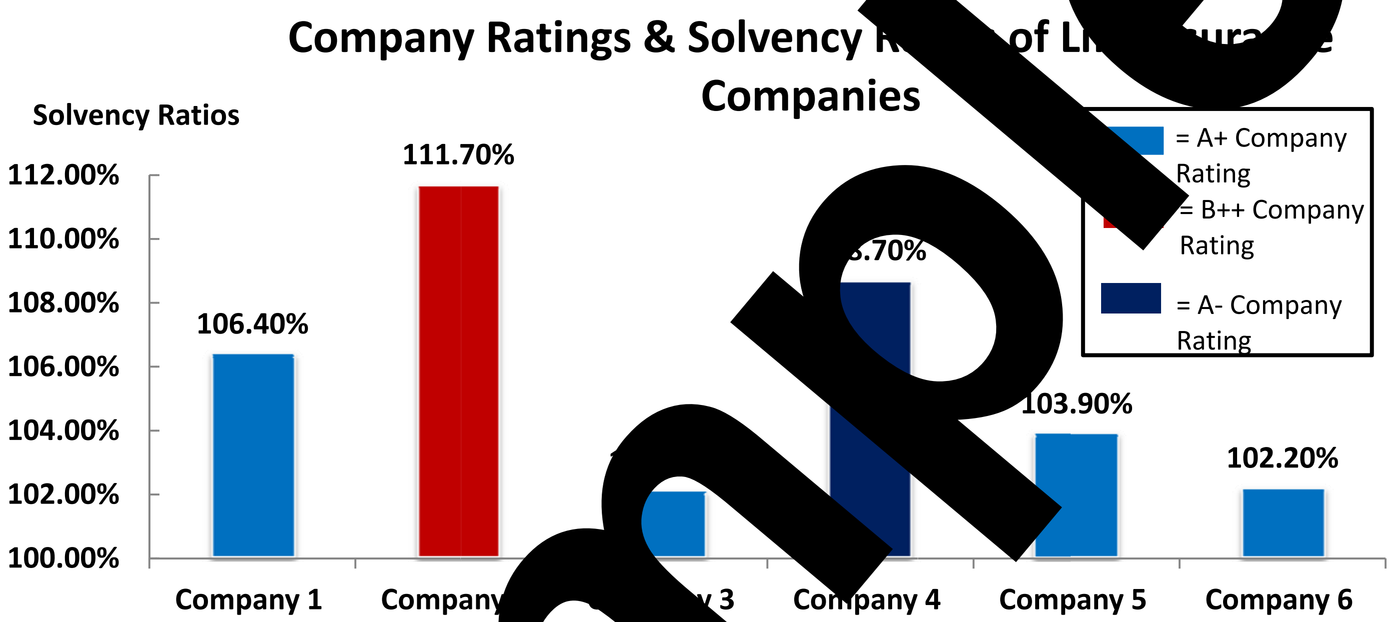
Nevertheless, there were ver[illegible] liquidations of insurance companies in the wake of the 2008-20[illegible]ancial c[illegible] despite the crisis' wide-reaching effects. As reported in the p[illegible]ed cong[illegible]sional testimony:

> “Nearly 4[illegible]om[illegible]erci[illegible] and thrifts, several major investment [illegible]king firms a[illegible] hedg[illegible]unds, finance companies, government-sponsored [illegible]ousing entitie[illegible]er firms” went into bankruptcy during this time.[32]

As this [illegible] testimony also notes, of 13 life and health insurers which [illegible]dated s[illegible] January 2008, total policy liabilities were around $900 [illegible]ion. This is a[illegible]rast to the initial general creditor liability of Lehman Brothe[illegible]as reported to be $765 billion at the initiation of its bankruptcy filing.[33] **[illegible]oint is insurance companies are well prepared to meet their contractual promises to annuity owners.**

What is the Most Important Factor?

At surface glance, the company financial strength rating may seem the important factor in evaluating an insurance company. However, this is not necessarily the case. The rating is important, but it doesn't capture the whole picture [illegible] graph below illustrates.



Source: SafeMoney.com Statisti[illegible]sis of Comp[illegible]ings and Solvency Ratios from A.M. Best. Data is from A.M. Best.

At times an insura[illegible]ny can [illegible] lower financial strength rating and a higher solvency [illegible]o. In [illegible]ses, an insurance company may have a lower rating than ano[illegible] co[illegible]any, [illegible]ve a higher solvency ratio.

[illegible] information [illegible] A.[illegible] Best and analyzed whether there might be a [illegible]onnection [illegible]een co[illegible]y ratings and solvency ratios. As the data shows, this [illegible]s not [illegible]e. Note this data is taken for companies in staggered time [illegible]anging f[illegible] 2013 through 2015.

To draw some [illegible]arisons, in this graph:

- [illegible]y 2 has a B++ financial strength rating, but a solvency ratio of 111.7%.

- Company 4 has an A- financial strength rating, but a solvency ratio of 108.70%.
- Even though they all have A+ ratings, Company 3, Company 5, and Company 6 have lower solvency ratios than these prior companies, respec[illegible]

Remember, the better a solvency ratio is, the greater capacity that i[illegible]er m[illegible] have to uphold its guarantees. As we can see, some of t[illegible]ompanie[illegible] th[illegible]eaker ratings may be in a stronger position to uphold their cont[illegible] obliga[illegible] is advisable to examine financial strength ratings and solvency [illegible] when investigating insurance carriers.

Is There Anything Else to Look For?

Of course, company ratings can be helpful in ev[illegible]ons of ins[illegible]ce carriers. They are opinions issued by third-party agencies [illegible]udge ins[illegible]s' ability to meet ongoing contractual and policy obligations. Ho[illegible]e are other factors to consider besides company ratings a[illegible]y ratios. [illegible]overview, the variables to weigh include:

- Company ratings and sol[illegible] – We ha[illegible] discussed the role of these factors in an insuranc[illegible]mpany s[illegible]worthiness and dependability. They offer quantitative ins[illegible]to how re[illegible]e an insurance carrier may be in assuring its guarantees it [illegible]reed to uphold.
- Philosophy [illegible]agemen[illegible]m – What is the philosophy of the company [illegible]age[illegible]re they committed to long-term performance, company [illegible]bilit[illegible]and [illegible]dability? Their decisions have a significant [illegible]act on the [illegible]pany[illegible] future and ability to meet contractual obligations.
- Risk manageme[illegible]s the insurance company have a solid record in "[illegible]Has it shown it has suitable risk management capacities, or [illegible]ere it ca[illegible]eather market extremities? Is the insurance company well-prepared [illegible]ack the contractual obligations to which it has agreed? These a[illegible]uestions worth asking about an insurer's risk management ca[illegible]ty and abilities.

We recommend that these factors be carefully considered in the context of the entire picture, including a specific annuity product, its benefits, and its negatives.

ANNUITIZATION AND INCOME RIDERS: WHAT'S THE DIFFERE[illegible]?

You may recall when we discussed earlier annuitization and lifetime i[illegible]me r[illegible]. Many retirees and pre-retirees wonder which option may be better [illegible] them[illegible]. There can be lots of confusion surrounding them, so le[illegible]uss the[illegible]tail.

__Annuitization__ is when your initial premium is turned into a s[illegible] income [illegible]. Your annuity's accumulation value is used to determine these in[illegible]ayments. Once you have "annuitized" your premium, your dec[illegible]revoca[illegible]re are some important points to remember:

- Your decision to annuitize therefore can[illegible]ken back.
- The amount of income you receive depends [illegible] pre[illegible] you put into your contract, present interest ra[illegible]d the life[illegible]tancy of the annuitant (which is often the a[illegible]).
- With annuitization, you get f[illegible]ncome p[illegible] options: [illegible]e only," "life annuity with period cert[illegible] certain," or "joint and survivor."
- You will receive these [illegible]me pay[illegible]or however long the contract specifies, ranging from [illegible] period to [illegible]ur remaining lifespan.
- Note, your income payme[illegible] guaranteed, but you give up control of access to yo[illegible] (i.e., th[illegible]tover sum of your initial premium).
- Rememb[illegible]fter [illegible]remium has been transformed into future guarante[illegible] inco[illegible]e – so [illegible] the assurance of future guaranteed income [illegible]mains.

[illegible]n **__income__** [illegible] provide[illegible] lifetime income without annuitization. It is an add-on to [illegible] ba[illegible] c[illegible]ct and is usually optional. However, some income riders are [illegible]to the bas[illegible]ntract. Some fixed annuities may come with income riders. However, for th[illegible]ost part, these riders are available with many fixed index annui[illegible]

When you purchase an annuity with an income rider, the accumulation value is set up for your annuity and an income account value is set up for your rider. <u>This income account value is also known as an income base, a rider value, an income value, or an income base value. It is used solely to determine future lif[illegible] income payments based on your rider; it is completely separate fro[illegible]e accumulation value.</u>

<u>The income account value is never available as a lump su[illegible] a sur[illegible] value. It is strictly for calculations of lifetime income payouts.</u>

In many cases, a specific interest rate is applied to the in[illegible] acco[illegible]lue. This interest rate may be guaranteed for the life of the c[illegible]her co[illegible]cts, it may be guaranteed for a set period. For instance, t[illegible]t rate ma[illegible] guaranteed for a year and reset for another one-year period.

Lifetime payments are deducted from the accumulat[illegible]ven if the accumulation value reaches zero, the i[illegible]equired [illegible] paying lifetime income. Income riders can vary in te[illegible] of cos[illegible]ell. Som[illegible]s cost nothing and others cost up to 2% or eve[illegible]f you wou[illegible]e to know about rider fees and any other information, be[illegible]e to [illegible]lly read the income rider disclosure materials.

There are some important poi[illegible]rding income riders:

- Lifetime in[illegible]may als[illegible]called lifetime income benefit riders, guarante[illegible]fetim[illegible]wal benefits, and guaranteed lifetime income benefits.
- [illegible]u retain acce[illegible]o yo[illegible]remaining principal, unlike with annuitization.
- Some f[illegible]d inde[illegible]ities with income riders permit you to turn income [illegible]nd off at will (subject to limitations and restrictions). [illegible]s ability[illegible]s you avoid paying taxes on income you may not need at certain ti[illegible] It lets your money grow even more, which can increase f[illegible]me payments.

- Some annuities and income riders let you get continuing interest credits even after the rider has been turned on. However, not all of them offer this, and this feature may come with certain conditions, limits, and at additional cost.
- <u>Once again, you will continue to receive income even if your a[illegible]mulat[illegible] value is fully depleted.</u>
- Some income riders permit you to withdraw an ad[illegible]al sum [illegible]your annuity without penalty, but it comes with certain co[illegible] and limitations. Additional cost may be involved.

Some of the limitations of income riders are:

- If an income rider isn't part of the base co[illegible]ct, it come[illegible] an annual cost. This fee is taken from the accumulation v[illegible]
- In some contracts, the fee is deducted from t[illegible]ion value as well as the minimum guaranteed co[illegible]e – how[illegible]his is not always the case.
- If the income rider is in th[illegible]ontract, '[illegible] may be [illegible]n the form of a lower cap on your fixed [illegible]ex a[illegible] or other limited features. Insurers balance the benefit[illegible]uilt-in ride[illegible]miting other parts of the annuity contract.
- Say you withd[illegible]o much[illegible]y from your annuity contract, called an excess wit[illegible]wa[illegible]s withd[illegible]wals reduce the value of the annuity as well as th[illegible]eath[illegible]he[illegible]rrender charges apply.
- [illegible] general[illegible] with[illegible]awals[illegible]om your annuity decrease the value of the annuity [illegible]d death ben[illegible]n mind withdrawals are taxed as ordinary income, and[illegible]liability will depend on what tax bracket you are in.
- [illegible] ma[illegible]rly withdrawals while under age 59.5, you may have to pay [illegible]p to a 10[illegible]nalty as well as income tax to the IRS.

How Do the Accumulation and Income Account Values Work?

As we discussed, there are two values for when an income rider is paired with an annuity: the accumulation value and the income account value. You may be confused about how they are different.

To recap, the accumulation value is tied to the annuity, and the inco[illegible] acco[illegible] value is used for lifetime payout calculations. So the in[illegible] account[illegible] strictly a number upon which the future income percentag[illegible]he bas[illegible] can't withdraw any sum from your annuity based on this value[illegible]drawable sums are based on the accumulation value less applica[illegible]surrende[illegible]ges and/or other fees.

We have found it helpful to examine these valu[illegible]the contex[illegible] income riders. When you think of how income riders work, the[illegible] become[illegible]ar. The table on the next page shows the differences between the ac[illegible] value and the income account value.

How Income Riders Work		
Values	**Accumulation Value**	**Income Account Value**
What is It?	The original premium paid plus any interest credited or premium bonus credited (if applicable). The accumulation value is also known as the contract value.	The value set up for an [illegible] rider. Initial premium plus any si[illegible] or c[illegible]ounded interest [illegible]redits and [illegible]exed [illegible] credits [illegible]licable) [illegible] any withdrawa[illegible]
What are Its Functions?	Used as the basis for many benefit calculations, including the death benefit, surrender value, and value at contract maturity. This value may be used for payout calculation if it is higher than the income account v[illegible] when you decide to withdraw[illegible]	Used solely to ca[illegible] lifetime income pay[illegible]h the [illegible]y will give to yo[illegible] the a[illegible]ulation value is higher [illegible] the incom[illegible]count value when you [illegible] to with[illegible] income, the accu[illegible]value is used for payout [illegible]alculati[illegible]
How Does It Grow?	It depends on the annuity [illegible]nd other choices you mak[illegible] said, the method fo[illegible]iting in[illegible] to this value may be [illegible]r index-based.	A[illegible]ate inte[illegible]st rate. It may be simple or co[illegible]mpounding interest. A guaranteed compound interest rate (often ranging from 4-6%) or a guaranteed fixed simple interest rate (up to 10%) may be credited. In some cases, it may be tied to an index.

Th[illegible] a variety of [illegible]ys wh[illegible]h the income rider fee may be calculated. Most [illegible] fees are based o[illegible]ome account value. In that case, the rider fee [illegible]ncrease[illegible], regardless of whether the income account value grows or [illegible]portan[illegible] clarify how this fee is calculated.

[illegible]erent Optio[illegible]r Income Growth

Depen[illegible]e annuity and the rider, you may have a few options to receive increasing income payments:

- A "level income" option – income stays the same
- An inflation-adjusting/cost-of-living adjusting income option
- An index-linked income option

With the level income option:

- In the first option, your income payments will stay the same f[illegible]fe. If[illegible]u are receiving $10,000 per year, you will always g[illegible]nnual s[illegible] $10,000.

With the inflation-adjusting income option:

- The inflation-adjusting option is tied to move[illegible]n the C[illegible] (Consumer Price Index – All Urban Consume[illegible] – Not Se[illegible]ally Adjusted).
- The Consumer Price Index tracks change[illegible]e price lev[illegible] a basket of various goods and services purchased by A[illegible] hou[illegible]lds. Changes in the CPI are used to calculate infla[illegible]
- With this inflation-adjusting op[illegible]n, yo[illegible]ome ca[illegible]se based on changes in the most recent[illegible]lished CP[illegible]u receiv[illegible] lower initial income, but it may grow[illegible]
- How much your inco[illegible]ows wi[illegible]be capped. Some riders cap maximum income gro[illegible]10%. You[illegible]come can grow for a set amount of years or until your accum[illegible]value reaches zero, whichever happens first.

In the case of th[illegible]ndex[illegible]ke[illegible]me option:

- [illegible]index-linke[illegible]ption[illegible]for riders paired with a fixed index annuity.
- When your acc[illegible]n value is credited interest, your income account va[illegible]eive a portion of those interest credits.
- [illegible]n the[illegible]uity's linked index has negative changes, the fixed index annuity wi[illegible]ve no interest credited. So your income account value would n[illegible]ted for anything, either.

Remember, the more "bells and whistles" an annuity or a rider has, the more you are giving up in some form or fashion somewhere else in the contract. This could be in terms of limits on growth potential, additional costs, or other factors. Always be sure to check the disclosure materials for any annuity product or rider options you are considering.

Should You Choose an Income Rider or Annuitization?

Given this information, you may ask, "What is better for me: annuitization or an income rider?" The answer is it depends on your needs, circumstances, and goals. Cash-flow is an important component of your retirement strategy, and both options offer different possibilities for lifetime payouts. Since everyone has different cash-flow needs, the choice really is situational. It is important to have numbers run and see what makes sense financially.

With that said, many consumers are attracted to income riders because of their flexibility. But remember, they do come with additional costs. Some points of consideration include the following:

- With a guaranteed interest rate, your income account value grows over time. If you are okay with keeping your annuity in deferral for a longer period, the rider payouts tend to exceed annuitization payouts in later years.
- Overall, income riders offer more flexibility than annuitization. Once you annuitize, you cannot take it back and you are stuck with the same monthly income payout for the life of the contract.
- With annuitization, you give up access to your remaining initial premium, and with an income rider, you retain control of access.
- An income rider lets your money continue to grow, even as you are taking income. You may have the option to turn income on or off at will.
- Income riders give you "majority control" of your remaining principal, less any applicable surrender charges.

- The best time to choose annuitization or an income rider is when you consider income to be of foremost importance. Be sure to check the specifics of any annuity contract you are considering.
- The trade-off for flexibility with an income rider? Greater cost. A[illegible] general principle is to remember that the more flexibility you [illegible]e in y[illegible] contract, the more you will be paying in fees.

Be sure to ask your advisor about these points and what [illegible]ay be [illegible]d. This will help you figure out what is best for your individual ne[illegible]

What the "8% Guaranteed Rate" and Other Promises R[illegible]lly Mean

At some point, you may have heard of promises su[illegible] as "8[illegible]p, gua[illegible]nteed!" or "17.2%, guaranteed!" Or maybe it was a sale[illegible]dge that w[illegible]ong those lines. Now that we have covered the differences [illegible]en the a[illegible]mulation value and the income account value, we can explain what [illegible] entail.

When someone tells you they can get[illegible]arantee[illegible] are really referring to your income account val[illegible] It isn't a[illegible]nce to y[illegible] accumulation value. Remember, the insuranc[illegible]ake annuit[illegible]premiums and invest them in a variety of assets. A large p[illegible]portion[illegible]is usually in conservative assets such as t-notes or investme[illegible]de bonds. [illegible]eir return on investment is lower than 8% per year, how would t[illegible]able to offer an 8% "return" to annuity owners?

So, when some[illegible]offe[illegible]rollup" or another attractive rate, remember:

- [illegible]ey are t[illegible]kin[illegible]bout t[illegible]interest rate at which your income account value [illegible]ll grow.
- Thi[illegible]interest rate which is actually credited to the money you paid [illegible]e c[illegible]ct.
- So, really, i[illegible]icates how much the income account value can grow, which can incr[illegible]your future guaranteed lifetime income. Also, this is when the [illegible]in deferral, or when you haven't opted to start receiving income yet.

- The fee is deducted from your principal to pay for the rider.

Say you are told you can receive “17.2%, guaranteed!” That is a reference to a bonus rate plus another interest rate which you would receive over the duration of a contract. If you held a 20-year contract, it could mean you would [illegible] just .86% on an annual basis – which would come out to 17.2% in to[illegible]over a[illegible] those years.

The point is to exercise caution when considering any of th[illegible]omises. Consulting with a financial professional with strong annuity kn[illegible]e can help you determine what annuities are right for your retire[illegible] portfo[illegible]

Customized Income Strategies: Work with an Ann[illegible] Exp[illegible]

As we can see, annuity contracts can be config[illegible] many wa[illegible]onsumers have many options which they can customize for [illegible]nique i[illegible]me needs and situation. Working with an annuity spec[illegible]with dee[illegible]edge of these contracts and their terms can greatly [illegible]p.

At SafeMoney.com, you can conn[illegible]ectly wit[illegible]cial pro[illegible]sionals who understand different annuity c[illegible] what they can offer. We invite you to visit [SafeMoney.com to loc[illegible]financi[illegible]sional] and request a no-obligation consultation.

If you are interested i[illegible]ximizing [illegible]e, various annuity strategies can help you get more income [illegible]pr[illegible] dollar. [illegible]th strategic annuity laddering and contract manag[illegible]ent t[illegible]ou can enjoy even more income throughout you[illegible]irement lifeti[illegible] Ask [illegible] financial professional for more information.

ENHANC[illegible]EFIT RIDERS: DO YOU NEED THEM?

[illegible]ou m[illegible]across “enhanced benefit riders,” particularly confinement [illegible]iders an[illegible]ath benefit riders. These riders are available with some fixed and fixed index [illegible]ities. They come with different benefits, but are they approp[illegible]our needs? Based on our experience, we advocate that you consider [illegible] in the context of your individual requirements and needs.

Confinement Benefit Riders

Just like with any rider, be sure to consider confinement benefit riders in the context of your retirement situation and financial picture. You will want to consider family history and your personal medical history in this decision, [illegible] other factors. In some cases, a confinement benefit rider may make sense for special cases.

A confinement benefit rider is a means to pay for healthcare costs. If you [illegible] moved into a skilled nursing care facility and meet eligibility requirements, your income can double for each year you qualify.

Death Benefit Riders

An enhanced death benefit rider strengthens [illegible] guarantees for the death benefit. Should the annuity owner die, beneficiaries will get what the full enhanced value of the annuity is at the time of death. [illegible] all riders, the enhanced death benefit rider is available [illegible] cost.

Please note, withdrawals or surrenders can erode the legacy you leave behind. Also, part of the death benefit [illegible] subject to taxation, even if the annuity was purchased with non-qualified monies (i.e. [illegible]-tax dollars). Any credited interest which is part of the death benefit will be taxable. Please confer with a qualified tax professional for guidance.

Be Aware of Rider [illegible] & Judge Carefully

So, there are many options for [illegible]. Depending on your needs and situation, some riders may make sense, but others may not be right for you. Remember, [illegible] though a rider [illegible] good on the surface, it may really be unnecessary.

Any [illegible] riders drain the value of your annuity contract with additional [illegible] recommend you always consider riders in this context: Do the benefits make the extra [illegible] worth it? Before committing to any annuity or rider, with a financial professional go through a comprehensive review of your financial circumstances, goals, and needs, and then determine if it makes sense.

SURRENDER PERIODS AND MARKET VALUE ADJUSTMENTS: ARE THEY A DEALBREAKER?

What about surrender periods and market value adjustments? They may [illegible]off-putting, but in reality, the insurance company uses them as a safegua[illegible] up[illegible] its contractual promises to you. Let’s examine why this is the case in [illegible]tail.

The Fundamentals of Surrender Periods

Here are some basics. The surrender period is a set period fo[illegible] excess[illegible] annuity withdrawals or a voluntary exit from an annuity contract [illegible]bject to penalty. Surrender periods can range from five to 15[illegible]st surr[illegible] periods last for around 10 years. The penalty is cal[illegible] a “sur[illegible] charge.”

However, you do retain some access to your m[illegible] Many annu[illegible] contracts allow free withdrawals of up to 10% of your contract val[illegible]out [illegible]alty. So, in other words, your access to your money duri[illegible]urrende[illegible]d is limited. But you are foregoing this access for the purp[illegible]e of g[illegible] As the [illegible]f the annuity rises, so does your retirement inc[illegible]ter on.

Some reasons for surrender pe[illegible]ds a[illegible]

- It helps insurers ma[illegible]heir reser[illegible]quirements. After all, they must keep a dollar in reserves [illegible]ery dollar they promise in contractual guarantees.
- It helps ke[illegible]annu[illegible]lars secure – you may recall the “bank runs” of the Great De[illegible]sion[illegible]r w[illegible]anks were unable to give deposit funds to [illegible]ryone requ[illegible]ng th[illegible]n. Surrender periods are a safeguard against this – they help preve[illegible]ity contract runs.”
- T[illegible] reserve requirements, insurance companies put a majority of [illegible]monie[illegible] secure investments. These are typically more long-term instrumen[illegible]uch as investment-grade bonds.
- If[illegible]e monies into shorter-term investments or more volatile [illegible]ents, it could undermine insurers’ ability to maintain reserve requirements.

In summation, surrender periods are a safeguard insurance companies use to strengthen their contractual promises to you.

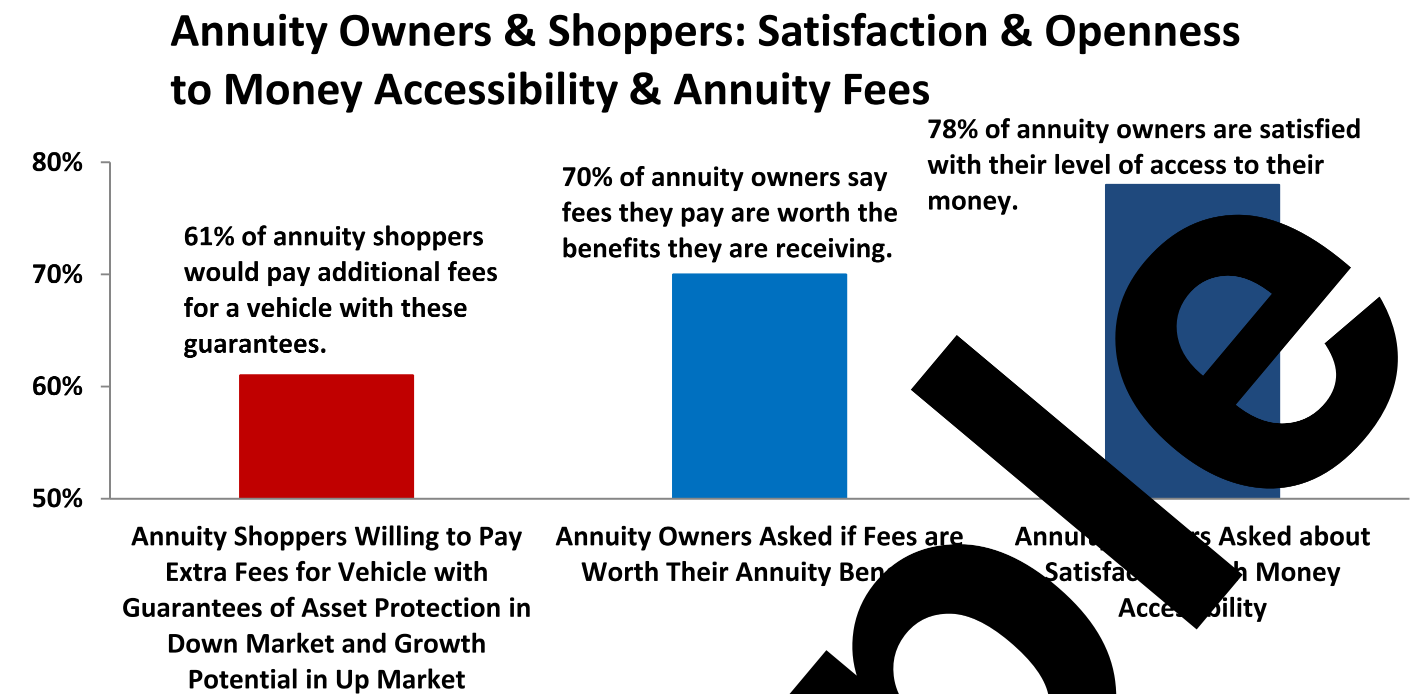
Surrender Charges and Bonuses

Surrender charges vary, usually ranging from 7-10% of your contract value. To come up with fair rates for surrender charges, the insurance companies work closely with the state departments. Generally speaking, as another year passes in the surrender period, the surrender charge goes down.

What about surrender charges "above" 10%? You may have heard of surrender charges as high as 20%. However, this isn't just the surrender charge [illegible] involves a premium bonus as well. In this case, the annuity buyer got [illegible] bonus with their contract. Now that the buyer doesn't want their annuity anymore, the insurance company wants its bonus back. Hence the annuity buyer is asked to pay the 10% surrender charge and pay back the 10% bonus they [illegible] received.

Annuity Buyers' Satisfaction with Money [illegible] and Annuity Fees

Despite surrender periods, research findings show [illegible] people become annuity purchasers, they are satisfied with their access to their money. As one study reports, the majority of annuity owners are satisfied with the level of access they have to their money.[34] In regards to fees, the majority of annuity owners say the benefits they are receiving make their annuity fees worthwhile.[35] The majority of annuity shoppers [illegible] would be willing to pay additional fees if they could enjoy the guarantees which annuities provide.[36]



Graph created by associates at SafeMoney.com. Source: "Don't Fea[illegible]ies," Eric T[illegible], LifeHealthPro, November 2013, http://www.lifehealthpro.com/2013/11/07/dont-fear-annuities?page[illegible]468348293. Accessed 7.12.2016.

So once consumers become annuity o[illegible]ir perce[illegible] of surrender periods change. These findings can b[illegible]een i[illegible]aph abo[illegible]

Don't forget: Anytime you put [illegible] any sort [illegible]nancial vehicle, you give up something in exchange for the [illegible]enefits [illegible]t vehicle. In general, this is an example of an opportunit[illegible]s defined [illegible]onomics. If you put money into a CD or bond, you are foregoing [illegible]ould be higher returns from the stock market. But in exch[illegible]u will b[illegible]exposed to losses.

The same princi[illegible]appli[illegible]uities and surrender periods. These benefits may differ from thos[illegible]ot[illegible]fina[illegible]nstruments, but annuities can keep your [illegible]e from ma[illegible]dow[illegible]urns and offer some growth potential.

[illegible]hat is a M[illegible]t Valu[illegible]stment?

Mar[illegible]e ad[illegible]ents (MVAs) may seem negative, but they are a means of [illegible]arding risk[illegible]d, again, helping insurers uphold their contractual promises). MVAs a[illegible]atta[illegible] to fixed annuities. These modified annuities are called "market value[illegible]nnuities." When you purchase a market valued adjusted annuity from the insurance company, you take on some of the interest rate risk associated with your contract. The risk is thereby shared between you and the insurer. In return, you are paid a higher interest rate by the insurance carrier.

When someone buys an annuity, the insurance company offers the contract with the understanding that the buyer has a long-term commitment. The insurance company puts premium dollars into bonds of a set duration or other long-term instruments based on that understanding. If interest rates have changed from when the policy was issued to when it was surrendered, an early surrender can disrupt the insurer's pricing.

To be clear, market value adjustments come into play with excess withdrawals or contract surrenders during the term of the contract. Generally speaking, an excess withdrawal is when you withdraw more than 10% of your accumulation value. It could lead to you paying a bigger penalty.

Can a Market Value Adjustment be Beneficial?

The answer is yes, it can. It depends on a number of factors, including interest rate risk. Interest rate risk comes in the form of rising or falling interest rates. Say the Board of Governors of the Federal Reserve opts to raise interest rates. When interest rates increase, the market value of bonds goes down. Let's say you held a $10,000 bond with a 4% yield and the Fed raised interest rates to 5%. Investors would then have the ability to purchase a $10,000 bond with a 5% yield, so the market price of your bond would decrease to demand.

Market value adjustments are tied to the performance of the 10-year treasury. So if the 10-year treasury rises in value from when the contract was issued, the MVA will be positive and lower surrender charges. Should it decline in value from when the contract was issued, it will be negative and surrender charges will be higher.

Therefore, a market value adjustment is essentially a rise or decline in the value of bonds held by an insurance company. Insurers use it to combat changes in the value of their investments due to market forces. By assuming some of the risk, your accumulation value can increase or decrease, depending on whether interest rates fall or rise. From this standpoint, it can be to your advantage in some cases.

It depends on the interest rate environment. If an MVA annuity is of interest, ask your advisor about how the present interest rate environment affects things.

CONSIDERING AN ANNUITY FOR YOUR PORTFOLIO

So, is an annuity right for your retirement portfolio? The answer is it [illegible]ends, [illegible] any annuity purchasing decisions should involve careful due diligenc[illegible]nd financial evaluation. Having said that, to recap, there a[illegible] bene[illegible]aving an annuity: lifelong income security, guaranteed asset prot[illegible] and t[illegible] deferred money growth, to name a few.

How Tax Deferral can Strengthen Your Retirement S[illegible]

In general, one of the way annuities can help stren[illegible]en you[illegible]ement strategy is their ability to offer tax-deferred growth. Du[illegible]hen your c[illegible]act is in the accumulation stage, or in deferral, any interest cre[illegible]to you[illegible]nuity is tax-deferred. If you bought your annuity wit[illegible]r-tax do[illegible]ou would pay taxes on just your earned interest, not your pr[illegible]s, when [illegible]egan making withdrawals. Tax deferral is also an a[illegible]ntage o[illegible]by retire[illegible]nt accounts such as 401(k) plans and IRAs. But a[illegible]'t come w[illegible]h contribution limits imposed by the IRS like thes[illegible]iremen[illegible]unts do.

In general, the advantage o[illegible]ferred mo[illegible]y growth can be seen in the chart below. It compares th[illegible]erforma[illegible]a tax-deferred vehicle and a taxable vehicle. Let's assu[illegible]hicles ha[illegible]n initial sum of $100,000, were subject to 33% ordinary in[illegible]e ta[illegible]w at 4% compound interest annually.

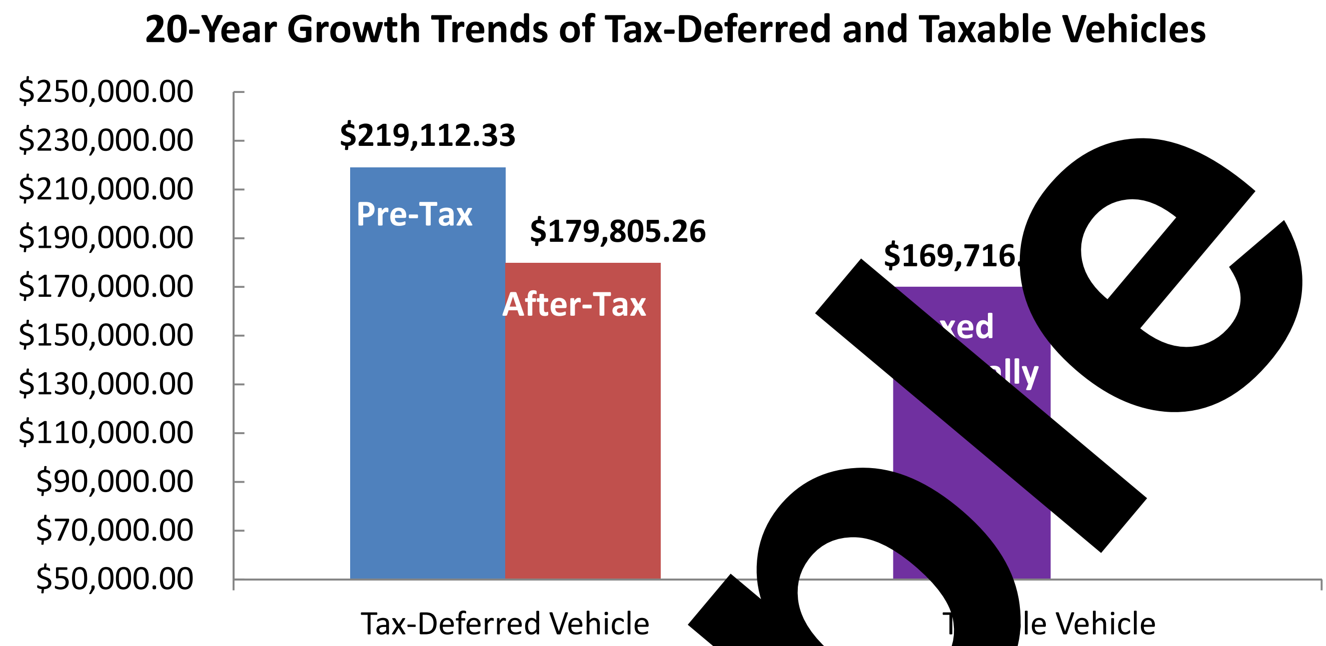


Chart created by associates at SafeMoney.com. For illustrative purposes [illegible] tax[illegible]red versus taxable growth only. Presented as hypothetical concepts only. Should not be consi[illegible] represent[illegible]ow annuity contracts or any other financial product will perform currently or in the future. A[illegible]rdinary in[illegible] rate levied on taxable earnings and period-end of tax-deferred earnings. Actual tax liability m[illegible] vary, fo[illegible]le tax on [illegible]ins or qualified dividend income. Assumes 4% growth rate yearly. Interest rates are c[illegible]y hypothet[illegible]

Over a 20-year period, the am[illegible]nt tha[illegible]s in the tax-deferred vehicle exceeds that in the taxable vehicle[illegible]fter the [illegible] is taxed at 33%. So if you want to put away a greater amount o[illegible] than 401(k) plans and traditional IRAs allow, annuities may be a [illegible]tion. T[illegible]y also be worth consideration if your yearly saving goa[illegible] rea[illegible]ed wha[illegible] you are permitted to put into your retirement acc[illegible]s.

[illegible] Financial P[illegible]essio[illegible] the Right Questions

[illegible]hether y[illegible] consi[illegible] an annuity or other financial product, careful analy[illegible]e believe your decision should weigh many factors, including [illegible]pros and [illegible]cerns and how a particular annuity would benefit you. A key part of due dili[illegible] is asking the right questions.

We re[illegible] you answer these questions or get answers from a financial professional who understands annuity contracts:

- Is this a single premium or flexible premium contract? In other words, does the contract involve a one-time lump-sum payment, or a series of multiple payments?
- Is this a scheduled premium annuity contract or a flexible premi[illegible] contract? What are the terms?
- What type of annuity is this?
- What is the initial interest rate and how long is it g[illegible]teed?
- Does the initial rate include a bonus rate, and how mu[illegible]e bon[illegible]
- What is the guaranteed minimum interest rate?
- What renewal rate is the company crediting o[illegible]ontrac[illegible]he same type that were issued last year?
- Are there withdrawals or surrender cha[illegible]penalties [illegible]vant to end my contract early and take out all of my mone[illegible] how [illegible]n are they?
- Can I get a partial withdrawal wit[illegible]aying su[illegible]r charges for reasons such as death, confinement in [illegible]ursi[illegible]e, or te[illegible]illness?
- Is there a market value adju[illegible]nt (MVA) [illegible]ion in m[illegible]nnuity?
- What other charges, if a[illegible]deducted [illegible]om my premium or contract value?
- If I pick a shorter or l[illegible]ayout per[illegible] or surrender the annuity, will the accumulated va[illegible] or the [illegible]terest is credited change?
- Is there a d[illegible]it? How [illegible]et? Can it change?
- What inc[illegible]e pay[illegible]ions can I choose? Once I choose one payment option, ca[illegible]t be[illegible]ange[illegible]

[illegible]e considering [illegible]fi[illegible]index annuity products, ask the following:

- H[illegible]he term?
- [illegible]t is th[illegible]nimum guaranteed interest rate?
- What is th[illegible]rticipation rate?
- F[illegible]g is it guaranteed?
- I[illegible] a minimum participation rate?
- Does the contract have an interest rate cap?

- What is it?
- Does the contract have an interest rate floor?
- What is it?
- Is interest rate averaging used?
- How does it work?
- Is interest compounded during a term?
- Are there any fees in the contract?
- What indexing method is used?
- What are the surrender charges or penalties if I want to en[illegible]ntract early?

Your decision is ultimately in your hands. We hop[illegible]ese ques[illegible] help illuminate any unclear factors, as they have helped many [illegible]ners. Shou[illegible]ou have any more questions or would like more information, ca[illegible]877[illegible]OW.SAFE (877.476.9723).

Concluding Thoughts

We have covered much ground [illegible]debook. In [illegible]e end, is an annuity right for you? Ultimately, it depends [illegible]n your [illegible] and situation. We hope this guidebook has shed some [illegible] annuities [illegible] how they can strengthen a retirement portfolio.

With that said, if y[illegible]like to le[illegible]ow to incorporate annuities into your retirement strat[illegible], we [illegible]to read *The Retirement Simplified Roadmap.* This provides an ove[illegible]ew [illegible]ow s[illegible]nancial strategies, using annuities, can be [illegible]d to achieve [illegible]lan[illegible]l retirement portfolio and future goals.

[illegible]s we hop[illegible]uidebo[illegible]has shown, all annuities have different purposes. As [illegible]ou c[illegible]un[illegible]t annuity options, please be mindful the annuity you [illegible]e be for t[illegible]eason it is intended for. If an annuity is used for another reason besides [illegible]tended functions, it can be a disappointment in due time. This shows [illegible]tance of working with a financial professional who not only understands the various types of annuities, but each type's specific purposes, strengths, and weaknesses.

At the heart of it, we believe an annuity should be bought for its contractual guarantees. Remember, it is a transfer-of-risk product. The insurance company takes on longevity risk and market risk, and you receive certain promises upheld under contract. These guarantees often center on having a permanent income stream or protection of retirement money, no matter how the market performs.

There are multiple riders you can add onto an annuity to strengthen its value, but the more you do so, the more you are giving up in other ways (greater cost, reduced guarantees, for example). But those benefits can be valuable.

Remember, not all annuity advisors are equal in the advice they deliver. Should you ever have any questions about any of this material, or be interested in scheduling a strategy session to get a non-biased assessment of whether annuities may be suitable for your needs, we can help. Please don't hesitate to call us at 877.GROW.SAFE (877.476.9723) for any inquiries, feedback, or requests for personalized guidance.

We wish you the best in your retirement success.

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Throughout this guidebook, we have attempted to keep references to SafeMoney.com at a minimum. This is because we believe education is such an important step in any financial decision. You deserve to have a non-biased take on annuities: what they are, what they aren't, and how they may be of benefit to your retirement financial security.

Sound decision-making begins with individual understanding and confidence. There are no shortcuts to making well-informed decisions without a strong educational foundation. I hope this guidebook is valuable for your retirement planning process, whether you are currently retired or not quite there yet.

Having finished this guidebook, you may want to read *The New Retirement Report* (if you haven't read it yet) and *The Retirement Simplified Roadmap.* These are two premium, best-in-class resources we offer along with *The Annuity Insights Guidebook* as a consumer education series. These two publications can help you become even more informed about the challenges we face today, and possible solutions to enjoy a comfortable lifestyle.

If you are ready for personal guidance in making any annuity decisio[illegible] SafeMoney.com can help you. Financial professionals st[illegible] ready to [illegible]u, whether you are beginning your research on annuities o[illegible] seco[illegible] on annuity contracts you have already been recommended. [illegible]be you a[illegible] looking for better contract alternatives to an annuity you already [illegible]

At SafeMoney.com, you can connect with a financi[illegible] and d[illegible]uss your needs, situation, and goals – in an initial meetin[illegible]phone ca[illegible]o obligation to you. To get started, we invite you to visit our L[illegible] Licensed [illegible]sor resource and find someone. If you need a referral for a finan[illegible]f[illegible]al, please don't hesitate to call us at 877.476.9723.

Along with this guidebook, we offer r[illegible]ources [illegible]riety o[illegible] topics. If you would like any of them, please [illegible] request [illegible]y.

If annuities make sense for yo[illegible] portfo[illegible] hope you find this resource valuable in finding the right choice [illegible] Thanks fo[illegible]ur confidence and the opportunity to help you make decisions abo[illegible]r retirement future with confidence.

Sources:

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