THE POWER AND PROTECTION OF AN INDEXED ANNUITY

For years, if Americans wanted opportunity, they would put their savings in the stock market. If they wanted safety, they used bank CDs or government bonds. The problem was you could have money positioned for opportunity or safety, but not both on the same dollar at the same time.

Today, billions of dollars annually are finding how to have safety and opportunity on the same dollar at the same time. The vehicle that has filled the gap between the stock market and banks is the Fixed Indexed Annuity.

TWO POTENTIAL NEGATIVES

This well-designed vehicle has many positives and two potential negatives. The first negative is that it doesn't capture all the up of the market and the second is it isn't 100% liquid.

CAPTURING THE UP OF THE MARKET

When the market rises, the Fixed Indexed Annuity (FIA) delivers interest. When the market declines, instead of losing money, the FIA just delivers 0% interest. Since owners of FIAs would have suffered a loss if they had been in the market in mutual funds or stocks, they call zero their hero!

Depending on an FIA's design and current interest rates, as well as market volatility, the FIA may credit from only a small percentage of the up, to in some cases, *all* of the up. According to a study by the Wharton Financial Institutions Center, the FIAs have credited an average of 8% since their inception over 14 years ago. Because not all FIAs credit as much of the up as others, it is important to talk to a well-qualified individual who thoroughly understands FIAs.

Although FIAs typically do not allow for 100% of the up, often the average investor didn't get all the up either. According to Dalbar, a respected Wall Street research firm, an average equity fund investment from 1990–2009 earned 3.17%, or a little over 1/3 of the available 8.2%, as the S&P 500 averaged over the same period. From 1995 to present, many FIAs credited higher interest.

LIQUIDITY

The second concern some have about FIAs is that the FIA is not 100% liquid until the liquidity charge period has elapsed, ranging from 5 years to 16 years. While an FIA is not an appropriate place to park emergency funds or monies needed for short-term liquidity, FIAs are highly appropriate for nest egg dollars. These are the funds that you need to always be there no matter how long you live.

There are, however, a number of ways to access your money inside an FIA. First, these vehicles allow for 10% liquidity of the account balance (this includes all growth), or in some designs 10% of the original deposit (excluding growth) after 12 months.

Think of it this way. If you deposited $100,000 and then withdrew 10% — $10,000 — annually for the next ten years, you would have spent all your original investment in just ten years. Ask yourself, do you have a plan in place to spend your life savings over the next ten years? For most, this is far too fast to spend your nest egg, yet the FIA would allow for this without penalty. Keep in mind that Wall Street recommends we not spend more than 4% annually so as to not run out of money before we run out of life.

Another way to increase liquidity is that in some designs you receive a bonus that is fully credited to your account on day one. These bonuses may be as much as 10%. You can use the company's bonus to offset the company's liquidity fee to create, in some cases, as much as 50% liquidity of your principle on day one. Additionally, I know of an FIA that is 100% liquid with a return of your principal guaranteed at any time you request.

"IN AN IMPERFECT WORLD, WHERE MOST PEOPLE GET SOME OF THE UP AND SOME OF THE DOWN, YOU MIGHT WANT TO CONSIDER INSTEAD GETTING SOME OF THE UP AND NONE OF THE DOWN."

Perhaps one of the most powerful methods for taking funds from your FIA is to take income from the account. Unlike past designs, FIAs do not require you to lose ownership or control of your principal while taking income. Today's income features have the potential to increase to fight inflation by linking your income to stock market increases or, in some cases, offer guaranteed increases of 3% annually to help offset inflation. The income will pay out for as long as you and your spouse live if you elect the spousal payout provision. The income will even continue to pay should you outlive the balance in your account. Only annuities can pay an increasing income on a decreasing asset.

A BARGAIN

One last thought: Today's FIAs are a bargain. These newer designs of a well-established concept (fixed annuities were created in 1913) have no fees. You may, however, choose to add an <u>optional</u> guaranteed income rider that typically credits 6-8% annually for a fee of .45–75 basis points. 75 basis points is equal to ¾ of 1%. On a $100,000 account you would pay $750 annually in exchange for the guarantee your income account will grow by 6-8% or $6,000 - $8,000. Not a bad exchange. Now you can insure a competitive rate of return in the event the market doesn't perform by buying this guarantee.

For the right kind of money (typically nest egg dollars), despite the fact you won't get all the up of the market and less than 100% liquidity, an FIA is hard to beat. The closest competitor, a diversified portfolio, also does not get all the up and also is not always fully liquid due to market losses that can take a decade or longer to recover from.

In an imperfect world, where most people get some of the up and some of the down, you might want to consider instead getting some of the up and *none* of the down.

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