.....15 Years and still rolling.....

Open MIC is open for anyone.

9:00: AM Pacific Thursday 800 504-8071 Code is 5556463

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CALL OR EMAIL

ANTHONY OWEN

888-74AGENT (24368)

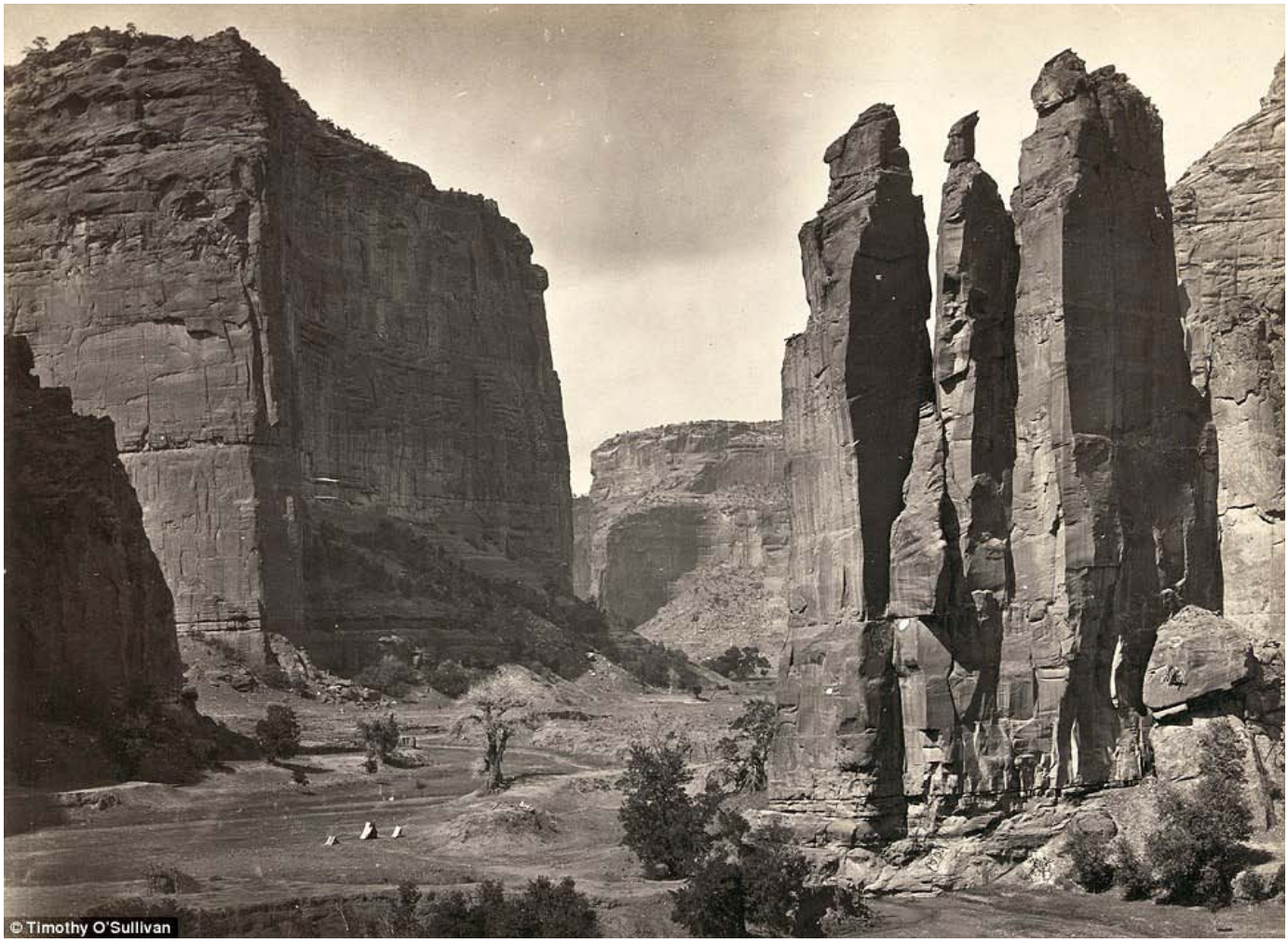
tony@annuityagentsalliance.com

OR VISIT OUR WEBSITE

Annuity | Agent's Alliance
Real Help From Real Agents.

Here are some words of wisdom:

"People are gradually realizing that anything which is free is of no earthly importance." Will Rogers 1924



Killer stuff....follow the link to a fantastic photo gallery of the West in 1870's, Thanks to Terry Arca for the share. (hey...it's not always about annuities....BB)

Incredible: Tents can be seen (bottom, centre) at a point known as Camp Beauty close to canyon walls in Canyon de Chelly National Monument, Arizona. Photographed in 1873 and situated in northeastern Arizona, the area is one of the longest continuously inhabited landscapes in North American and holds preserved ruins of early indigenous people's such as The Anasazi and Navajo.

Read more: **http://www.dailymail.co.uk/news/article-2149899/The-American-West-youve-seen-Amazing-19th-century-pictures-landscape-chartered-time.html#ixzz1wt30ekDD**

A ROUGH START TO JUNE

The Dow lost 275 points Friday as investors came to grips with May's weak jobs report. The NASDAQ ended the week down 12.0% from its March 26 peak while the S&P 500 was 9.9% off its April 2 peak. The weekly performances: S&P 500, -1.33% to 1,278.04; DJIA, -2.03% to 12,118.57; NASDAQ, -1.13% to 2,747.48. Turning to the NYMEX and COMEX, gold climbed 3.39% last week to settle at $1,622.10 Friday; oil dropped 8.40% in five days to end the week at $83.23.[1,7]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-0.81	-1.40	-2.27	**+2.21**
NASDAQ	+5.46	-0.78	+1.02	**+7.00**
S&P 500	+1.63	-2.78	-3.36	**+1.98**

FaceBook 26.90 ↓-0.82-2.96%

"Winner Winner Chicken Dinner"

Where did that term come from? The legend tells that years ago every casino in Las Vegas had a three-piece chicken dinner with a potato and a veggie for $1.79. A standard bet back then was $2, hence when you won a bet you had enough for a chicken dinner. !

Here is a winner....use this to offer **"value"** and help to your clients and prospects. This would be a wonderful handout or "ice breaker" for building relationships....being smart and being a constant marketer will separate you from those who are clueless....

Can you imagine how your database on RV will feel when this is offered free? How about a handout for annuity.com internet leads?

An Estate and Planning Checklist

Things to check and double-check before you leave this world.

Estate planning is a task that people tend to put off, as any discussion of "the end" tends to be off-putting. However, those who leave this world without their financial affairs in good order risk leaving their heirs some significant problems along with their legacies.

No matter what your age, here are some things you may want to accomplish this year with regard to estate planning.

Create a will if you don't have one. It is startling how many people never get around to this, even to the point of buying a will-in-a-box at a stationery store or setting one up online.

A 2011 Associated Press-LifeGoesStrong.com poll of 1,078 boomers found that 64% had no will or health care directive in place. That syncs roughly with statistics from a 2012 poll of 600 U.S. consumers and small business owners conducted by legal services website RocketLawyer.com. It found that 42% of "leading edge" baby boomers (people age 55-64) lacked wills.[1,2]

A solid will drafted with the guidance of an estate planning attorney may cost you more than a will-in-a-box, and it may prove to be some of the best money you ever spend. A valid will may save your heirs from some expensive headaches linked to probate and ambiguity.

Complement your will with related documents. Depending on your estate planning needs, this could include some kind of trust (or multiple trusts), durable financial and medical powers of attorney, a living will and other items.

You should know that a living will is not the same thing as a durable medical power of attorney. A living will makes your wishes known when it comes to life-prolonging medical treatments, and it takes the form of a directive. A durable medical power of attorney authorizes another party to make medical decisions for you (including end-of-life decisions) if you become incapacitated or otherwise unable to make these decisions.

Review your beneficiary designations. Who is the beneficiary of your IRA? How about your 401(k)? How about your annuity or life insurance policy? If your answer is along the lines of "Mm ... you know ... I'm pretty sure it's..." or "It's been a while since ...", then be sure to check the documents and verify who the designated beneficiary is.

When it comes to retirement accounts and life insurance, many people don't know that beneficiary designations take priority over bequests made in wills and living trusts. If you long ago named a child now estranged from you as the beneficiary of your life insurance policy, he or she will receive the death benefit when you die - regardless of what your will states.[3]

Time has a way of altering our beneficiary decisions. This is why some estate planners recommend that you review your beneficiaries every two years.

In some states, you can authorize transfer-on-death designations. This is a tactic against probate: TOD designations may permit the ownership transfer of securities (and in a few states, forms of real property, vehicles and other assets) immediately at your death to the person designated. TOD designations are sometimes referred to as "will substitutes" but they usually pertain only to securities.[4,5]

Create asset and debt lists. Does this sound like a lot of work? It may not be. You should provide your heirs with an asset and debt "map" they can follow should you pass away, so that they will be aware of the little details of your wealth.

- One list should detail your real property and personal property assets. It should list any real estate you own, and its worth; it should also list personal property items in your home, garage, backyard, warehouse, storage unit or small business that have notable monetary worth.
- Another list should detail your bank and brokerage accounts, your retirement accounts, and any other forms of investment plus any insurance policies.
- A third list should detail your credit card debts, your mortgage and/or HELOC, and any other outstanding consumer loans.

Consider gifting to reduce the size of your taxable estate. Congress has presented you with a remarkable opportunity to do just that – and it may not be available in 2013. At present, the lifetime federal gift, estate and generation-skipping tax exemption is unified and set at $5,120,000 until January 1, 2013. This means that until that date (barring an extension by Congress), you have the ability to gift up to $4.12 million more than the old $1 million lifetime limit. In addition, the gift and estate tax exemptions are currently portable between spouses. This means that for married couples, the lifetime gift tax exemption is set at $10.24 million.[6]

Think about consolidating your "stray" IRAs and bank accounts. This could make one of your lists a little shorter. Consolidation means fewer account statements, less paperwork for your heirs and fewer administrative fees to bear.

Let your heirs know the causes and charities that mean the most to you. Have you ever seen the phrase, "In lieu of flowers, donations may be made to ..." Well, perhaps you would like to suggest donations to this or that charity when you pass. Write down the associations you belong to and the organizations you support. Some non-profits do offer accidental life insurance benefits to heirs of members.

Select a reliable executor. Who have you chosen to administer your estate when the time comes? The choice may seem obvious, but consider a few factors. Is there a stark possibility that your named executor might die before you do? How well does he or she comprehend financial matters or the basic principles of estate law? What if you change your mind about the way you want your assets distributed – can you easily communicate those wishes to that person?

Your executor should have copies of your will, forms of power of attorney, any kind of healthcare proxy or living will, and any trusts you create. In fact, any of your loved ones referenced in these documents should also receive copies of them.

Talk to the professionals. Do-it-yourself estate planning is not recommended, especially if your estate is complex enough to trigger financial, legal and emotional issues among your heirs upon your passing.

Many people have the idea that they don't need an estate plan because their net worth is less than X dollars. Keep in mind, money isn't the only reason for an estate plan. You may not be a multimillionaire yet, but if you own a business, have a blended family, have kids with special needs, worry about dementia, or can't stand the thought of probate delays plus probate fees whittling away at assets you have amassed ... well, these are all good reasons to create and maintain an estate planning strategy.

Citations.

1 blog.aarp.org/2012/05/01/many-boomers-dont-have-wills-poll-finds/ [5/1/12]
2 visual.ly/got-wills-rocket-lawyer-make-will-month-survey-results [5/23/12]
3 www.knoxnews.com/news/2012/may/07/retirement-accounts-not-governed-by-wills/ [5/7/12]
4 www.investopedia.com/university/estate-planning/estate-planning5.asp#axzz1vjRm6aPe [5/23/12]

5 www.montoyaregistry.com/Financial-Market.aspx?financial-market=reasons-not-to-write-your-own-will&category=30 [5/23/11]

6 www.smartmoney.com/retirement/estate-planning/estate-tax-tips-for-married-couples-1300466869017/ [1/30/12]

Here is part of an email from a crew member….(edited)

Radio and referrals account for at least **90%** of my business. Radio is SO much better.

At least half call me because they liked what they heard (many just call for something free, or only heard the last 30 seconds and have forgotten they even called, or never answer when I call, of course). Because they liked

something and **THEY CALLED ME**, I have a MUCH better chance of beginning a relationship.

Carl is rapidly becoming one of my favorite authors....Here is why.

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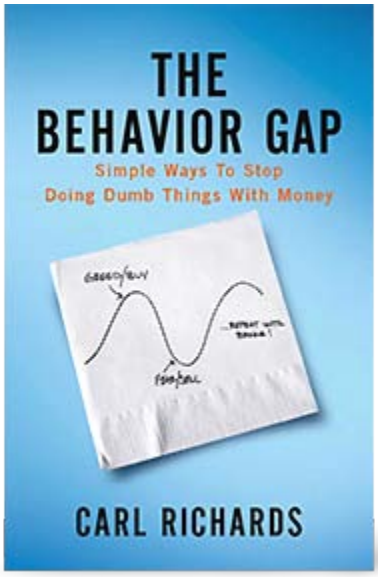
http://www.behaviorgap.com....He has a great book which I encourage you to buy....BB



Time to Swear Off the Stock Market?

May 31, 2012

A couple years ago, I happened to read a story that included the results of a weekly survey of investor sentiment done by the American Association

of Individual Investors. This survey reported that investors hadn't been so bullish since the market peak, some months earlier.

Hmmm. I seemed to recall that the same survey just two weeks earlier had found that investors were more bearish than they had been in over a year.

What had changed in two weeks? The only thing I know for sure is that the market was up five percent between the time investors wanted to sell and the time they wanted to buy.

Once again, people were excited about buying stocks because stocks had just become more expensive.

Sigh.

For years we've been repeating this mistake over and over. We do it because we make investing decisions based on how we feel rather than what we know. **Falling stocks scare us; rising stocks attract us.** But we know buying high and selling low leads to losses—and we need to stop doing it if we want to get a different result.

Can we stop, though? Some of us can. But many of us can't help ourselves. We are going to continue to run away from stocks when they cause us pain.

If you find yourself routinely buying or selling at the wrong time, it's time to do something different. One alternative—admittedly a pretty drastic one—is to swear off the stock market forever.

I'm not kidding. If you can't stand the heat (and the record clearly shows that most people can't) then maybe you should have the sense to get out

of the kitchen. Whatever the experts may claim, steering clear of stocks isn't stupid. You'll just be following Mark Twain's advice: **focus on the return of your money instead of the return on your money.** Of course, if you avoid stocks altogether, you could be giving up some potential returns. You will need to compensate by saving more or adjusting your goals. That would be better than continuing to buy high and sell low.

But maybe there's an even better alternative. Maybe you should get professional help from someone you really trust, who will help you make better decisions. Sometimes we just need someone to walk us in off the ledge when we're about to do something dumb.

Carl

BUY THE BOOK |

Google Local will get you leads, leads that become relationships, relationships that will become sales. You must market constantly.

Using this is an outsource...

Dear Crew Member of Retire Village,

It's time! The changeover to the new website design is happening. As part of this change we provide a matching @retirevillage.com email address. We offer a complete email system including full webmail, calendar, 5GB online storage, IMAP and POP access.

You may continue to use your current email address with your new Retirevillage.com website, receive a retirevillage.com address or host your own vanity email server through Retirevillage.com. But I need to know what you would like.

FYI - If you've participated in Annuity.com's Open Mic on Thursday you've heard me discuss the need to have a "private" email system - preferably one that matches your website address. It is more professional but more importantly - more secure. Secure from the prying of free email providers who use your email to deliver your competitors ads to your clients. Don't think that's possible - think again. It's real. It's simple purchase Google

Adwords ads that specifically target Gmail and other free email systems contents. I recommend it when purchasing ads - but you should to protect yourself from your competitor doing the same (why do you think they are free?). Take a look at these links and see for yourself:

Targeted Email Advertising

Microsoft Gmail Man Parody - Sad but True

One secure email address comes with your **RetireVillage** website. We offer two types of email addresses - a forward-only or complete email address. If you're still not convinced and want to forward your email to your existing email address, we will.

If you would like to use a retirevillage.com email address and need additional email addresses for others in your office or want your own vanity email address, you can purchase additional email addresses for $18 per year per mailbox. If you want a vanity email address - not a retirevillage.com address - there is a $50 email setup fee. You'll receive your own private email system at your own domain.

Please email me at mwood@riverhouseit.com or call me at (512) 943-7890 and let me know what email address you would like for your website - use your current one, a new retirevillage.com address or a vanity address.

Thanks. Stay tuned - more to come!

Best Regards,

Mark Wood

We help you generate Leads

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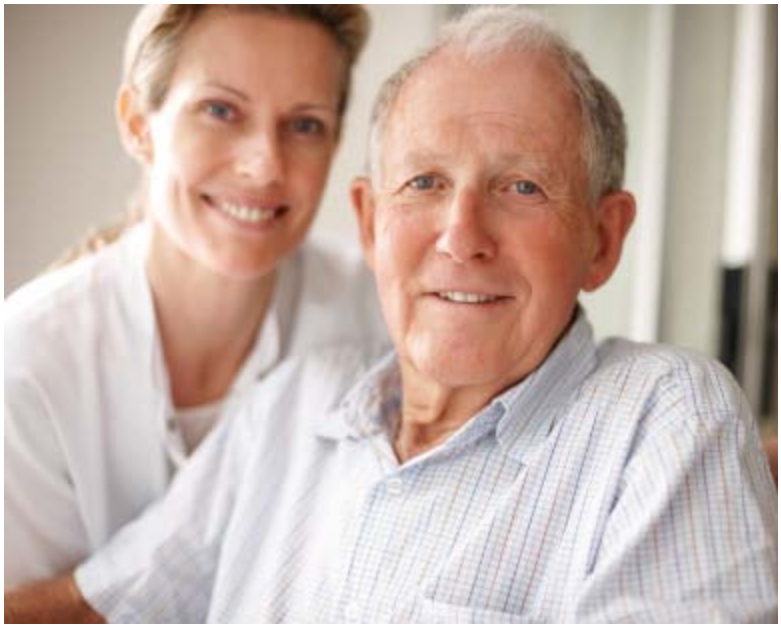
www.lifehealthpro.com. The following article was inspired by an article I found here. I edited and added to their ideas, apologies to the original author, I have misplaced it....BB



Marketing to Boomers: The Coming Goldmine

Nearly 76 million people, baby boomers represent the largest single population growth in US history and have had an enormous impact on every institution and every aspect in American life. Every day 10,000 new Baby Boomers turn 65 and they want their retirement benefits and their health insurance benefits.

AARP *"Approaching 65: A Survey of Baby Boomers Turning 65 Years Old."*

Link: http://assets.aarp.org/rgcenter/general/approaching-65.pdf

What are Boomers really concerned about? Health, economic issues and fear of not being able to retire.

- **Need and Fear**: They feel a ***need*** for protection, for safety and security. Boomers have already had a lifetime of experience, they have been married, divorced, had a job, lost a job, raised children, lived through rough financial times and been blessed with rewards of hard work.

- **Want and Reality**: They ***want*** to transfer risk from themselves to an insurance company, they want a trusted third party to be responsible. They have insured their home, car, income, life, and now they want to "*insure*" this new phase of their life. Boomers understand the importance of transferring risk and depending on professional advice.

Marketing to boomers

There is no "standard" Baby Boomer model, there are commonalities. It is helpful to understand the similarities and to respect the differences when working with boomers. Here are some key points to consider:

Emotion-driven message

- Boomers tend to focus on how a situation makes them ***feel***. Their responses are based on their total life experiences. This is why I use the term "What is the purpose and what does it need to accomplish?" to find out how the Baby Boomer feels.

To effectively market to boomers

- Understand their perspective
- Account for aging changes
- Add emotional value, if needed

Fact finding is the key....you must know how they **FEEL.**

Baby Boomers' criteria for concerns is based on their attitude towards money and lifestyle, Boomers are interested in "Cash Flow" far more than they are interested in the amount of debt they carry. To transfer that to retirement planning and retirement concerns their main worry is simple: not outliving their assets! Lifestyle and standard of living is essential for the Boomers.

So ...

- Listen.
- Ask questions.
- Be honest and ethical. They prefer the truth, even if the news is not good.
- Never talk about product until you fully understand how they feel.

In other words, build a relationship. You can do this by:

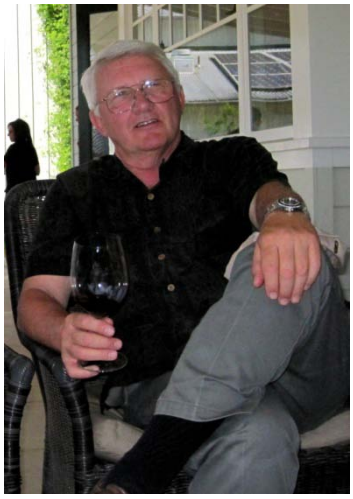
- Establishing a good first impression in person or on the phone
- Selling yourself, not a product
- Paying attention to detail
- Encouraging questions
- Being patient
- Considering the effects and issues of aging
- Using clear, simple language
- Not rushing
- Using the prospect's name, and

- Saying thank you

And……Fact Finding with a strong dose of Retire Village.

Your key to success: Establishing the need and helping to determine an affordable way to pay for their solutions.

So, as 2012 progresses plan your marketing and focus on how to ask and understand feeling questions. The Boomers entry into this next phase of their lives offers opportunities to grow your business, while also preparing you for the eco-generation — that's right, providing trusted care for the baby boomers will earn you new business from their kids.



As I was writing this article it occurred to me that I was really writing about myself. I am a Baby Boomer, age 65 and what is important to me is exactly what I was writing about:

Safety and Security with Reoccurring Income.

Nothing provides that greater than an income rider riding on top of an Indexed Annuity.

BB

http://www.nytimes.com/2012/06/03/business/new-401-k-rules-open-the-curtain-on-fees-fair-game.html?

401 k Fees

We have discussed this several times in the past couple of months on Open MIC but the recent **"light"** shinned on the fees by **AARP** bring it to the forefront.

Here are some links and a great article about the fees and how Baby Boomers still working are affected..

http://www.stltoday.com/business/columns/david-nicklaus/employers-are-confused-by-k-fees/article_d7d7e06c-a9a8-11e1-a9a8-0019bb30f31a.htmlEmployers are confused by 401(k) fees

Employers are confused by 401(k) fees

BY DAVID NICKLAUS • dnicklaus@post-dispatch.com > 314-340-8213 stltoday.com | Posted: Tuesday, May 29, 2012

As **we've written before**, most workers are in the dark about how much they're paying for their 401(k) retirement plans. Now, a recent Government Accountability Office study says employers are equally clueless.

The plans almost seem designed for confusion. All plans face costs for administration, recordkeeping and investment, but some of those costs can be hidden. If money is invested in a high-cost mutual fund, the fund may rebate some of its fee, in a system known as revenue sharing, to cover administrative expenses. Some employers -- and a lot of employees -- see this as a free ride, but they're really paying the costs in a back-door fashion. The GAO notes, for example:

Service providers and consultants we spoke with noted that plan sponsors typically do not fully understand revenue sharing arrangements. ... sponsors of an estimated 48 percent of plans did not know if their service providers had revenue sharing arrangements with other providers.

Plan sponsors who reported not having or not knowing if their providers had revenue sharing arrangements may, in fact, have had these arrangements and were not aware of it. Our review found that at least 45 of the 91 plan sponsors who provided investment

reports had revenue sharing arrangements, despite reporting not having or not knowing of such arrangements.

Even the employers who know about revenue-sharing arrangements may not fully understand them, the GAO says:

For example, our review of the fee report of a 401(k) plan that used revenue sharing and had over 500 participants and approximately $13.5 million in plan assets found that the plan sponsor and participants paid 16 times more in recordkeeping and administrative fees during calendar year 2010 than the sponsor reported on our survey .... Similarly, the plan sponsor of a small plan that had about 65 participants and about $5.8 million in plan assets reported that the company did not pay anything for recordkeeping and administrative fees, though the fee report the sponsor provided indicated that these fees in total were about $10,700 ....

Ignorance clearly isn't bliss. In a lot of cases, employees would be better served by putting their money in a low-cost mutual fund and paying a flat fee for administrative costs. The hidden-fee problem really gets large if annuities are used inside the 401(k):

According to our review, it appears that at least 15 of the plans that provided investment documents and reported not being in a group variable annuity contract may actually be under such a contract.

.... Fees associated with group annuities can add significant costs to a plan. The additional fees for group annuity contracts **— known as wrap fees** — include administrative fees and a mortality and expense risk charge, which is typically in the range of **1.25 percent of assets per year**. We also found that **in addition** to each fund's expense ratio, an insurance provider's administrative service fees were up to 2.00 percent of plan assets for a few plans that responded to our survey.

Most business owners aren't dummies -- they're just busy people with a lot of responsibilities, and they choose a 401(k) plan based on a firm's reputation or an adviser's recommendation. The GAO says that new **Labor Department** disclosure rules may help, but that "their effect remains to be seen." It encourages the Labor Department to offer more educational programs for employers, but the report includes a discouraging note: 90 percent of employers haven't used an existing tool that would help them compare fees.

Read more *from David Nicklaus, who is the business columnist for the Post-Dispatch. On Twitter, follow him* ***@dnickbiz*** *and the Business section @postdispatchbiz.*

Read more: **http://www.stltoday.com/business/columns/david-nicklaus/employers-are-confused-by-k-fees/article_d7d7e06c-a9a8-11e1-a9a8-0019bb30f31a.html#ixzz1wq2TAttG**

And then there is this issue…if you sell the stuff you have to deal with the government regulations…..

Broker-dealers covered under new fee disclosure regs

BY **PAULA AVEN GLADYCH**
May 30, 2012 •

Besides investment managers, broker-dealers also will feel the pinch of fee disclosure regulations when they go into effect July 1.

According to Fred Reish of DrinkerBiddle, the Department of Labor's 408(b)(2) regulations do apply to broker-dealers because they refer investment managers to plans and receive solicitor's fees in exchange for that service. They also have to disclose those fees to clients.

"It is common that, when an adviser refers an investment manager to an ERISA plan, the adviser will receive a referral fee, which is called a solicitor's fee. In most cases, the adviser will receive a fee for the referral that often continues so long as the plan uses the investment manager. Under the securities laws, the adviser provides a solicitor's fee disclosure statement to the investors," he said.

Here is the link:

http://www.benefitspro.com/2012/05/30/broker-dealers-covered-under-new-fee-disclosure-re?utm_source=RetirementAdvisorPro&utm_medium=eNL&utm_campaign=BenefitsPro_eNLs

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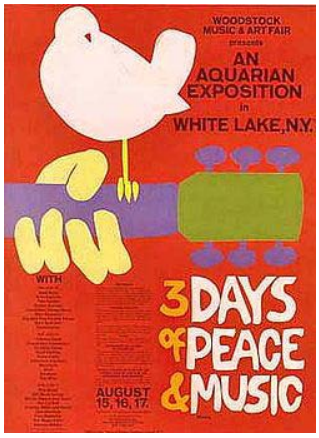
GM runs to annuities

http://www.commercialappeal.com/news/2012/jun/01/gm-to-buy-out-white-collar-pensions/?CID=happeningnow

This made the national news, large companies have discovered that outsourcing to a third party income

provider is smart business. The savings is estimated to be $26 Billion.....

Now I ask you, why would they do it? Could it be for the same reason we suggest making sure the "fees" are disclosed. Prudential got this case mostly because of their national distribution and size....the concept still is the same....let an insurance company shoulder the responsibility.....BB



"It's a free concert from now on"

Woodstock 1969

If you are old enough to remember those famous lines by **Woodstock** announcer **John Morris**, 400,000 were there.... were you?

David said to me the other day....**Open MIC** is and will always be free, Annuity.com's content is free and always will be....so why do we have a password for our new life system?

I couldn't give him a solid reason so what the heck**...."It's a free app from now on"**

We have changed the agent tools landing page and going away from the need for agent login. This will be easier for agents to access and use.

Plus we are adding a link for agents to have access to their pending life applications so they can check the status.

Here is the URL:

www.annuity.com/agenttools

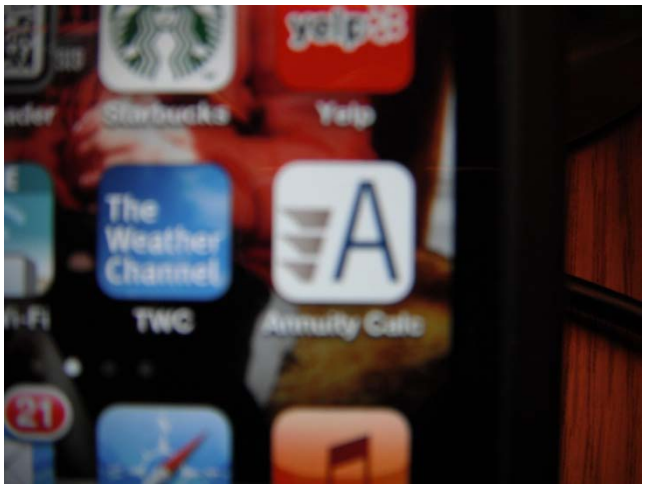
David and Bill

PS....don't forget, we are agents also....

Now you can have access to Annuity.com's term definitions...more additions to come.

It's a free download....make sure your clients and prospects are aware they can download for free.

Look lower right



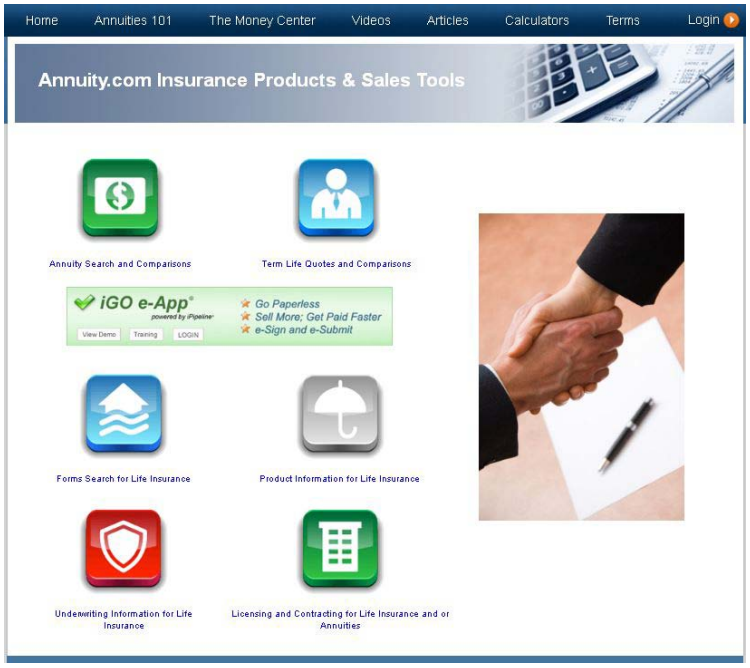
Push the button (the A)

Use the calculator!!! Plus <u>definitions,</u> and more to come…download now!

Big Truck Questions

Questions for the Owen's Brothers from the Crew

The Owen's Boys are on vacation this week....they will be here next week to answer your questions.....



Annuity.com Life Division:

www.Annuity.com/life

Shaun Ebben: President, Annuity.com/life

208) 297-7818. Office
855-855-2522
208-585-1312 Cell
480-275-3671 Fax
shaun@annuity.com

Have a look at the new site....

Dave has some product updates...

(exclusive) Leads $25 for Life Leads for the Crew

Policy Review

Change is part of life. With each change, your financial needs may evolve-in ways you might not anticipate.

Your life insurance needs are as dynamic as your life. That's why it's important to meet with the insured periodically to ensure there policy still fits their circumstances and objectives.

What's covered in a policy review?

A proper policy review involves more than an analysis of your death benefit. The financial professional can consider your coverage holistically-in light of changes in your life, current economic conditions, and recent trends in the insurance industry-and should review six key factors:

1. Protection Is your death benefit still sufficient?

2. Annual premiums Can your coverage needs be met more economically?

3. Ownership structure Is your policy ownership the most tax-efficient for your goals?

4. Beneficiary designations Are your beneficiary designations up to date?

5. Supplementary benefits Are there new benefit options better suited to your current circumstances and objectives?

6. Cash value & performance Is your policy's performance meeting your current expectations?

Is a policy review a sales call?

A policy review is a complimentary, no-obligation service offered by your financial professional, even if your policy wasn't sold by you. It can help the client rest assured that your current coverage suits there current needs and gives you the chance to adjust their policy to better suit their needs, whether that means an increase or a decrease in coverage. The results will depend on your unique circumstances.

How will I know if it's time for a review?

We recommend routine reviews every year or two. Certain life events may also signal the need for a review, such as:

- Change in job status
- Marriage, divorce or death of a spouse
- Birth or adoption of a child
- A new "empty nest"
- Increase/decrease of debt

Make it a habit

Life insurance is often accompanied with a "set it and forget it" frame of mind. However, it's important to routinely check their existing coverage to ensure it still fits your needs. Consistently setting aside time for a policy review may save insured and their beneficiaries time and frustration, and potentially money.

A policy review is not always a precursor to a change in coverage.

Check out our Life Insurance Portal at

www.annuity.com/agenttools

Earn 8%.....You have all seen it!

The other day an agent sent me an advertisement for high rates of return for a National Charity Charitable Annuity, showing the example of earning 8%....here is how it really works.....BB

High Yields, Deductibility...who wouldn't want one?

The Weird Math of Charitable Gift Annuities

By Kerry Pechter *Wed, Mar 21, 2012*

Here's how the wealthy buy lifetime income while giving zip to insurance companies, a pittance to the IRS and--unless they live a very long time--a sizable gift to charity.

Anyone who has studied the “annuity puzzle” has heard the assertion, frequently attributed to Menahem Yaari’s famous 1965 paper on the

subject, that a retiree with no bequest motive should annuitize all of his or her assets.

But Yaari's rule-of-thumb appears to ignore the existence of *charitable gift annuities* (CGA), which allow philanthropic, often high-net-worth retirees to meet their need for lifetime income and their desire to donate money to charity in a single contract.

Charities use CGAs as fund-raising tools. Acting like an insurance company that issues life annuities, a charity will collect a purchase premium, pay out a lifetime income to one or two people, and **keep what's left when they die**—either to pay surviving annuitants or as revenue.

CGAs differ from commercial annuities in a few significant ways. All else being equal, purchasers of CGA receive a lower payout rate than purchasers of commercial annuities. But, because their premium doubles as a gift, they receive a current-year tax deduction worth between, say, 10% and 40% of value of the initial premium.

In short, there's a trade-off. The reduced payout rate increases the chance that a chunk of money (technically, the "residuum") will be left over for the charitable organization when the annuitants have died. The donor's current-year tax deduction is the present value of that future chunk of money, discounted at a rate dictated by the IRS.

Standardized (but not mandatory) CGA payout rates have been established by the **American Council on Gift Annuities**. The suggested rate for a single 65-year-old is 4.7% (as of January 1, 2012)—as compared with almost 7% from an insurance company. Payout rates vary from charity to charity, however, as a couple of examples will show. (And, of course, the tax benefit will depend on each taxpayer's situation.)

Alan and Connie

An online hunt for information about CGAs led me to Futurefocus.net, one of whose pages provided the hypothetical example of "Alan" and "Connie," ages 74 and 76, respectively. The imaginary couple decided to take $100,000 out of a taxable money market fund yielding only $1,500 a year and purchase a CGA from XYZ Charity.

The CGA paid them $5,000 a year (or 5%, the ACGA rate) as long as either lived. It also gave them a current-year tax deduction of $34,752 (the present value of the future charitable contribution). Because the Richards are in the 35% marginal tax bracket, they reduced their tax bill by $12,163.

In addition to the current-year tax deduction, the Richards could look forward to excluding $3,980 (representing return of principal) of each year's $5,000 payout from income taxes for 16.4 years. According to the example (whose calculations I was not able to test), the Richards would have to generate $8,100 a year in earned income to replace the income from the CGA.

The real world of CGAs, it turns out, offers more price flexibility than Alan and Connie's story would imply. For example, the UJA Federation of New York recently advertised a CGA in the *New York Times* that offered a much higher payout rate but a smaller deduction than in the hypothetical above.

Using the calculator on the UJA's website, I typed in Alan and Connie's ages and premium amount. The UJA, it turned out, would pay $6,500 a year or 6.5% to the Richards—**30% more per year than XYZ charity**. The higher payout meant that less would be left for the UJA when the Richards died, so the Richards received a tax deduction of only $13,789. Assuming a 35% marginal tax rate, they would save just $4,826.

'Not 100% rational'

Actuaries may be interested to know the assumptions behind the ACGA's standardized payout rates. For instance, the rates are targeted toward a future charitable contribution of 50% of the initial premium, with a minimum present value equal to 20% of the initial premium. All annuitants are assumed to be female and one year younger than their actual ages.

The payout rates assume a 4.25% investment return—a decline of 75 basis points from last July. The assumed expense ratio is 1%. The current-year charitable deduction, however, is based on an IRS-prescribed discount rate, currently only 1.5%. The charities anticipate their funds to average an annual net gain of 3.25%, but the IRS isn't as optimistic (or as generous).

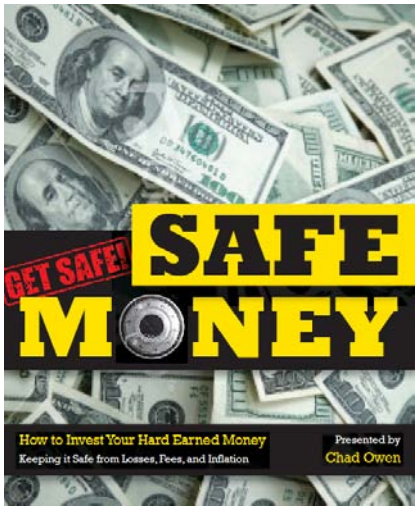
Of course, prospective donors could always buy a $75,000 commercial annuity and give $25,000 to charity, rather than make the charity wait for them to die.

"It's not 100% rational decision-making," Samers said. CGA buyers—who likely comprise a separate, wealthier client segment from commercial annuity buyers—may just relish the idea of keeping their money away from both insurers and the IRS.

Is it risky to purchase a CGA? **The gift annuity guarantee is based on the claims-paying ability of the charity, and charities fail more easily than insurance companies.** Some charities have reportedly purchased commercial annuities as a safeguard. During the financial crisis,

many small or shallow-pocketed charitable funds were said to be "underwater," and a few actually went bankrupt.

Before relying on a charity for lifetime income, do your due-diligence.



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