10 Annuity Secrets You Need to Know!

Presented by Joe Uppleger, ffpal.retirevillage.com

Google Annuity.

You will find two completely different views about annuities. Many love them, many don't. Annuities are not for everyone, but for many they can provide benefits that may seem are too good to be true. The benefits from annuities often provide protections many can only dream about, safety and security, income and guarantees.

Your opinion of annuities depends on your needs, goals and how the benefits they offer will affect your life. **Why don't we have a look at annuities and see if they might make sense?**

Let's begin with a history lesson about America, Benjamin Franklin and Babe Ruth.

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

Babe Ruth, the famous baseball player, enjoyed a lifestyle of extravagance and excess and 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**. Babe Ruth's lifestyle was the opposite of the basic core value of conservatism commonly associated with annuities, however his money was exactly where it was supposed to be, safe and secure. A true testament to the proper use of annuities!

Let's examine annuities…

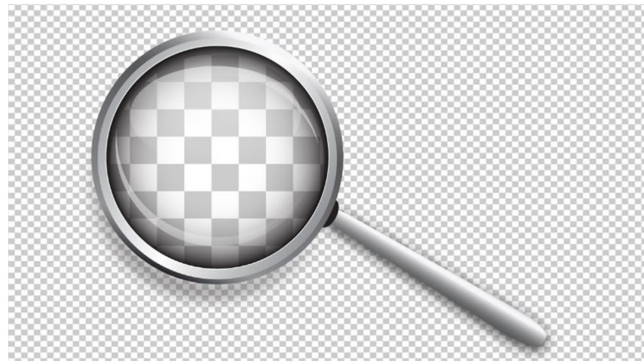
The two basic types of annuities are **Immediate (income) Annuities and Tax Deferred Annuities.**

Annuities can be

fixed,

variable,

and immediate.



The difference between deferred and immediate annuities is fairly straightforward.

With an **<u>immediate annuity</u>** 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 **<u>tax deferred annuity</u>** has two parts: the <u>accumulation</u> where you let your money grow, and the <u>payout</u>. During accumulation, your money can grow (if untouched) 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 <u>payout phase</u> begins when you decide to take income from your annuity. As your needs dictate, you can take partial withdrawals, completely cash-out (surrender) your annuity, or convert your deferred annuity into an immediate annuity.

[Watch this short video to help understand the differences in annuities.]

Annuity Secret Number 1:

Tax deferral can mean tax diminished!

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!

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.

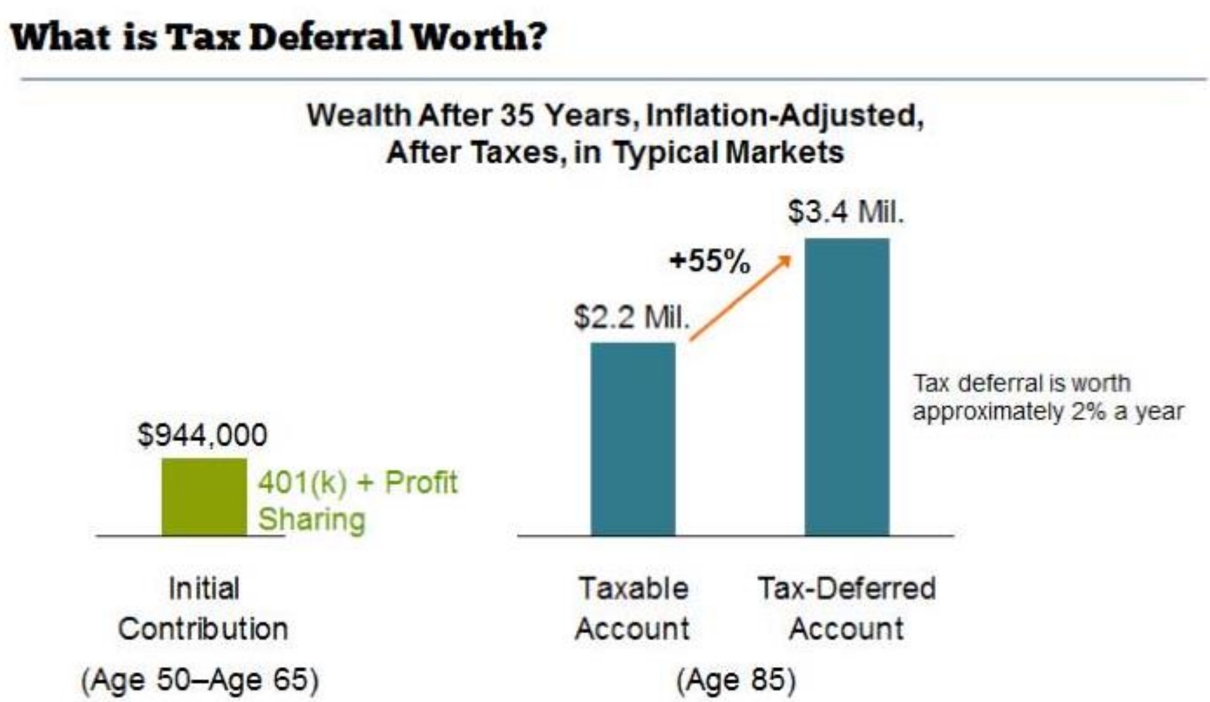
> Annuities can have substantial surrender fees if the contract is surrendered prior to the allowable period. Please consult your specific annuity contract for the surrender schedule.

What are the benefits of tax deferral? It's all about Inflation and the erosion of the value of money over time. 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.

As an example, if we assume 3% inflation based on a 10-year example this could be your benefit of tax deferral. You can make inflation work for you: If 100% of tax liability is due today the 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.

The following chart illustrates the value of sending dollars ahead tax deferred. The growth in account value can be significant.



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Annuity Secret Number 2:

Make insurance companies share a higher yield with you

Consider Tax Free Exchanges and How 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 keep the difference between what they pay us and what they earn. 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!"**

- As consumers we want to *earn as high a rate of return as possible* so we always want the **"new money rate!"**

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 Can Mean More For You

(*) 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 by paying a bonus on the funds transferred. Often the bonus can be 5% or higher, there can be restriction in earning the bonus, so ask for the details.

Annuity Secret Number 3:

Annuities May Be Able to Lower Taxation On Social Security.

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.

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.

In Many Instances, Annuities can reduce the overall taxation on your Social Security.

[Social Security can be confusing. Click here to watch our video about how to avoid mistakes in YOUR Social Security.]

Annuity Secret Number 4:

Insurance Companies Don't Care If You Live or Die

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.

People are living longer.

Here is an example:

Insurance history on mortality data compilation and adoption, each change is made to adjust to the lengthening of average life expectancy.

The **Commissioners Standard Operational** (CSO) Tables:
1941 CSO (Used in the construction of the social security benefit tables – Introduced in 1948
1958 CSO, the first modern mortality tables
1980 CSO, revolutionary extensions in endowment and maturity dates
2001 CSO, – Required use 1/1/20092017 CSO – Data from 2002-2009 with annual adjustments from Value Basic Tables (VBT) tables to be required for usage on 1/1/2016.

Another favorite income guarantee is the refund, if you live a long time, the insurance company will continue to pay, if you die prematurely, the unused balance is inherited by your named beneficiary.

Guarantee your income with a guaranteed minimum payout.

Annuity Secret Number 5:

Probate Expense Can Be Reduced, It is up to You

If a beneficiary is named in an annuity, the funds are paid immediately and without delay, no need for probate expense or time 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 to your annuity and life insurance policies.

Remember it is up to name a beneficiary and avoid probate.

Here is a link from the *American Bar Association* for more information about probate:
http://www.americanbar.org/groups/real_property_trust_estate/resources/estate_planning/the_probate_process.html

Annuity Secret Number 6:

The Value of your Annuity Can Only Increase

An Annuity That Rises with the Stock Market but Doesn't Go Down? How Is That Possible?

How would you like an annuity that pays gains tied to 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***. These annuities have the following features:

1 Your return (amount credited each year is linked to an outside source such as a stock market or other index.

2 If the stock market index goes down, you do not lose any money; your original premium is protected.

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 the secret?

Your funds <u>will never equal</u> 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.

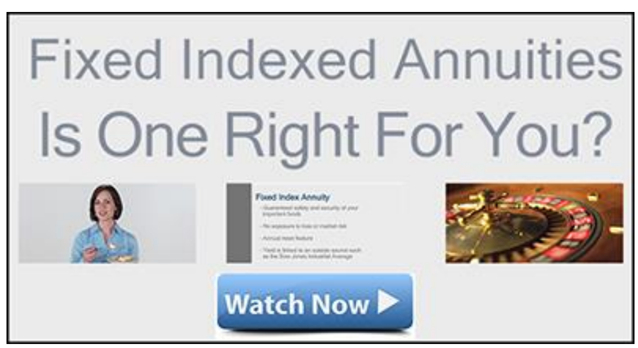
Fixed Indexed Annuities vary by company and by state. Always completely understand your annuity and make certain it fits your situation. Make certain you understand the premature use charges associated with these products.

Understand Your Contract!

With a 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, **<u>you do not lose any of your money</u>**. 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.

To help you better understand how a Fixed Indexed Annuity works, watch this short video.



Annuity Secret Number 7:

Annuities can be loaded with fees and expenses

Many annuity contracts have fees and expenses. It is important to know what they are, how they may affect your annuity performance, and the actual benefit the fee is providing.

> Annuity categories are divided into two types: annuities sold as securities (variable annuity) and annuities sold as a form of insurance fixed annuities).

Variable annuities charge fees for the annuity contract, for investments in the annuity, for administration and for any added rider. The upside of variable annuities is they can return higher interest however they may need to be balanced by their fee schedule.

Variable annuities are sold with a prospectus. This provides you with essential information to help you understand all fees and expenses. If the information still is unclear, simply ask your broker or call the insurance company directly.

Fixed annuities do not charge a sales fee nor do they have fees or expenses. Fixed annuities may have limitations on the amount of interest that could be earned.

It is important to know about fees and expenses before you consider a variable annuity.

[Click here to learn more about variable annuities in this short video.]

Annuity Secret Number 8:

Annuities contain surrender penalties for early withdrawal

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 contact without penalty and many contracts only require a 5-year minimum period. Also death ends most contacts as your beneficiary receives the final benefits of the annuity without reduction form surrender charges. Access is not really a problem and having surrender fees allows the insurance company to make long term commitments to you.

★ Longer Surrender Fees May Mean More Contractual Benefits for You.

Annuity Secret Number 9:

Annuities in combination with an IRA can provide long term guaranteed income.

Did you know that your IRA can be converted to an income you can never outlive?

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.

This option is called the **Pension Payout Option!**

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

Use Your IRA as Safe, Secure, Recurring Income

To Learn more about creating a Pension Payout Option by using a Guaranteed Lifetime Income Rider, watch this short video.

Annuity Secret Number 10:

Your Agent

Your agent will answer your questions and be of service to you. Your agent will help you decide if an annuity fits your portfolio. 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**
- **No market risk**
- **And so many more benefits.**

The real annuity secret?

If the benefits provided by annuities match your goals, they can be terrific products.

Annuities are not for everyone, please ask for and understand all aspects of the annuity contract before making any final decision. Always consult your tax preparer for information specific to your situation.

SAFE FUTURE
FINANCIAL LLC

joe@safefuturefinancial.com

Joe Uppleger
5840 Sterling Dr. Ste 510
Howell, MI 48843

"Helping People All Across the Nation
Protect Their Retirement Money"

Safe Future Financial
(734) 323-7429

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