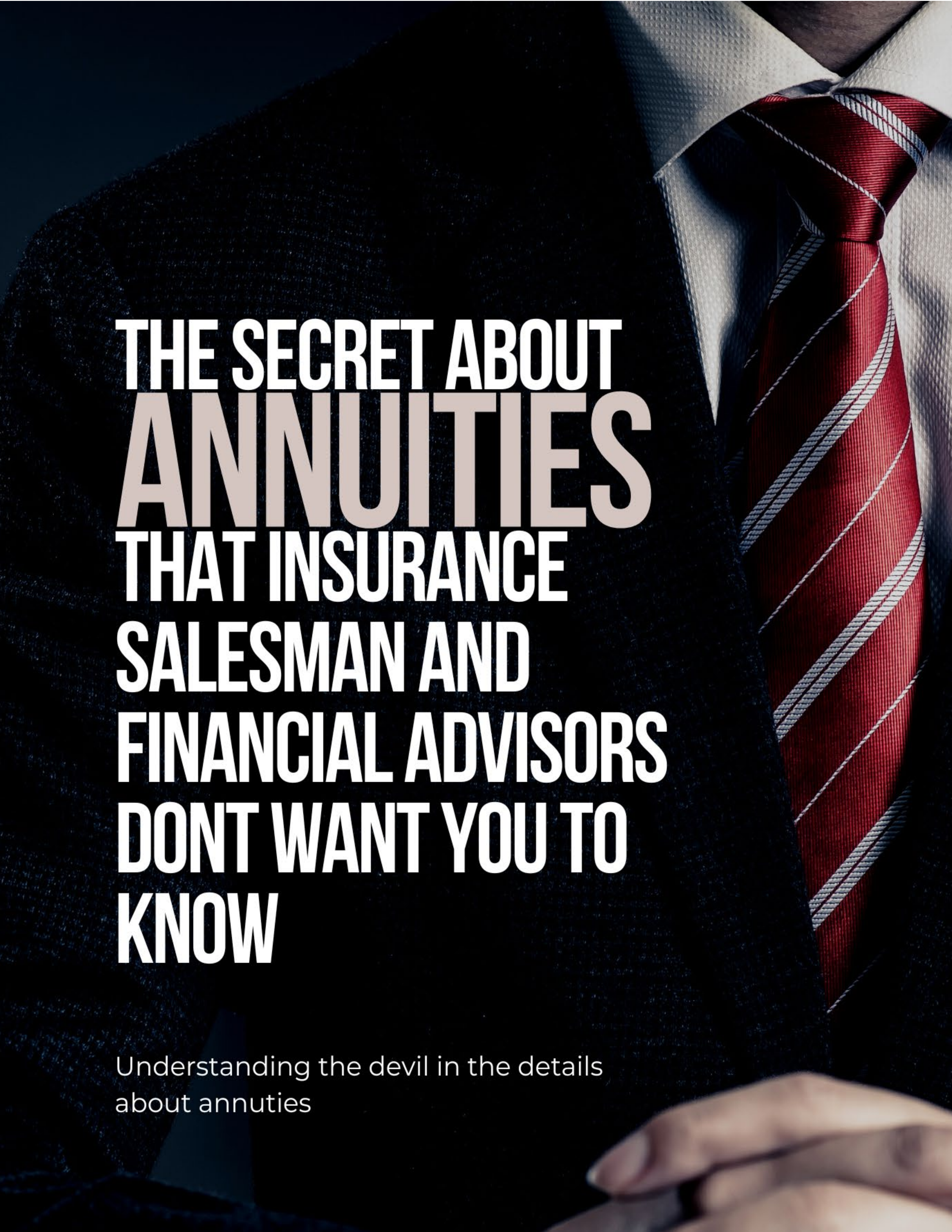


THE SECRET ABOUT ANNUITIES THAT INSURANCE SALESMAN AND FINANCIAL ADVISORS DONT WANT YOU TO KNOW

Understanding the devil in the details about annuities

Table of Contents

About the Author

Dominick Paoloni, CIMA, is currently an adjunct professor at the University of Colorado at Denver and the University of Denver. He has over 35 years of experience as a fiduciary financial advisor that works for pensions, endowments, advisors, and individuals.

After cutting his teeth on Wall Street and gaining practical experience in all forms of investments, he received his Certified Investment Management Analyst (CIMA) certification from the Wharton School of Business, as well as completed the two-year curriculum of a Certified Financial Planner.

Dominick then dedicated his life to safely growing clients' assets and helping steer through the maze of investment choices to find the absolute best in class, whatever his client's goals may be. His exceptional knowledge has been acknowledged by 5280 Magazine who recognized him as being one of the best Personal Wealth Managers in the Denver Area. In addition, two of his white papers have been published by The Journal of Investment Consultants and Dominick has written articles in the Denver Post, Financial

Planning Magazine, EQ Derivatives, and Morningstar to name a few. He is recognized as a national facilitator and speaker on a variety of financial subjects and products.

A Personal History

In 1996 I was invited to a seminar hosted by Liberty Mutual Annuity Division called Keyport. The speaker was talking about a new type of annuity that they just developed that was designed to give stock market returns without stock market risk. This new annuity was called a Fixed-Index Annuity (FIA).

The speaker spoke about presenting this annuity to pensions and endowments because he had felt that the average individual would not understand the product. I thought to myself after 20 years on Wall Street I could explain this to an investor in a straightforward way.

The original product Keyport would give 85% of the S&P guaranteed for the life of the contract with an annual reset every year and at the end of the 6 years would be 100% liquid.

For example, if the S&P was up 10% year 1, the client would receive 8.5%. If the market was down year 2, the client would lose nothing keeping the 8.5% from year one. If the market was up 20% in year 3, the client would receive 17% which would be added to the first-year return of 8.5%, so on and so forth, and at the end of the 6 years his money would be 100% liquid to withdraw.

A year later, Safeco came out with an even better Index Annuity. I said to myself, these are too good to be true and consequently I became one of the top annuity salesmen in the United States. Over the next several years I could not recommend these quick enough as well as putting all my family's money into the product.

In the early 2000's Index Annuities started to change, and not for the better. They became extremely popular and the amount of money that was flowing into these Index Annuities was growing exponentially. The insurance companies started to change the contracts in a significant way and the agents that were not looking at the devil in the details did not notice what was starting to happen. The insurance companies were putting in fine print that the participation and caps could be changed after the first year.

This means that after the first year, they could drop your market participation to almost nothing. The problem I was seeing was insurance companies were sucking investors in with very attractive first year participation, for example 100% participation with 10% cap and the 2nd year dropping the cap to 5% with the right per the contract to go as low as ½ of a percent. The problem arose when the client called after the first year unhappy with the new cap but could not get out of the contract without a huge surrender charge. This infuriated me as an advisor and a swore I would never recommend another annuity that didn't guarantee the rate for the life of the contract.

The last Index Annuity that I recommended in the early 2000's was through Clarica which guaranteed my client for the full term of the annuity, which was 7 years, 50% of the upside, annual reset, and zero risk on the downside. Clarica was eventually bought out and no index annuity on the street today will guarantee the percentage of the market returns though the full term.

This is when I stopped recommending annuities to my clients.

Today, over 3 trillion dollars (about $9,200 per person in the US) is invested in annuities with a high percentage being seniors. Every annuity that I look at on the market today has hidden clauses that make these annuities a poor investment.

Unlike many advisors, including fiduciary advisors , who beat up annuities only to switch and bait you into their favorite annuity, I am not and will not be recommending any annuities.

Are Annuities a Scam?

Absolutely Not! Annuities are a legitimate financial product sold by insurance companies. My goal in this booklet is not to tell you that you should or shouldn't invest in annuities. Everybody has very different goals, financial needs and wants. Annuities may in fact be the best investment in your situation. The goal of this booklet is to try to deliver the full story about annuities.

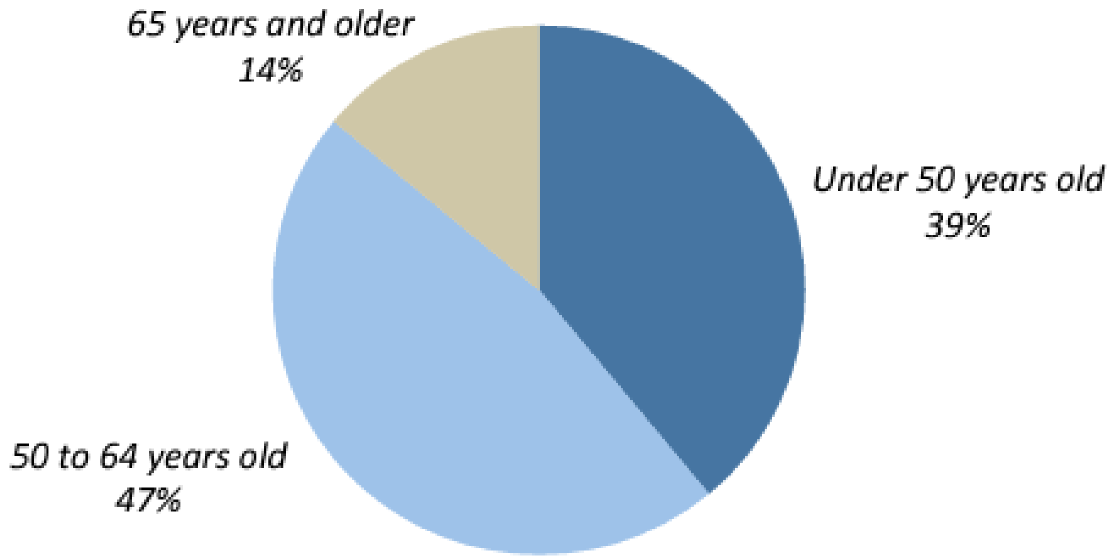
Mark Twain once said, "A lie can travel around the world and back again while the truth is lacing up its boots." Is a ½ truth a lie? That is not for me to say but full transparency is necessary when clients are investing their life savings in any investment. If 100% transparency is provided in examining any financial product, then an objective decision can be made on what's best for you. This guide is going to give you the tools to look for the reason you may or may not invest in annuities and help you ask the right questions.

Who Buys Annuities?

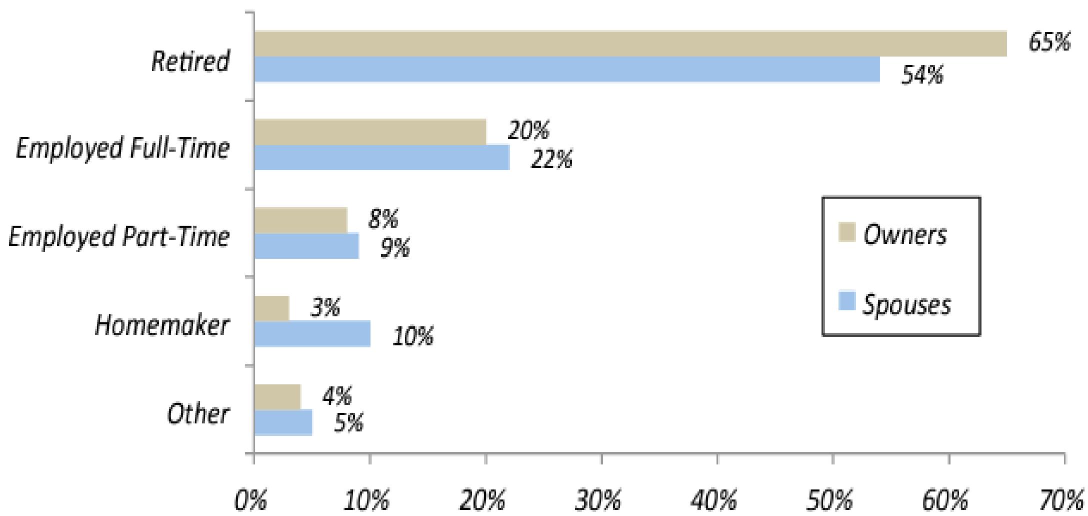
In a 2013 Gallup Survey of individual annuity contract owners, 47% of first purchasers buy-in between the ages of

50 and 64. 51% of annuity contract owners are female. 65% of owners are retired[1].

Age of Annuity Owners at First Purchase (2013)



Employment Status of Annuity Owners (2013)

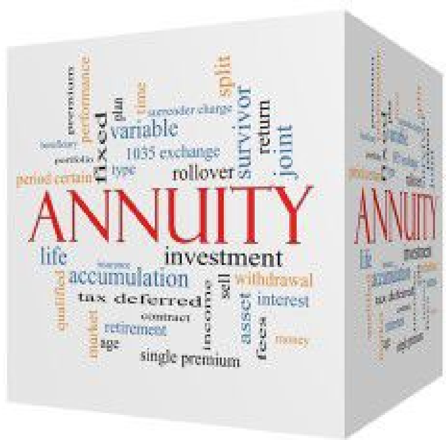


[1] "The Committee of Annuity Insurers, Survey of Owners of Individual Annuity Contracts (The Gallup Organization and Mathew Greenwald & Associates, 2013)."

Why Do People Buy Annuities?

The main demographic of annuity owners are retirees. Many of these individuals see annuities as a “safe purchase” since they are guaranteed by an insurance company. They also say the guaranteed income stream makes them feel more secure in their retirement. To understand this mentality more, we can look at what annuity contracts promise.

What Annuities Promise



1. Guaranteed Income for Life
2. Stock Market Returns without Risk
3. One Hundred Percent of Your Money is Invested
4. Upfront Bonuses on Invested Capital
5. High Lifetime Income Returns
6. High Guaranteed Returns
7. Tax Deferred Growth

While this is what annuity contracts promise, the reality is quite different.

The Insurance Game

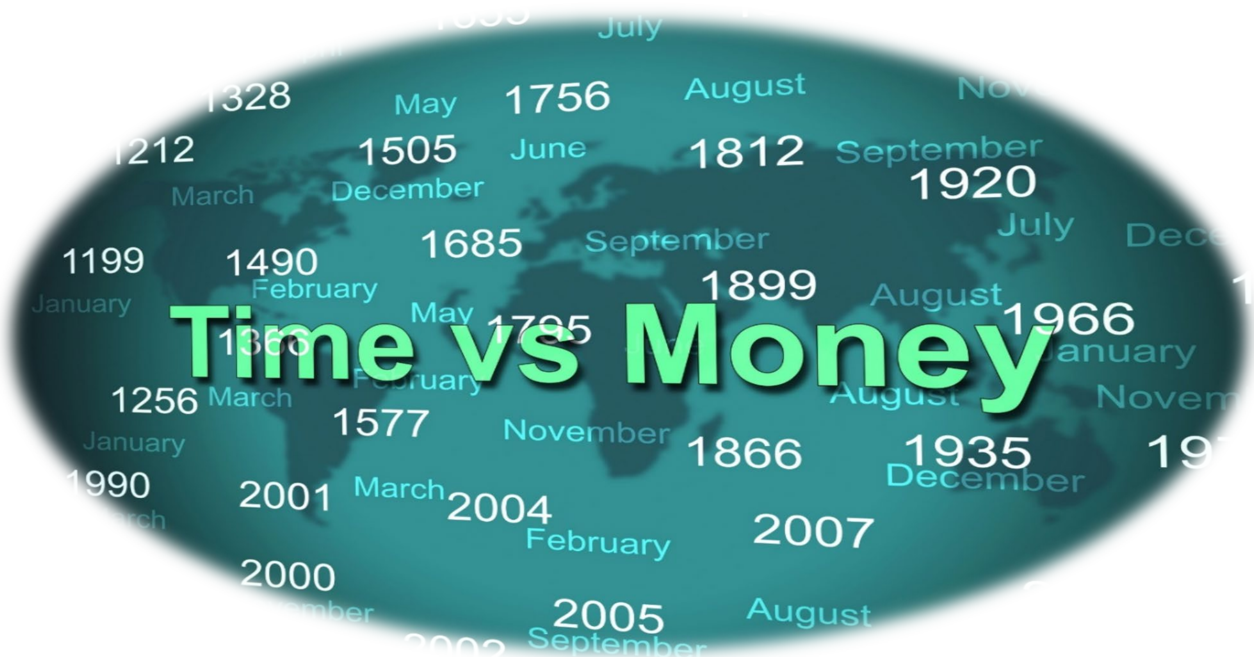
The goal of any insurance company to maximize profit and the best way insurance companies can do that is to hold your capital as long as possible and make money on *your* money. In many annuity contracts there are two phases: 1. The accumulation phase where your capital builds-up over a period of years is also called the accumulation bucket and 2. The distribution or annuitization phase where the insurance company distributes your money back over a period or over one's lifetime is called the distribution bucket.

At the beginning of an insurance contract both the accumulation bucket and the distribution bucket exist simultaneously. The annuitization or distribution bucket is simply used to calculate the percentage of your money they will give you back over your lifetime.

The distribution/annuitization phase is the most profitable phase for insurance companies and where the lion's share of the insurance company profits comes from. The reason is that while the company is holding all your capital from the accumulation phase and paying it back to you for 20 years to life with little to no interest, they have it invested and are reaping big returns on your money. In other words, the insurance companies are holding a trove of investors' capital, maximizing their profits on your money, and paying you little to no interest as they refund your money back to you.

How do many insurance companies get you to annuitize your contract? One way is to make sure the accumulation bucket isn't larger than the annuitized bucket at the end of the surrender period. This would entice the policy holder to receive more money if they annuitized which also has tax benefits (see section on tax deferred income) as opposed to surrendering the contract.

Guaranteed Income for Life



In my 35 years as a financial professional, the number one question I have gotten from my clients has been, "Am I going to outlive my income?"

Annuities address this issue head on with probably their biggest selling point "Guaranteed income for life".

I have seen many sales brochures from insurance companies espouse customize your own lifetime pension. The idea of outliving one income and becoming homeless in retirement is and has been the greatest fear Americans have as they near and enter retirement.

As a young man on wall street my manager would always say "If you want a client to buy what you are recommending sell fear or greed young man". The driving force of why people buy annuities is fear.

Forbes published an article discussing what drives over 3 trillion in annuity sales as compensation to the advisor. (*See article below*)

The biggest selling point of annuities is the "guaranteed income for life" feature. It is said, "You buy annuities betting you are going to live, and you buy life insurance betting you are going to die."

Depending on your age, insurance companies during the distribution phase will give you your money back at a fixed percentage of your account value. In other word you will not get a return on your money, you will get a return of your money.

For example, most annuities either force you to annuitize or give you the option to annuitize for life after the accumulation phase. The economic truth is insurance companies want you to annuitize for as long as possible (*see the insurance game section*).

Insurance companies rely on the "law of large numbers." This means they evaluate many people at a specific age, level of education, quality of health, etc., and determine an average life expectancy. They develop profitability models based on when they expect the average person will die. If they assume you will live to the average age, the insurance company will make a nice profit.

To illustrate this, a hypothetical investor buys a $800,000 annuity and pays the lump sum up-front. The money accumulates in value to $1,000,000 over the next ten years. At the end of the ten years, the investor is offered this amount of money, or the option to annuitize $1.2 million sitting in the distribution/annuitization bucket. The client chooses the annuitization bucket and takes a lifetime payout.

The capital being paid back to the investor is called the "payout rate" and depending on the investor's age the percentage can vary between 4% and 7%. It is important to understand that this percentage per year is not a return "on" your money, it is a return "of" your money.

In this example, let's assume the client receives 5% of his money back/year. The investor will receive $60,000—5% of $1.2 Million—per year for the rest of his life. In 20 years, he will get his money back, however, he will still receive his $60,000 as long as he lives.

Over the 20 years the investor receives typically very little to zero interest on the money held by the insurance company, which makes the effective rate of return over the entire 30 years including interest from the accumulation phase (10 year of accumulation + 20 years of payback) your annualized rate of return in this example would be 0.6096%.

This represents an inexcusably poor rate of return on each dollar invested. If the client lives a little longer than expected, the amortized return goes up a bit if the client lives a lot longer than expected. The clients amortize return becomes more competitive.

While the investor is having their money slowly returned, the insurance company has invested these funds assets i.e., real estate, bonds, stocks, etc. and is generating a profit from the money.

Beyond this deficient performance, other hidden features can penalize buyers as well like needing more than the $60,000 for emergencies in any given year in the annuitization phase. The data tells us investors are willing to give up potential growth for the security of receiving lifetime income. The problem is, when I presented this knowledge to investors in this way, I didn't know annuity sales would be hitting records.

Understanding The Death Benefit

In most annuity contracts that annuitize for life, if the client dies early, the insurance company calculates the money in the accumulation bucket (1 million dollars) and subtracts the total payout from when the contract was annuitized and gives the heirs the difference.

Compensation

THE NEW ROAD TO RETIREMENT

Annuity sales hit record last year, eclipsing sales during 2008 financial crisis amid fear, higher rates

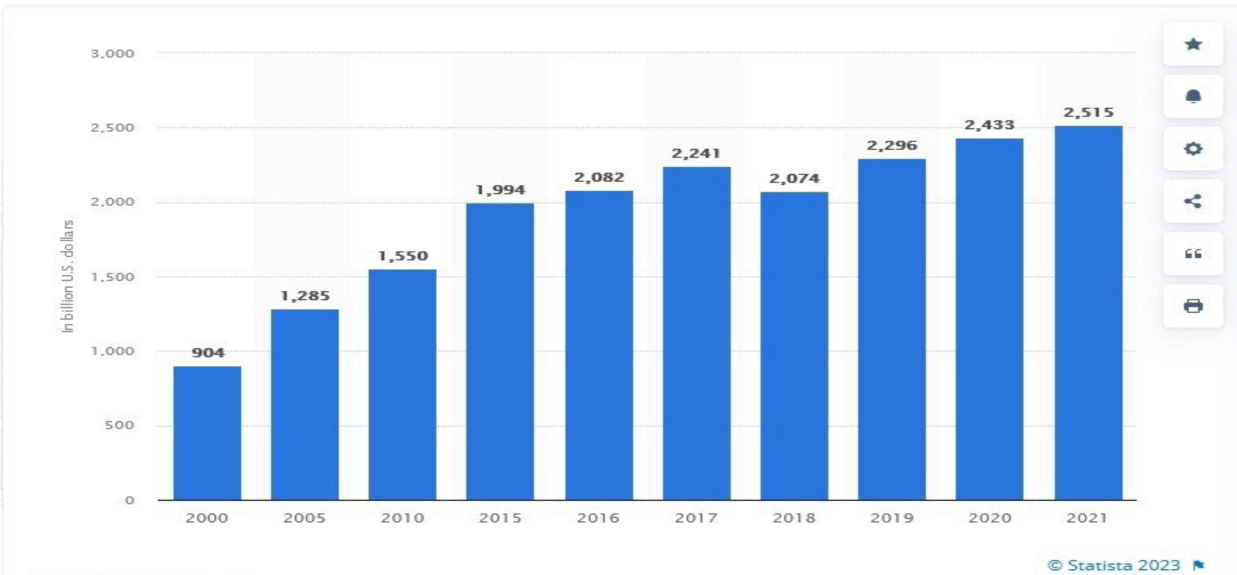
PUBLISHED THU, FEB 2 2023•1:33 PM EST | UPDATED THU, FEB 2 2023•2:51 PM EST

Greg Iacurci
@GREGIACURCI

SHARE

Annuities are sold as a non-commission product. While this is in fact true that one hundred percent of your money is invested from day one, there is a substantial 7 to 10% penalty if you try to withdraw your money before the surrender period ends (typically 7 to 10 years). This is because the insurance company is seeking to recuperate the 7 to 10% commission already paid to the advisor. They are simply spreading the cost of the compensation, which is paid immediately, over the life of the investment. The truth is, compensation to financial advisors from annuities is some of the highest compensation in the industry, which drives annuity sales.

Annuities Sales*



Annuity accumulation*

"The reason for the continued vibrancy of annuity sales is that they pay a big commission to the selling broker or agent". We all received them in the mail, an invitation to an investor dinner. Usually at the most expensive restaurant in town with free drinks and

expensive steaks. This is one of the most popular ways annuities are sold.

An old saying in the financial services industry states, “Financial products are sold, not bought.” In my 35 years as a professional, unfortunately I know too many financial advisors including ***fiduciary advisors*** that are enticed by the compensation. This article in Forbes hits the nail on the head.

Forbes

RETIREMENT

Annuities Are Not Bought, They're Sold

In the realm of personal finance, no word has been dragged through the mud more times than the A-word—Annuities. Yet annuities survive and even thrive. How they do is not a mystery. There is not an outcry on the part of consumers demanding annuity products. The reason for the continued vibrancy of annuity sales is that they pay a big commission to the selling broker or agent.[2]

---

[2] Tim Maurer, “Annuities Are Not Bought, They’re Sold”, Forbes.com, May 17, 2012, https://www.forbes.com/sites/timmaurer/2012/05/17/annuities-are-not-bought-theyre-sold/?sh=43020f0445f2

Bonuses

The bonus features of annuities are one of the most powerful selling points in the industry. This feature purports to give the investor an immediate bonus of as much as 15% to 30% upon purchase. For example, if a client invested 1 million dollars in an annuity with a 20% bonus his account would immediately reflect an account value of $1,200,000 on paper.

The problem with this feature is the bonus is not credited to the cash value (accumulation bucket) of the annuity but is credited to the annuitization value (distribution value). This means, at the end of a 10-year accumulation phase your $1 million portfolio may have grown for example $1.15 million (the accumulation value), but if you annuitize the contract over the next 20 years you will receive the 20% bonus and your contract will reflect a $1.2 million balance. An investor will be inclined to choose the bucket of $1.2 million since it

After calling customer service, here is what he bought:

1. His bonus was not 20% as the insurance salesman said, it was 17%.
2. His bonus was not part of his accumulation bucket but his annuitization bucket which means he wasn't getting the 17% bonus added to his account to grow for 10 years.
3. The bonus was only available if his account didn't grow more than 17%.
4. The indices that were available to him on his $400,000—based on the Participation and Cap historical values—averaged about 1.5 to 2% interest per year.
5. If he decide to annuitize his contract with the bonus value at the end of 10 years, which would commit him to another 20 years of having his money paid back to him at $23,400/year, would result in an annualized return over the 30 year period of 0.525%/year.

is a larger value even though this money will be returned over the next 20 years. The above client example shows how many insurance companies and sales people are telling only part of the story. My client said in the end, "I wish I never accepted that invitation for a steak dinner I got in the mail!"

Guaranteed Interest Rate

Many annuities promise to deliver guaranteed interest rates through the accumulation phase of a contract. It is not uncommon to see 7% guaranteed for 10 years. While this is in essence true, the interest rates many times is credited to the annuitization value and not the cash value of the contract, which could be much less. The way this is often presented to customers is they can choose to invest their money into a basket of mutual funds or an index and reap the returns from this investment.

If after 10 years, the mutual fund has not performed as well as the investor would have liked, they will have the option to exchange this basket of mutual funds for a basket that was guaranteed to accumulate at a fixed rate of interest (say 7%). The caveat here is if the variable rate, market basket is exchanged for the guaranteed rate basket it can only be accessed by annuitized many times over the next 20 years or a policyholder lifetime. This represents a profit opportunity for the insurance company, and they will often deploy restrictions and tricks that incentivize the annuitization of the contract. (See the insurance game)

Frequently, within these types of contracts there is a restriction on the allocation of the amount allowed to the mutual fund basket. There are several reasons for this; one reason is the insurance company doesn't want you to take very high risk and take heavy losses in the accumulation market bucket only for the policy holder to select the annuitize bucket. The other reason is more cynical, insurance companies do not want the accumulation value from the market or index to exceed the guaranteed fixed bucket because the customer could then withdraw the larger sum of money instead of annuitizing their contract. I frequently have clients get "burned' when they try to exchange their market basket which did not perform as well as the guaranteed basket only for the insurance company to tell them the market basket is liquid and can be withdrawn however, your guaranteed rate basket cannot be withdrawn. They are then told they must annuitize their contract for the next 20 years or settle for the poorer performing liquid basket.

While the guaranteed income, bonuses, commission free products, and guaranteed interest rates are all features used by insurance companies, there are also several types of annuities that have hidden clauses within them. The devil is truly in the details.

Types of Annuities

Now that we have covered the different benefits that annuities generally promise, and the reality of those claims, let's look at the different annuities on the market. There are four main categories of annuities sold:

1. Single Premium Immediate Annuity (SPIA)
2. Single Premium Deferred Annuity (SPDA)
3. Fixed Index Annuity (FIA)
4. Variable Annuity (VA)

Single Premium Immediate Annuity (SPIA)

A SPIA (Single Premium Immediate Annuity) is a financial product that provides a guaranteed stream of income for life or a fixed period in exchange for a lump sum payment. With a SPIA, an individual pays a one-time premium to an insurance company, which then promises to pay the client a fixed income amount on a regular basis, typically monthly, for the rest of their life or a specified period. The amount of the income payout is determined by several factors, including the client's age, gender, and the prevailing interest rates at the time of purchase. SPIAs come with some potential drawbacks, including the loss of control over the principal amount and the possibility of inflation eroding the purchasing power of the income stream over time, as well as mortality credits.

A mortality credit refers to the financial benefit that arises from pooling the risk of mortality across a large group of policyholders. In the context of annuities, a mortality credit is the additional return that an annuity holder receives above the actuarial expected return, because of the mortality risk being spread among a large pool of annuitants. This means that annuity holders who live longer than expected can receive higher payouts because the funds contributed by annuitants who die earlier than expected are redistributed to the survivors. The mortality credit represents a reward for the longevity of the annuity holder and can be an important consideration for individuals looking to secure a guaranteed income stream in retirement. In simple terms, clients who die early will have some funds taken by the insurance company and redistributed to surviving policy holders.

Another detail that is often overlooked is the internal rate of return of the contract. As the below graph highlights the rate of return for an annuity really only becomes competitive with the market if you buy at the age of 80 and live to 93, (see chart below.) However, if you buy a SPIA at 80 and live to 83, your return is -37.48%. Most policy holders that purchase SPIAs' receive below market returns on their investment even if they live past their projected life-expectancy. The people buy SPIA is the fear of "outliving their income".

Calculating the Return on SPIAS Bought in January 2021

Age	Payment Rate	Life Expectancy (LE)	Total of Payments at LE	Return at LE	Return at LE plus 5 years	Return at LE minus 5 years
50	4.22%	82	$135,040	2.23%	2.84%	1.28%
55	4.60%	82	$124,200	1.99%	2.87%	0.52%
60	5.10%	83	$117,300	1.84%	3.07%	-0.35%
65	5.87%	84	$111,530	1.76%	3.51%	-1.76%
70	6.92%	85	$103,800	1.39%	4.11%	-5.05%
75	8.59%	86	$94,490	0.56%	5.26%	-14.28%
80	10.81%	88	$86,480	-0.68%	7.22%	-37.48%
85	14.65%	91	$87,900	0.85%	12.43%	-82.84%
90	18.90%	94	$75,600	-2.75%	18.08%	N/A

⚠ The Devil in The Details:

Mortality Credits reduce client payout if they annuitize for life and are the only beneficiary of the annuity as the funds will be redistributed to the insurance company pool.

Large Up-Front cost with poor returns over the life of the annuity.

SPIAs that are set-up to annuitize for the life of the client only may leave no inheritance for heirs.

Low liquidity as the money is locked in the annuity and cannot be withdrawn without sizable penalties.

The Single Premium Deferred Annuity

The Basic Accumulation Fixed Annuity, commonly referred to as a CDA (Certificate of Deposit Annuity) is typically a short-term commitment of say 5 years. The selling point of this product is it offers a higher rate of return as compared to a straight CD. These annuities usually offer 1st year bonuses and might advertise for example a 4.5% base rate with a first-year bonus of 1 to 2 percent. The contract usually comes with a hefty surrender* charge throughout the term of the contract. While this may seem like a straightforward contract, I have seen clients get burned by this product before.

Client Spotlight

The client was presented with a 5-year annuity at 4.5% with a first-year bonus of 2%. The agent told the client the contract the 4.5% was guaranteed for the next four years from year two through 5 and the money would grow tax free.

The client called me and asked if there was any reason, he should buy the annuity.

I called the insurance company, and I asked three questions: 1. What is the surrender charge over the 5 years of the contract. 2. Do you have to annuitize after the end of the 5th years, or can you get all your money back? 3. What is the minimum the insurance company can drop the interest rate after the first year?

The answers I received astounded me…

The answer customer service gave to my first question was that…

Surrender charges were: year1-(10%), year 2-(9%), year3-(8%), year 4-(7%), year 5-(6%).

The answer customer service gave to my second question was that…

No, the money is available, but if you move it out of the annuity contract and not roll it to another your 5-year gain will be taxed as ordinary income.

The answer customer service gave to my third question was that…

After the first year the insurance company can reduce the interest rate to 2.8% and the 5-year surrender charge holds.

I called the client and told him what I was told. He said the agent never mentioned those details.

⚠ THE DEVIL IN THE DETAILS:

Most annuities today have a current rate and a minimum rate which means after the first year the insurance company has the right within the contract specification to drop the rate for any reason to the minimum rate however you can't surrender the contract until the end of the term. So, by contract you can invest in a 5-year annuity with a good first year rate only to be trapped for the next 4 years at a subpar rate.

Fixed Index Annuity

Fixed index annuities (FIA) are marketed as the holy grail of investments and frequently promise stock market returns with no downside risk.

Index annuities are called index annuities because the yearly returns are indexed to some type of market index. Index annuities are one of the most popular types of annuities. Give the client market returns without market risk.

This is in fact true however the devil is in the detail.

For example, after the first year, most insurance companies are allowed to change the minimum cap to as little as 0.50%. (See below chart) The client has no recourse because after the first year the contract still contains a large surrender charge.

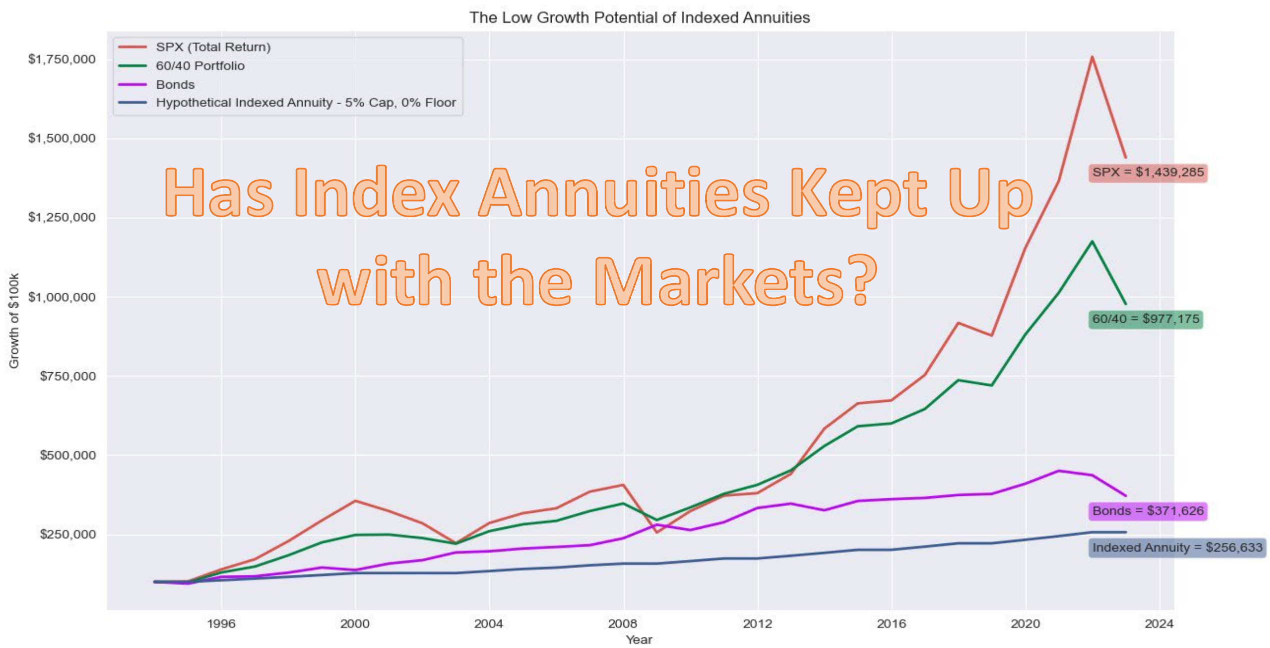
Indices Offered	Index Crediting Frequency	Indexing Method	Current Participation Rate(s)	Current Cap Rate(s)	Current Spread Rate(s)	Fee for Indexing Method	Guaranteed Participation Rate / Cap / Spread
S&P 500	Annual	Annual Point-to-Point	100.00%	8.00% Annually	N/A	N/A	100% / 0.50% Annually / N/A
S&P 500	Annual	Annual Point-to-Point	100.00%	10.00% Annually	N/A	1.50%	100% / 0.50% Annually / N/A
S&P 500	Annual	Annual Point-to-Point	30.00%	N/A	N/A	N/A	10% / N/A / N/A
S&P 500	Annual	Annual Point-to-Point	45.00%	N/A	N/A	1.50%	10% / N/A / N/A

If the market rises above the yearly cap announced, they will not be credited with any additional gains above the cap.

So, in the illustration above, if in the first year of a contract the market is up 12%, and the cap was 10%, the policy holder would lose out on the 2% market rise. This becomes more problematic in year two if the insurance company changes the cap in year two to 0.50%. Thus, if the market was up 10% in year two, the investor would be up 0.50% percent with no recourse to withdraw their funds and reinvest.

Another problem with Index Annuities is the complexity and confusion about what index should the policy holder choose. It's very difficult to understand the blended indexes, spreads, caps, participation rates, etc. As a professional, I've had to call customer service on more than one occasion to understand exactly what my clients were receiving.

The following chart shows the hypothetical return of an Index Annuity that as 100% paritipation with a 5% cap and zero downside risk vs the S&P 500 and Treasury Bonds.



The above graph shows a hypothetical return of an index annuity over 29 years assuming a 5% cap and zero return on down years compared to the actual returns of the SPX, 60/40 composite return and Aggregate bond index

The graph above shows that Index annuities have not kept up with the major market indexes, infact they have underperformed a bond portfolio through a falling interest rate enviorment.

⚠ The Devil in The Details:

Insurance companies in the early 2000's made a small but major change to FIA contracts. After the first year, the insurance company is allowed by contract to severely ratchet down the amount of interest returned any one year, while still in the surrender period.

CLIENT SPOTLIGHT

SUSAN of Benton Harbor, MI
Dec. 28, 2020
In December 2006 I was looking to roll over a 401(k) into an IRA. A friend recommended a new product called an **indexed annuity**. The rep praised this product as it had ***no downside risk***. If the market went up, the account values went up. In the event that the market went down in a given year, the investment would not ever go below the 2% mark. He, however, failed to mention that this complex contract had a **NEVERENDING SURRENDER CHARGE**. The only way to access the money in the future would be ***to take a monthly income***. The initial investment was ***$51,000***. After 14 years of a great stock market run, my account had only ***$89,517*** in it. That alone is really poor performance in my opinion.

The truly sad part is that it's now the end of 2020 and I would like to have all my money. I called and spoke with a "live" person who told me that if I wanted a ***full surrender, I would only receive $62,870***. Really? The ***surrender penalty*** is the difference between the two numbers, i.e., $26,647. I was astounded and angry. There was no way around it and I have sustained a loss, but I am writing to warn other potential clients of this company to beware of their representatives who misrepresent what they sell.

Variable Annuities

A Variable Annuity (VA) is a type of insurance contract that provides a tax-deferred investment opportunity with variable investment options, typically mutual funds. The value of the annuity can fluctuate based on the performance of the underlying investments, and the annuity owner assumes the investment risk. VAs also offer optional living benefit riders, such as guaranteed minimum income benefits or guaranteed minimum withdrawal benefits, that can provide a stream of income for life or a set period.

The primary difference between a VA and an FIA is the investment risk. In a VA, the annuity owner assumes the investment risk and has the potential for higher returns but also faces the possibility of market losses. In an FIA, the insurance company assumes the investment risk and offers downside protection but also limits the potential for higher returns.

Another difference is the fees. VA's have the highest fee structure of all annuity types. They often feature some combination of contract fees, investment fees, mortality, and expense risk fees and more. These charges can add up over time to as much as 4% per year, which only takes away from your potential growth. However, what you're betting on with a variable annuity is that you'll be able to outperform those extra costs and come out ahead.

THE DEVIL IN THE DETAILS:

Variable Annuities have the highest fees of all annuity types. Insurance companies frequently impose limit on contributions to incentivize the annuitization of a guaranteed rate alternative.

CLIENT SPOTLIGHT

KEITH GOREVILLE, IL
ORIGINAL REVIEW: JUNE 25, 2018

In 2008 an agent for this company convinced me and my wife to transfer money from an IRA into a variable retirement annuity. My investments at that time were more in riskier funds. One month I would make a few hundred dollars and the next month I would lose a couple of hundred dollars. I told the agent I was wanting a more stable return. He then told us about another fund where our money would double in ten years. When I received statements, it always showed that my 17000 would be 34000 and was available to me in 2018. I never had a reason to call the agent because he told me and my wife our money would double.

So I called him last month and was shocked as he explained that I could only receive approximately **1300 a year for the rest of my life** or receive **113 dollars a month**. Now my wife and I are not complete idiots. We are both college graduates and have managed our other monies well over the years. **To get back my full 34000 it would take me about 26 years**. I am almost 60 so I would be 86 years old before I could actually get the investment return I was promised.

Questions to Ask Your Financial Salespeople Before Purchasing?

Now that you have seen the potential risks, and clarified the ambiguous language of annuities, here as some questions to ask your financial advisor about each type. ***Don't forget to have the answers to each of these questions signed and witnessed in writing to have a record of what you are being promised (this is necessary if you sue the agent).***

? Fixed Annuity:

1. Is the interest rate guaranteed for the life of the contact?
2. Does the annuity pay a bonus?
3. Is the bonus included in the yearly interest of the subsequent years or only if annuitized?
4. What is the contact minimum rating the insurance company can pay after year one?
5. To receive the bonus does the contract require annuitization?
6. Does contact force annuitization?
7. What is your gross compensation for selling the contract?

Fixed Index Annuity

1. Is participation and cap guaranteed for the life of the contract?
2. What is the minimum cap, spread or participation over the life of the contract?
3. Does the annuity pay a bonus?
4. Is the bonus added to the indexing methodology or a separate bucket for annuitization?
5. Does the contract require annuitization to receive the bonus?
6. What is your gross compensation selling the contract?

Variable Annuity

1. What is the total cost (expenses) of the annuity annually?
2. Is there a fixed guaranteed bucket included in the contract?
3. To receive the guaranteed bucket must the contact be annuitized.
4. If you annuitize the contract, what the minimum interest the contract pays "on" the money they are holding?
5. What is your gross compensation selling the contract?

Single Premium Immediate Annuity (SPIA)

1. What is the penalty for early withdrawal?
2. What is the mortality credit under the term of the contract?
3. What is the rate of return according to the terms of the contract?
4. Is there a minimum rate of return within the contract that can be imposed at any time?

Holistic Approach to Financial Planning

The Financial planning community is rife with groupthink and a herd mentality approach to financial planning. Many of the planning decisions are very cut and dry. Should you pay off your mortgage? What's the best vehicle for saving for your children's college? When should you start taking your social security? A professional planner should know these cookie-cutter answers. Where a planner fails to deliver is understanding how to deploy those assets to ensure that the plan financially meets many of these questions.

A good financial plan is like a dartboard with the bullseye being the most important aspect of the plan and how the capital is invested.

The IPS Approach to Financial Planning Success

Here are IPS Strategic Capital we are in the business of people. We live by the values of Integrity, Prosperity, and Security and leverage our deep expertise to protect our client's wealth. We work hard to earn your trust, and we would never invest in anything in which we wouldn't first put our own money into. When crafting a financial plan, we follow four simple steps to formulate the best solutions that meet your needs.

Step 1—We empathize with your financial concerns and seek to understand where you are financially and in your life.

Step 2 – You define your financial vision that fulfills your personal goals.

Step 3 – We explore the best options that aligns your financial goals with your personal goals.

Step 4 – We collaborate to implement the best financial plan that insures a successful retirement journey.

If you would like to take advantage of a free financial consultation, please contact our office at 303.697.3174 or email us at *info@investps.com.*

One should always consult an investment advisor before making any investment decisions as well as consider the investment's objectives, risks, charges, and expenses carefully before investing or sending money. This and other important information about the Strategy is available upon request.