

“Dirty Little Secrets” About Annuities

What Insurance Companies **Don't** Want You To
Know

(And What They **Do** Want You to Know)



The Trusted Source

Annuities? Great Products or Great Rip Offs?

It really depends on your needs and your uses of these products. Let's examine them in detail!

Babe Ruth and the origin of annuities and their history in America

The origin of annuities can be traced to the founding of the United States of America. The first recorded use of annuities was by the Presbyterian Church who used annuity concepts to provide for widows and retired ministers. Benjamin Franklin used annuities to provide for funds over a long period of time for his wife and for the cities of Boston and Philadelphia.

America owes much of its success to the far reaching use of long term savings provided by annuities.

Babe Ruth, the famous baseball player, while enjoying a lifestyle of extravagance and excess kept the majority of his money in annuities. **The crash of 1929 left many people broke and without funds but the Babe's money was safe and secure.** A true testament to the proper use of annuities!

Let's examine annuities. Here is a definition of the two basic types of annuities:
Immediate Annuity (income) and Tax Deferred Annuity.

Annuities can be fixed, variable and immediate. (a)

The difference between deferred and immediate annuities is just about what you'd think.

With an **immediate annuity** your income payments start immediately. You decide whether you want income guaranteed for a specific number of years or for your lifetime. The insurance company calculates the amount of each income payment based on your purchase amount and your life expectancy.

A **tax deferred annuity** has two parts: the accumulation where you let your money grow, and the payout. During accumulation, your money grows tax-deferred until you take it out, either as a lump sum or as a series of payments (see immediate annuity above) You decide when to take income from your annuity and therefore, when to pay the taxes.

The payout phase begins when you decide to take income from your annuity. As your needs dictate, you can take partial withdrawals, completely cash-out (surrender)(1) your annuity, or convert your deferred annuity into an immediate annuity.

Tax Deferral Insurance companies always tell us a great benefit of annuities is tax deferral. In simple terms this means that insurance companies will credit interest to your annuity and there would be **no tax liability as long as the funds remain intact**. Sounds like a great idea but what this really means is that the tax liability will always be there for you or your beneficiaries! You cannot escape the tax man!

(a) Please consult your financial professional or your specific contract for information specific to your annuity. In regards to a variable annuity you may also consult your prospectus that was provided to you. Fixed (and equity indexed annuities) have sales brochures that disclose benefits and limitations of **their** products. Always consult your tax professional regarding your specific tax situation. You may also consult your department of insurance for additional information regarding a specific annuity or annuities in general.

(1) Annuities can have substantial surrender fees if the contract is surrendered prior to the allowable period. Please consult your specific annuity contract for the surrender schedule.

What are the benefits of tax deferral? The benefit is based on the concept that when the taxes are paid in the future the net out of pocket in real dollars will be reduced because the tax will be paid with inflated dollars. The actual tax liability could be lessened by the reduction in the net out of pocket cost because of inflation.(b)

As an example, if we assume 3% inflation based on a 10 year example this could be your benefit of tax deferral.

If 100% of tax liability is due today that actual tax liability paid 10 years from now would only be 62% in future tax liability based on today's dollars!

This is one way inflation could work for you.

Tip and Benefit: Tax deferral can mean tax diminished!

(b) There is no guarantee that inflation will take place. Always consult your tax professional for information specific to your situation

Dirty Little Secrets: Insurance Companies Don't Want You to Move Your Money.

Tax Free Exchanges and How Insurance Companies Make Money.

How do insurance companies make money? Just like banks and other lenders, insurance companies use our money to make money. They invest in vehicles that pay interest and the difference to what they pay us and what they earn, they keep. Their margin is used to pay expenses, set safety reserves and earn

profits.

How do we keep the playing field more balanced for us and not the insurance company?

To our benefit we can change contracts and move our money from company to company or contract to contract. The IRS has allowed transfers without assumption of tax liability by using the 1035 exchange option.

Insurance companies love it when the money stays in place and they can pay what is known as **“the old money rate!”** (2)

As consumers we want to *earn as high a rate of return as possible* so we always want the **“new money rate!”**(2)

We achieve this by keeping our annuity funds in movement. In other words, having the option to move from contract to contract or company to company.

Old money rate means the insurance company earns more, new money rate means we earn more. Use the 1035 exchange to achieve the highest rate possible.

Tip and Benefit: New Money Rate

(2) Actual crediting rates will vary substantially between companies and annuity contract. Please consult your company and your specific contract for information regarding your situation.

Other points to consider before you transfer your annuity.

- 1 Contractual features and guarantees. Do you understand both the new contract and your current contract? (read the contract and make certain you fully understand the benefits and the restrictions)
- 2 What are the surrender expenses and how does that compare to your current contract. Is access to 100% of your funds at any time important? (surrender fees can be substantial, please consult your contract)
- 3 Compare the insurance company ratings. Are they similar? (ratings are important, seek third party information such as your state department of insurance)
- 4 Always ask if the receiving company will help cover the cost of any surrender penalties.

Dirty Little Secret: Annuities Can Reduce Taxation on Social Security. ⁽³⁾

Taxation: Social Security and how taxation is calculated.

When social security came into existence under Franklin Roosevelt he promised that it would never be taxed. Today however social security can be taxed as high as 85%.

Annuities can help reduce this taxation because interest credited to an annuity contract is not taxed until used. If your earned interest is not immediately needed then an annuity may reduce your overall tax liability.

⁽³⁾ When considering taxation issues, always consult your tax professional for information regarding your specific situation

A simple comparison can be illustrated between a bank CD and an insurance company annuity. If both pay 5% the **annuity interest would not be included** as income as long as it remains in the annuity contract. Interest at a bank would be included as income even if the funds are just idle and not used.

Tip and Benefit: Annuities can reduce the overall taxation on your social security.

Dirty Little Secret: Insurance Companies Don't Care if You Live or Die! ⁽⁴⁾

Income: Annuities are the only product available that can provide an income for life. Here is a little secret, insurance companies do not care if **you live or die!**

They just don't. If you live a long time then someone else didn't. They base their income liabilities on the mortality table which the IRS uses to determine life expectancy. How do you protect yourself and your heirs in the event of a premature death?

If you decide to convert your annuity to a lifetime income consider placing an underlying guarantee rider on the payout. This would place a guarantee of a certain number of years that would be paid to your beneficiary in the event of a death. These guarantees can be almost any time period from 5 years to a 30 year guarantee. Many contracts have a number of options, so make certain you fully understand how these guarantees can benefit you.

Tip and Benefit: Guarantee your income with a guaranteed minimum payout.

(4) Future liabilities are based on the mortality table and insurance companies make their assumptions from a large number of people.

Dirty Little Secret: Probate Reduction Cost is Up to You! ⁽⁵⁾

If a beneficiary is named in an annuity the funds are paid immediately and without delay. But what if an annuity has no named beneficiary? The funds would generally need to be probated and could cause a delay in being paid. Plus probate can add additional expenses for your heirs.

The simple solution is to name a beneficiary or beneficiaries. **But remember it is up to you to make that determination.**

Tip and Benefit: Naming a beneficiary can avoid probate.

(5) Always seek legal advice regarding wills, probate and estate planning issues

Dirty Little Secret: Your Annuity Can Only Go Up!

**An Annuity That Rises with Stocks But Doesn't Go Down?
How Is That Possible?**

How would you like an annuity that pays gains based on a stock market index return, yet helps protect your principal when the market declines?

Here's the opportunity: Many insurance companies have introduced the

Fixed Indexed Annuity. ⁽⁶⁾ These annuities have the following features.

- 1 Your return (amount credited) each year is linked to an outside source such as a stock market index.
- 2 If the stock market index goes down, you do not lose any money; your original premium is protected. (7)

It's hard to beat an annuity that always goes up. This is an excellent alternative for funds in which a higher return is desired or needed. By placing your funds in a fixed indexed annuity, your annuity value can only increase.

This is an alternative for consumers who want to see their funds increase while at the same time defer the tax liability.

What is Their Dirty Little Secret?

Your funds **will never equal** stock market returns and your returns will depend on your contract. There may be fees and some expenses that must be paid first so a good estimate is approximately 60% to 70% (7) of what the Index may return. Be informed and be sure these products are for you.

What is the real benefit of Fixed Indexed Annuities? **Your funds are fully guaranteed and are safe and secure.** Your Fixed Indexed Annuity can only increase. Fixed Indexed Annuities are best suited for people who want to protect their original principal and provide for an increase in funds linked to a major index.

Fixed Indexed Annuities vary by company and by state. Always completely understand your annuity and make certain it fits your situation. Make certain you understand the premature use charges associated with these products.

With an Fixed Indexed Annuity, your return is linked to the increase in one of several stock market indexes, such as the S&P 500. However, if the stock market goes down, **you do not lose any of your money.** Most Fixed Indexed Annuities have a guaranteed minimum rate of return which is typically 3%, even if the index you invested in goes down the entire time you are invested, you will still have the minimum guaranteed growth.

Tip and Benefit: Understand Your Contract!

- (6) Equity Indexed Annuities are fixed annuities with an outside crediting source such as the S/P 500 Index.
- (7) Annuity contracts can be different so please consult your specific contract for crediting methods and expenses as well as contractual features.

Dirty Little Secret: Your Annuity May Have a Death Penalty; You May be Penalized if You Die! ⁽⁸⁾

What is this all about? It may surprise you that some annuity contracts have a penalty when you die, which means that if you die before the end of your surrender period, the insurance company may charge your beneficiary the balance of the surrender charge rather than paying the full account value!

Make certain that you understand this portion of your contract. It is easy to find an annuity that does not charge this penalty so make certain that you fully understand all aspects of your contract. Be informed.

Tip and Benefit: Are all my funds available to my beneficiary if I die?

- (8) Many contracts make provisions for alternative forms of payouts to the beneficiary. Please consult your specific contracts for details.

Dirty Little Secret: Your Annuity Has Surrender Fees! ⁽⁹⁾

Almost all annuities have surrender fees. These fees are in place to guarantee the insurance company has the use of your funds for a longer or specific term. Is this bad? No, the flip side is with the insurance company holding your funds for a longer time period means that more benefits may be provided to you!

What is a surrender fee? It is a charge levied against an investor for the early withdrawal of funds from an insurance or annuity contract in excess of the free annual withdrawal privileges. Surrender fees act as an economic incentive for investors to maintain their contract. They allow the insurance company to have reasonable expectations for the frequency of early withdrawals.

So how do I access my funds? Most contracts allow for the removal of earned interest on a monthly basis. Also, most companies allow you to annually withdraw 10% annually of your annuity account value. Plus most contracts allow annuitization (pay outs) of your annuity contract without penalty and many contracts only require a 5 year minimum period. Also death ends most contracts as your beneficiary receives the final benefits of the annuity. Access is not really a problem and having surrender fees allows the insurance company to make long term commitments to you. (10)

Tip and Benefit: Longer Surrender Fees May Mean More Contractual Benefits for You.

(9) Some annuity contracts waive fees for certain benefits and there are some contracts that do not have surrender fees, please consult your specific contract for details.

(10) Numerous options are available, please consult your specific contract for detailed information)

Dirty Little Secret About Your IRA.

Did you know that your IRA can be converted to an income you can never outlive? (11) Did you know that the only way to access this option is through an insurance company? If your IRA is at a bank and earning interest all you can ever receive is the value of your IRA plus any interest earned. That same rule does not apply to insurance companies. You are allowed to convert your IRA to an income that will pay for as long as you live.

Don't let your insurance company keep your money if you die prematurely! Put guarantee income riders in place.

This option is called the:

Pension Payout Option!

Ask your agent or your insurance agent for details about this wonderful benefit of your IRA. (12)

Tip and Benefit: Use Your IRA as Safe Secure Reoccurring Income

(11) Based on your current age and your life expectancy.

(12) IRAs can have substantial tax penalties if funds are removed prior to 59 1/2 . Withdrawals must begin before age 70 1/2 to avoid additional tax liability. Please consult your tax professional for tax advice specific to your situation.

Dirty Little Secret: The Agent

Annuity.com prides itself on developing relationships with the very best and most professional of agents. The agent who delivered this booklet has been through a selection process and is able to answer your questions and be of service to you. The agent will help you decide if an annuity fits your portfolio. (13) They will review your current situation free of charge and answer any and all questions you might have about annuities and other investments.

Remember that annuities are not for everyone, but they do have numerous features that can provide many benefits to you.

So what are the real benefits of annuities? Here is a list.

- **Tax deferral**
- **Lifetime Income**
- **Probate avoidance**
- **Safety and security**
- **Market upside with no downside risk**

- **And so many more benefits.**

The Real Dirty Little Secret About Annuities? If the benefits of annuities match up to your needs, they can be terrific products.

(13) Annuities are not for everyone, please ask for and understand all aspects of the annuity contract before making any final decision. In regards to tax issues, always consult your tax preparer for information specific to your situation.

This report is intended to serve as a basis for further discussion with other professional advisors. We have made every effort to provide accurate numbers and explanation, the information in this report should only be used as basic information regarding the subject of annuities. Always consult with your tax preparer regarding questions about tax issues and how they pertain to your specific situation. Also before making any final decision regarding the purchase or change of an existing annuity make certain that you fully understand the contract. Annuity contracts can have numerous contract differences, always ask for a list of the features of any contract you are considering including the surrender fee schedule.

