ANNUITY Q and A

Q. ***All we hear about annuities is that they have high fees, is this true?***

A. It is true that VARIABLE annuities have high fees. We work with FIXED INDEXED annuities and we do NOT recommend VARIABLE annuities. Most Indexed annuities do not have high fees; in fact, some have no fees at all. Most companies charge fees for specific riders, but those fees are optional and clearly described. It is up to the client to decide whether they want a lower return because of the fee in return for something that they want, like an income rider, or a long-term care rider.

Q. ***Is it possible to have an income rider that provides increasing income?***

A. Yes, and the methods vary by company. The riders that have income rising annually in accordance with an index can provide a substantial increase in income for the lifetime of both spouses.

Q. ***Is there a benefit to waiting before taking income?***

A. Yes, depending on the company, some annuities will actually double the annual index credited for each year that you wait to take income.

Q. ***What happens to my annuity at death?***

A. When an annuity owner dies the balance of the account passes to a named beneficiary. The beneficiaries are designated in the contract. There is no probate. The insurance company simple mails a check to the beneficiaries for the designated percentage of ownership of each beneficiary.

Q. ***Is it true that annuities should not be placed into retirement accounts because they are tax deferred, and a duplication of a benefit provided by the retirement account?***

A. No, that is clearly not true. Annuities have many benefits other than tax deferral and the annuity owner is not paying the insurance company for the advantage of tax deferral. The annuity purchaser should compare the advantages of the annuity with other competing investments, analyzing the risk/reward relationship of the two investments, and use that comparison as the basis for their decision. A very large portion of all fixed index annuities purchased are placed into retirement accounts.

Q. ***Is it true that there is a big tax advantage to mutual funds versus annuities at death?***

No, there is not and there are several reasons:

The step-up in basis that mutual funds receive at death is countered by the amount of tax paid every year on mutual funds, which annuities do not pay. With a mutual fund you are taxed every year on the capital gains of the stocks in the portfolio and you MUST pay that tax whether your fund has made money, broken even, or even LOST money.

In addition, the IRS allows beneficiaries of non-qualified annuities to take a large income tax deduction when they report the gain on their income tax returns. This deduction provided under IRC 691 (the income in respect of a decedent deduction or IRD deduction) can provide as much benefit to beneficiaries who inherit annuities as those who inherit mutual funds and receive the step-up in basis.

Annuities grow tax deferred and therefore grow to a larger amount than a similar mutual fund that has higher annual costs of ownership and annual taxes due. The annuities larger net ending value, which is a result of tax deferral, will frequently offset any higher income taxes that may be due when the annuity is sold.

Q. ***Who is a good candidate for purchasing an annuity?***

A. People aged 50 and older who want to invest in the market but are willing to give up some of the potential gains in order to protect against the risk of loss? In other words almost everyone.

Q. ***What happens if the company you buy an annuity from fails?***

A. The law requires insurance companies to set aside reserves for the money they guarantee, which makes them less vulnerable than the banks. If an insurance company should go bankrupt, which is rare, then the state gets involved. Every state has an insurance commissioner and they act, either by arranging the sale of the struggling company to a different company, or by calling on the state's own insurance program. These programs, funded by the companies, guarantee payment of principal. Historically this has worked and it is difficult to find a case of any client losing money on a fixed annuity.