ANNUITIES:

Where they work…and where they don't

For Retirees and Near-Retirees Who Are Considering Purchasing An Annuity

RETIREMENT PLANNING MADE EASY

By Chris Hammond

ANNUITIES: Where they work… and where they don’t

Provided by: Christopher Hammond

Who Am I?

My name is Chris Hammond. I have been helping people since 2012 plan for their retirements, by helping them have income they can never outlive, income that gets bigger over time to help keep up with inflation, help protect people’s principal so they won’t have to worry about running out of money in their elderly years, and help them build in sufficient liquidity and flexibility along the way.

And most importantly… do all of these things at the same time.

A lot of people come to me with questions about annuities since I am in the business of providing financial advice. And I think annuities can work very well in some situations, but not so well in others.

If you own, or are you considering purchasing an annuity, then before you do anything else read this report. I have attempted to keep it as brief as possible while still providing good solid information.

Most retirees and pre-retirees that speak with me share have some very serious questions they need answers to. And often those questions sound like this:

- When can I retire?
- How do I definitively know that I have saved enough to retire and I am not putting myself in a situation where I could possibly run out of money in 15-20 years from now?
- Will my money last me for the rest of my life?
- How can I take withdrawals from my nest egg and not have to worry about depleting it fully in my later years?
- What happens to my spouse, financially speaking, if something happens to me?

I help people find answers to these questions. And often times annuities play a role in helping provide solutions to the above concerns. I think that's why so many people are interested in annuities nowadays.

But if the wrong annuity is purchased it may not only NOT solve any of the above problems for an investor, it could possibly make their problems even worse!

I don't want to see that happen to you.

The fact is, there is no perfect investment. There is no single silver bullet for all your financial needs. All investments have pros and cons and the same is true of annuities. Which is why they should responsibly be considered as a part of an overall portfolio.

So let's start with a brief overview of 3 popular types of annuities and where they work best (and worst).

1. Variable annuities
2. Fixed annuities
3. Fixed indexed annuities

Let's look at 3 very popular annuities available today. Then we'll break down some of their upsides and downsides to help you know when one is appropriate for you or not.

	Fixed Rate	Fixed Index	Variable
Benefits	• Tax-Deferred Growth • Guaranteed Min. Interest Rate • Guaranteed interest rate • Safety	• Tax-Deferred Growth • Guaranteed Min. Interest Rate • Some market growth, with no downside risk	• Tax-Deferred Growth • Highest growth potential of all annuities • Able to diversify your investments
Who Is It For	• Conservative investors • Age 50+ • Retirees and Pre-Retirees	• Conservative investors • Wants portfolio diversification • Retirees and Pre-Retirees	• More aggressive investors • Pre-Retirees in 40's and 50's • Can handle market volatility
Potential Growth	• Conservative Growth	• Conservative Growth, with potential to perform stronger	• Highest potential growth
Risk	• Safest annuity • Secure and Stable • Principal guaranteed	• Principal guaranteed • Potential higher returns with safety of principal	• Can go down in value • For investors that can tolerate market volatility

*All guarantees are subject to the claims paying ability of the issuing company and do not apply to the underlying investment options.

Retirement Planning MADE EASY

Fixed Rate Annuity

This type of annuity is also called a Multi-Year Guaranteed Annuity (MYGA). The insurance company guarantees an interest rate for a set period. These annuities are very similar to bank CD's - they guarantee an interest rate for a period of time. Typically, the interest rate will be higher than a bank CD interest rate.

If you're over 50, this type of annuity is a good option to safely grow your money at a potentially higher rate than a bank would offer. It also allows your interest to grow tax deferred inside the annuity. You can also turn it into an income stream when you retire.

Fixed Rate Annuity Downsides

1. Surrender charges.

To get the most out of fixed rate annuities, let them work and grow for the duration of the contract. Don't purchase one if you don't intend to hold it for the entirety of the surrender charge period. Also, make sure you have enough cash in the bank you can access in an emergency. You don't want to liquidate an annuity during a surrender charge period under most circumstances.

2. Interest Rate Risk

If you lock in an interest rate for 5 years and rates in the economy start to go up, you could miss out on the higher rates. To overcome this, don't put all your funds in a 5-year fixed rate annuity, for example. Split it up between a 3, 4, and 5-year annuity. If rates go up, some of your funds will mature in the meantime and you can invest them at the new higher rates.

Fixed Index Annuity

These are sometimes called “hybrid annuities.” An indexed annuity gives you the security of a fixed annuity, but with the potential to earn more interest. This is for investors that want principal protection while capturing some (not all) of the market’s growth.

Indexed annuities are good at safely growing money. ***They can also deliver good contractual guarantees of income you can never outlive***. They are not aggressive growth products (although some agents may sell the “dream” of high returns with absolutely no risk). Don’t buy the “dream.”

Indexed annuities will typically have more conservative growth since your principal is protected. That’s what they do well.

Fixed Index Annuity Downsides

1. Not understanding their purpose

You won’t get all the market’s growth with an indexed annuity. But you also won’t lose value if the market goes down. Understand this. The index annuity is not an aggressive growth investment. It gives you the potential to outperform other conservative investment vehicles. Avoid this trap by understanding the benefits and limitations of index annuities.

2. Surrender charges

Most annuities have surrender charges. Before you purchase an index annuity make sure you plan to hold it for the duration of the contract. Keep enough liquidity on hand for emergencies to avoid having to liquidate your annuity and pay a surrender charge.

Variable Annuity

Variable annuities are long-term investments. They have the potential for the most growth of all the annuities. Since the earnings grow tax deferred, they are often used after an investor has maxed out their IRA / 401(k) contributions.

They can decrease in value if the investments inside the variable annuity go down in value. Some variable annuities will provide a death benefit that will pay out at least the amount of the original deposit, regardless if the variable annuity has declined in value.

When you hear experts, like Suze Orman say they don't like annuities, this is likely the type they are referring to.

Variable Annuity Downsides

1. Fees
Variable annuities are known for having high fees. These fees can sometimes exceed 4% of your annuity's value each year. To avoid this trap, make sure the benefits that you get from your variable annuity are worth the fees. And make sure your advisor tells you all the fees you will be paying BEFORE you purchase the annuity.

2. Surrender Charges
Most variable annuities have surrender charges. Before you purchase one make sure you want to hold it for the duration of the contract. And always keep enough liquidity on hand for emergencies to avoid having to liquidate your annuity and pay a surrender charge.

3. Complexity
Variable annuities can be very complex. They can have riders attached to them that are confusing. And the contract (called a prospectus) can be big and difficult to understand. To avoid this trap make sure you are working with a trusted advisor that will take the time to educate you on how the variable annuity works.

<u>Where</u> do annuities best fit in a retiree's (or near-retiree's) portfolio?

It's been my experience that many people who reach out to me are searching for answers about annuities because they have some serious concerns related to their money and their retirement security.

They are usually concerned about…

- What if I lose money on my investments if the economy goes into a recession… ***And what type of impact will that have on my ability to retire (or stay retired)?***
- How do I get sufficient growth on my funds so that they will last me throughout retirement, ***allowing me to be able to take withdrawals on the growth from my nest egg?***
- How do I take the savings that I have accumulated my whole life (thru my 401k, IRA, or non-qualified funds) and ***turn it into an asset that will allow me to have income I can never outlive so I don't have to worry about running out of income in my elderly years?***

Annuities can play a very important role in helping address these issues.

Where annuities fit is primarily by guaranteeing an income stream you can never outlive, so it doesn't matter what happens to your investments that are exposed to market risk. You still get the income you need every month for the rest of your life.

You can even know to the penny what the income guarantee will be when you decide to activate at some time in the future! This predictability allows retirees to know how much additional income they will have for the rest of their lives.

They also can provide principal protection, if you choose the right annuity. As mentioned earlier, fixed annuities do not have market-based risk. So if the market goes down due to the economy or a correction (like 2008) they don't go down in value. However, variable annuities can have market-based risk. So they may not be the right choice if you are seeking principal protection from the market.

How should annuities be used in a retiree's (or near-retiree's) portfolio?

It is my conviction that annuities (when used) should be used as a portion of an investor's overall portfolio. Here's why:

Most retirees (and near-retirees) have multiple financial goals they must accomplish simultaneously to have a more secure retirement.

- They probably need additional income guarantees above that which Social Security provides.
- They may need long-term growth potential to help replenish their nest egg over time.
- They need sufficient cash liquidity on hand for any surprises life may throw at them.

Annuities are good at providing guaranteed income, which is so important to most retirees. They are not the best at providing significant long-term growth. And although most annuities do provide some liquidity features, they are not as good at providing full liquidity like cash sitting in a bank account.

So they cover #1 listed above. But what about #2 and #3?

Those are better covered with growth oriented investments (for #2) and a suitable amount (not too much and not too little) of liquid cash in a bank account (for #3).

Remember this:

There is no single product solution that solves all the financial challenges a retiree may be facing. But there may be a <u>portfolio solution</u> using the right mixture of financial products to solve the challenges a retiree may be facing.

<u>How</u> I help people make better annuity purchasing decisions (and help be better prepared for their retirement)

As a financial advisor I specifically help people to design their portfolio in such a way as to:

- Create predictable streams of income
- Streams of income that will last for the rest of your life (and your spouse's life)
- Income that in some cases can be designed to increase automatically over time, regardless of what the stock market does
- Help people stop losing money
- Help investors preserve their lump sum principal so they can't run out of money in retirement
- While building in liquidity and flexibility along the way

… And most important, do all these things simultaneously.

Yes, this usually will include annuities. But these annuities will be used correctly for the situation you are in, and the right one(s) chosen.

To accomplish all of these goals simultaneously, I use a step-by-step process.

I have utilized this process for clients to help them solve some of their biggest concerns they faced in retirement. Concerns such as, how to generate lifetime income, how to combat inflation with automatic income increases over time, how to help preserve principal and not fully deplete their nest egg, how to help them turn their portfolio into a tool that will help support them financially in retirement while not having to worry about running out of money.

This system is a detailed strategy that shows you how to do this.

It is based on reality and math. ***Not hypotheticals and probabilities*** that say, "Congratulations you only have a 23% chance of running out of money in retirement."

There is no comfort in an answer like that, yet so many advisors deliver those types of "solutions" to their clients.

You only get one chance to retire.

Therefore, this system is based on guarantees that last a lifetime.

It is designed to help your life savings work for you in such a way as to create predictable guaranteed income, income that increases over time, without fully depleting or forfeiting your nest egg.

How to make a better annuity purchase decision

If you are near retirement, or already retired, and want to help yourself make the best possible decision on what type of annuity to purchase, then think of the annuity you are considering as a part of your overall portfolio.

Think of it in terms of how it helps you reach solutions to your retirement challenges you have been worried about.

One helpful way to think about this is by asking yourself these questions:

- Will my current portfolio ***guarantee*** that I have ***enough income*** to live on in retirement?
- Will my current portfolio ***guarantee*** that I ***never run out of income in retirement?***
- Will my current portfolio ***guarantee*** that my ***income will automatically increase over time*** to help keep up with rising cost?
- Does my current financial advisor specialize in helping retirees (and near retirees), ***specifically with generating income and helping them not run out of money in their later years?***
- Will my spouse be taken care of if something happens to me, assuming I make no changes to my financial situation? Or should I make some changes to better protect my spouse in retirement should I be gone?
- ***Is my nest egg currently invested in such a way that my retirement could be seriously de-railed if we experience another market correction?***
- If a market correction occurred, is my nest egg invested in such a way that I would still be able to take income withdrawals from it… ***or would I have to stop withdrawals, possibly restrict my lifestyle, or be forced back to getting a job again?***

Can you answer these questions with 100% confidence?

If not, then ***before you purchase an annuity be sure to get these questions answered***. Otherwise you may make your situation worse and your retirement less secure!

For help with answering these questions, just keep reading for a unique opportunity...

Next Steps – A Unique Opportunity

Using a proven system for retirement planning can help create massive change to a financial future when properly understood and implemented. But unless it's set up correctly it does no good.

So, if you'd like to see how well this system can work for you, I'd like to show you with an in-depth look into your financial situation in a one on one Discovery Session.

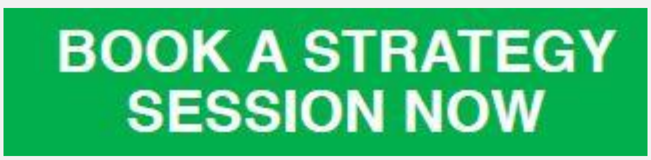
On this discovery session we will

- Get an understanding of your financial and personal goals
- Have a look at your current plan and see where that will lead you
- See if, and how much better off your situation can be with the system I have used to help many others across the country

Chris Hammond

On this call, you will be talking to me, not a junior advisor or assistant.

To book your Discovery Session simply CLICK HERE.



www.RetirementPlanningMadeEasy.com/Schedule/

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