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

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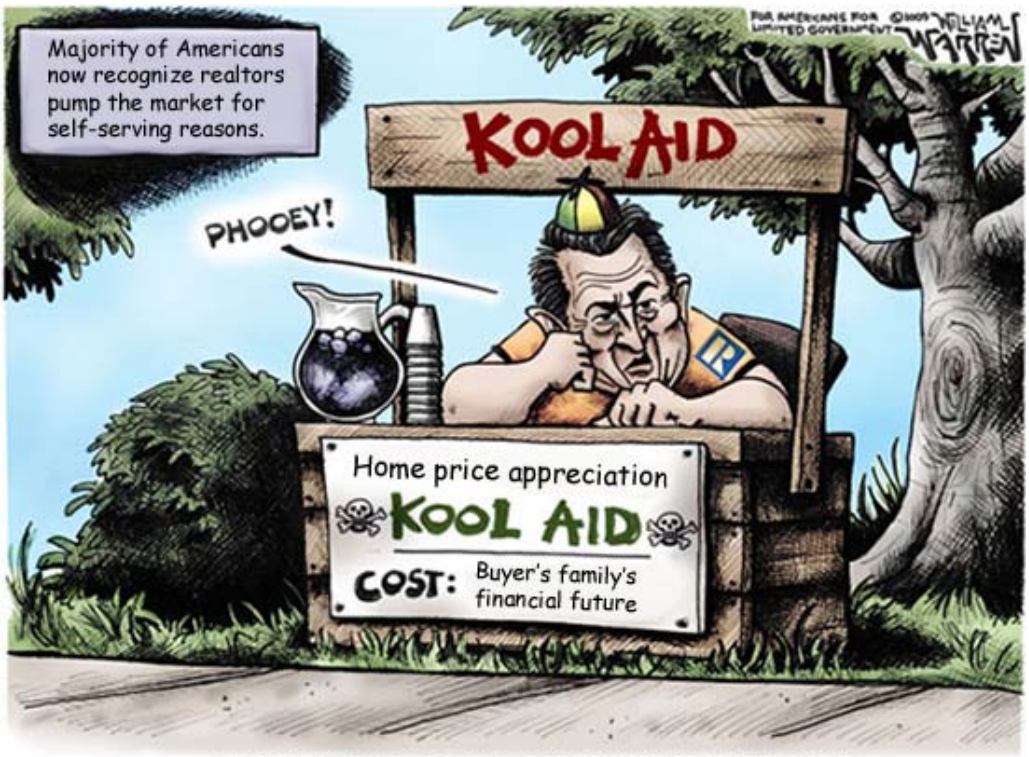


"...PEOPLE JUST AREN'T DRINKING IT ANYMORE."

Open MIC will be on hiatus next week due to the 4th of July on a Wednesday, we shall return July 12th....

Words of Wisdom:

"Success is the ability to go from one failure to another with no loss of enthusiasm." **...Sir Winston Churchill**

Health care costs in America are equal to **16% of the US economy**, a larger percentage **than any other country in the world**. The proportion of our economy that goes to health care is **+43% greater** than the country (France spends 11.2% of its economy) that holds 2nd place in this ranking (source: Organization for Economic Cooperation and Development).

Obesity is directly or indirectly responsible for **21% of health care costs** in the United States (source: Cornell University).

Aviva Webinars

These are really worth it, sign up and learn....BB

https://image.avivausa.com/portalimages/imageserver/marketing/email/pdfs/WebcastSchedule.pdf

Brokers must provide compliance even after a variable annuity has been sold, every year!

http://www.investmentnews.com/article/20120625/FREE/120629955

Advisers who recommend that a customer stick with a variable annuity will need to revisit the information in the client's profile and make sure the product is still suitable.

That's the requirement in the Financial Industry Regulatory Authority Inc.'s Rule 2111, a regulation that covers general suitability for recommended transactions and investment strategies involving securities.

The regulation, which will be implemented **July 9**, will require that brokers perform reasonable due diligence to understand the nature of the recommended strategy or securities product and **whether it's suitable**.

The annual review must maintain the compliance rules even after a VA is in force, it must be justified annually.....and you thought 151a would be bad news!....BB

Boomers Bankrolling Adult Children

http://www.investmentnews.com/article/20120624/REG/306249991?utm_source=issuealert-20120624&utm_medium=in-newsletter&utm_campaign=investmentnews&utm_term=text#

"Children are still our largest expense, well after they leave home," said Mr. Bosworth, a senior economics fellow at The Brookings Institution.

The amount that Americans spend on their adult children during years when they should be concentrating on saving for their own retirement worries some financial professionals.

see link above.....

I think this is an important topic, many in our target market are faced with this issue, when we conduct fact finders it is important to uncover this fact.

I certainly understand how this can affect retirement planning (from personal experience).....BB

*******When I am conduction a fact finder I always ask about the children even though they could easily be grown adults.....once you find out that a financial relationship (support) exists it allows you to ask many inquiring and feeling questions....really works.

Scenario

You are a planner charging fees, your clients want **NO** risk, you put the funds in the bank at very low rates, the account drops because of your fees.....Hmmm....

http://www.investmentnews.com/article/20120624/REG/306249986?utm_source=issuealert-20120624&utm_medium=in-newsletter&utm_campaign=investmentnews&utm_term=text

A couple of weeks ago, I had a newer agent ask me how I change massage the topic of CDs to the benefits of annuities....Maybe this will help....BB

When visiting with a prospect during the fact finding session: when the topic of Bank CDs comes up....try this.

The point of asking questions is to help the prospect come to grips with their current situation. Most people tend to bury their pain. They just live with it. They are afraid to make changes. They don't know who to trust.

Bill: If you don't mind me asking, do you have money in CDs?

Mrs. Jones: Yes, about $200,000.

Bill: Is there any particular reason you have your money in CDs?

Mrs. Jones Well, they are safe and I can get at them easily.

Bill: If you don't mind me asking, what interest rate are you currently enjoying on your CDs?

Mrs. Jones: About 1%!

Bill: How do you feel about that?

Mrs. Jones: Not too good! I was getting much more than that a few years

ago!

Bill: Are you using that CD interest for income?

Mrs. Jones: Yes!

Bill: Is the low interest on your CDs a problem for you?

Mrs. Jones : Well, we can't do some of the things we used to do and I'm being forced to dig into my principal?

Bill: How do you feel about that?

Mrs. Jones: I don't like it at all!

Bill: Why is that a concern?

Mrs. Jones: I'm afraid we're going to run out of money!

Bill: If I could show you how you could increase your income and at the same time guarantee you would never run out of money……

Another nice way to flush out the topic is the "What is the purpose questi**on**".....

Hope this answers the question....BB

Limra: Advisors recommend annuities

Fifty-five percent of advisors whose clients typically have less than **$500,000** investable assets believe annuity products should be included as part of their financial portfolios, according to a recent LIMRA study.

"Our study found that the majority of advisors feel longevity — outliving their assets — to be the greatest risk facing their clients," said Matthew Drinkwater, associate managing director, LIMRA's retirement research. "This is particularly true for less affluent households, who often must rely on their personal savings to generate retirement income and do not have enough assets to self-insure against longevity risk. Advisors consider protecting against longevity risk one of their most valuable services, and recognize annuities provide a guaranteed lifetime income stream that will mitigate part or all of this risk for their clients."

http://insurancenewsnet.com/article.aspx?id=347418&type=lifehealth

My guess is about 90% of those selling FIA would be a better number, they understand the power of these products.....BB

"Survival in the 21st Centrury"

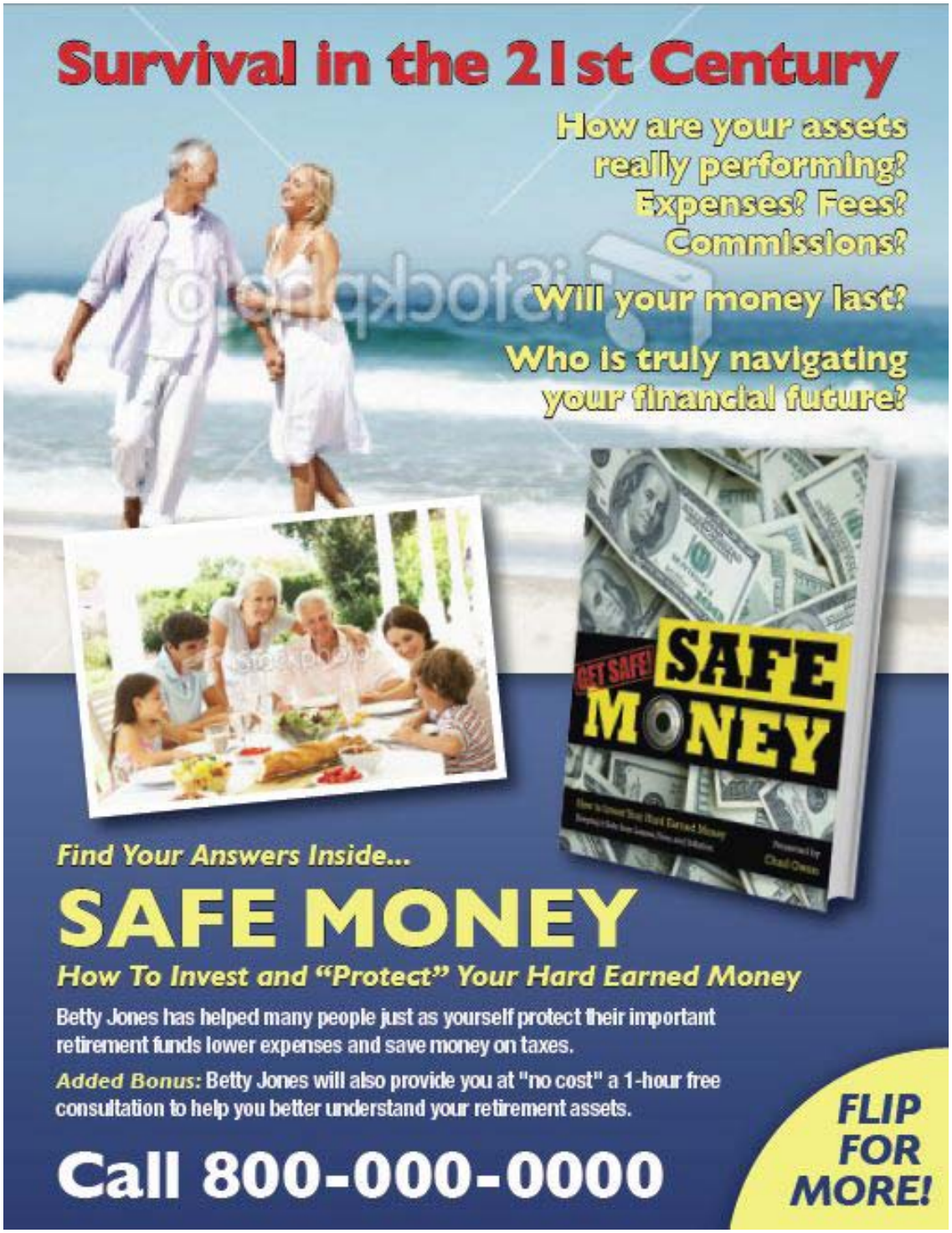
Sneak Preview of our new direct mail piece, except this is different. The leads are scrubbed by our new answering service and sent immediately to you, the piece is completely customized

for each individual agent and the 800 is assigned to you. You will have different options for how the call is answered.

Details will be mid month, plus we have a huge upgrade in the internet lead system coming.....Might want to be on the July 12th Open MIC.

This new direct mail system will allow you even more options to find qualified leads, leads who are interested in annuities.

BB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Who is truly navigating your financial future?
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- How to find the highest Bank CD rates
- How to transfer assets to your heirs tax free
- How to "avoid" risk

Betty Jones
Safe Money Expert

Betty Jones & Company
401 Greensboro Avenue, Tuscaloosa, AL 35401
www.RetireVillage.com
info@retirevillage.com

Hello Partners,

The Safe Money Kit folders (customized and non-customized) are available for order. Pricing and ordering information can be found if you log-in to www.annuityagentsalliance.com.

Attached are the samples.

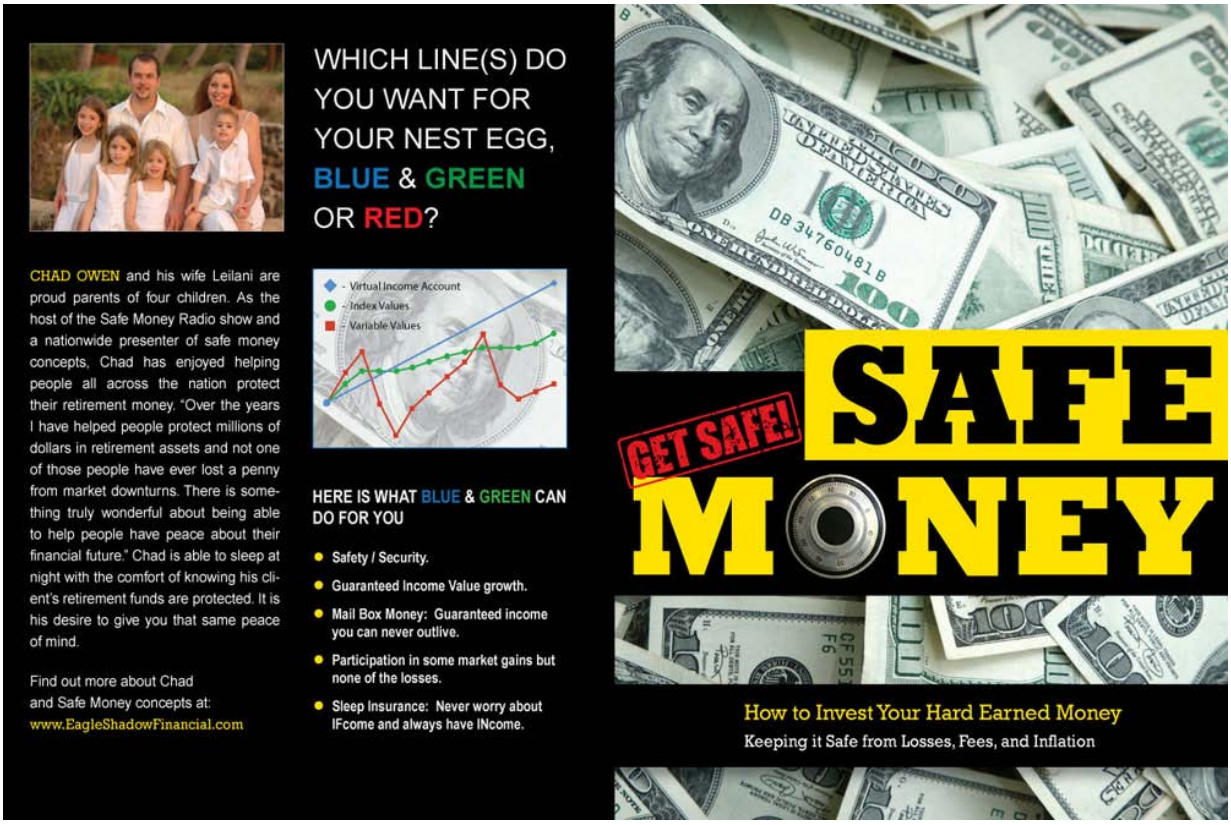
The contents of the SMIK will be updated to match the quality of the new cover over the next couple of months or sooner if possible.

Thanks,

Anthony R. Owen

Office: 303-284-3582

Cell: 720-989-9564



Good reason to use Retire Village....

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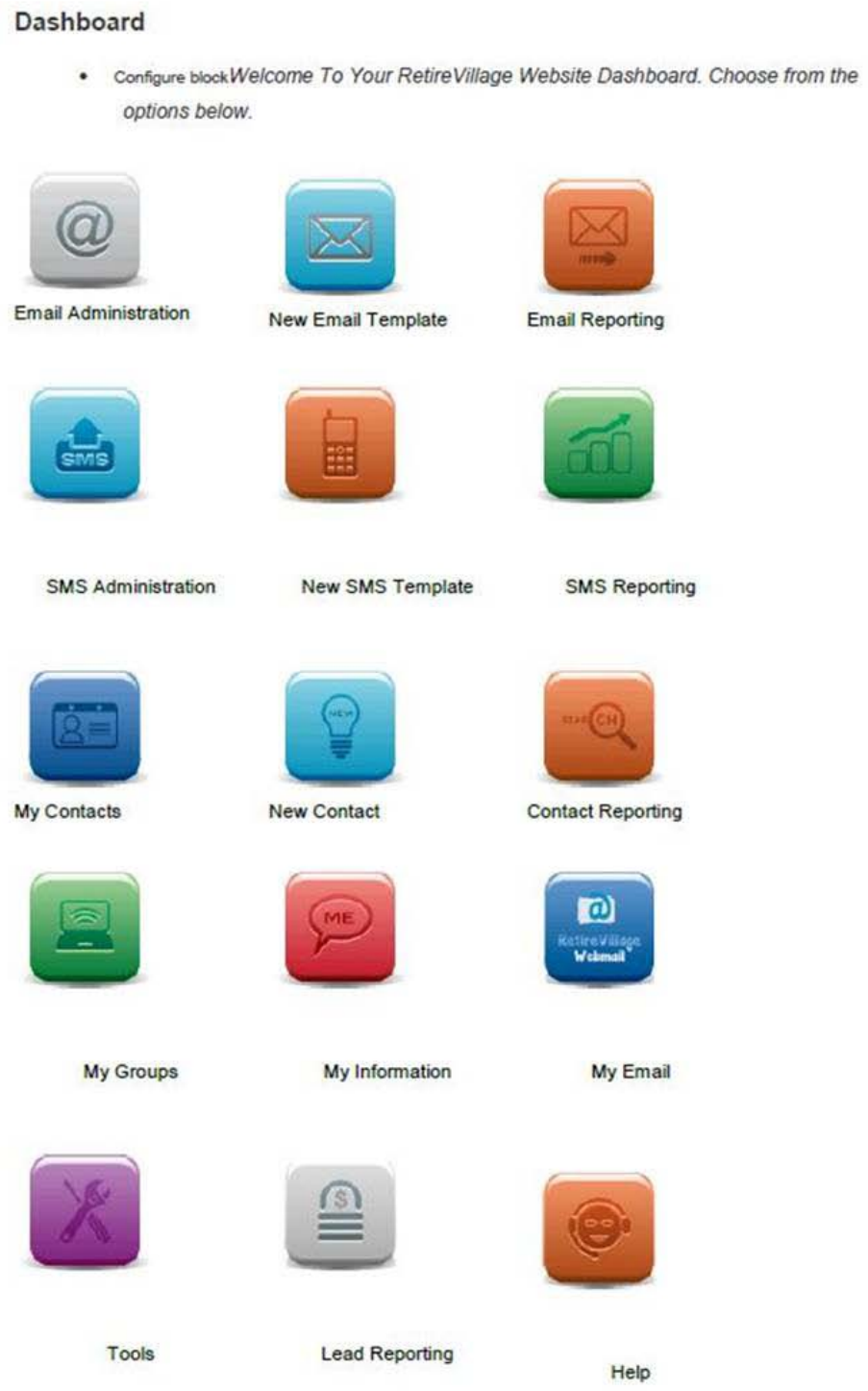
- **80% of sales are made on the 5th-12th contact!**

http://www.retirevillage.com/admin/dashboard



Joe….explain this to us……

Annuity.com Life Division: www.Annuity.com/agenttools

Shaun Ebben: President, Annuity.com/agenttools

President of Annuity.com Life Division

Have a look at the new site….

www.annuity.com/agenttools

Dave has some product updates

Want a little Economics Lesson?

Understanding this issue might allow you to converse with a prospect at a higher level

(I am not the author on this piece) BB

If Greece leaves the eurozone in the coming months, what kind of financial ripples could reach America?

Nobody can predict the endgame yet; Greece may even stay in the euro, although that is looking less and less likely. The big concern isn't what happens in Greece – it is about what could happen in Spain or Italy as *a result* of what happens in Greece.

The effects from a Greek default (and eurozone exit) would likely be felt on four fronts in America – but first, an economic chain reaction would almost certainly play out in Europe.

A Greek default could imperil Spain & Italy. If Greece leaves the euro, then Greek bondholders lose their money. A **crisis of confidence** in the euro could prompt institutional investors to either walk away or **demand even higher interest rates on Italian and Spanish bonds**. The European Central Bank could then step up and provide emergency lending, bond buying and recapitalization efforts. If those efforts were to fall short, the worst-case scenario would be a default in Italy and/or Spain.

(the Federal Reserve is in essence doing this right now, buying US debt to keep the rates low….BB)

It could also hurt U.S. banks that aren't sensibly hedged. If Italy and/or Spain default, a severe downturn could hit EU economies and U.S.

lenders would be looking at a **huge potential problem**. If they are capably hedged against the turmoil in the EU, they could possibly ride through it without a lot of damage. If it turns out they have made **foolishly speculative bets** (cf. Lehman Brothers, JPMorgan), you could have a big wave of fear, which in the worst scenario would foster a credit freeze reminiscent of 2008. Would the Fed step in again to unfreeze things? Presumably so. Without its intervention, you could have a Darwinian scenario play out in the U.S. banking sector, and few economists and investors would see benefit in that.

(interruption in the natural flow of things, in other words countries not involved will have to get involved...BB)

The good news (relatively speaking) is that U.S. banks have **cut their exposure** to Greece by more than 40% as that country's sovereign debt crisis has unfolded. Pension funds and insurers have joined them.

Stocks could fall sharply & the dollar could soar. The greenback would become a premier "safe haven" if foreign investors lose faith in the euro. At the same time, a crisis of confidence would imply big losses for equities (and by extension, the retirement savings accounts and portfolios of retail investors).

U.S. companies could be hurt by fewer exports to Europe. Right now, 19% of U.S. exports are shipped to EU nations. If a deep EU recession occurs, demand presumably lessens for those exports and that would hurt our factories. If institutional investors run from the euro, it would also make U.S. exports more costly for Europeans. Additionally, the EU is the top trading partner to both the U.S. and China; as Deutsche Bank notes, the EU accounts for **25%** of global trade.

Our recovery could be hindered. Picture **higher gas prices**, a **markedly lower Dow**, the jobless rate increasing again. In other words: a double dip.

In mid-May, economists polled by Reuters forecast 2.3% growth for the U.S. economy in 2012 and 2.4% growth in 2013. These economists also

believe that were the fate of Greece not on the table, U.S. GDP might prove to be .1-.5% higher.[2]

If politicians play their cards right, we may see better outcomes. For example, Greece could elect a new government that decides to abide by the requested austerity cuts linked to EU/IMF bailout money. Greece could remain in the EU and banks in Spain, Italy, Germany and France could ride through the storm thanks to sufficient capital injections. Global stocks would be pressured, but maybe on the level of 2011 rather than 2008. (Maybe the impact wouldn't even be that bad.)

In a rockier storyline, Greece becomes the brat of the EU – a newly radical government rejects the bailout terms set by the EU and IMF, Greece leaves the EU and starts printing drachmas again. The EU, IMF and maybe even the **Federal Reserve act rapidly to stabilize the EU banking sector**. Early firefighting by central banks results in containment of the crisis after several days of shock, with U.S. markets recovering in decent time (yet with investors still nervous about Italy and Spain).

Containment may be the key. If a Greek default can be averted or made orderly by the EU and the IMF, then the impact on Wall Street may not be as major as some analysts fear – and who knows, the U.S. markets might even end up pricing it in. **Greece only represents 2%** of eurozone GDP; our exports and credit exposure to Greece are minimal at this juncture. Our money market funds have mostly stopped investing in Europe. So with diplomacy and contingency planning afoot, a "Grexit" might do less damage to the world economy than some analysts believe.

I have subscribed to Kerry Pechter for two years, well worth the $165 annual fee, maybe you should also....here is Kerry's email, why not contact him and get the details?

I left all the reference links in....

kerry.pechter@retirementincomejournal.com

www.retirementincomejournal.com

It may seem like a much to told story on **Open MIC** but this is a fabulous opportunity to sell FIA. With the rollover rules, this market is massive.....If you learn this stuff, many extra sales a year will come your way simply by being informed....BB

Let me start with a little accounting "tip" secret....

The secret the 401 k folks have done is this....

********Mutual funds close at the end of the trading day, once the market has closed, this is called the **Net Asset Value....NAV**. If the 401 k fees are subtracted then the fees will show as fees...and the plan participant **will see them**...

so they do it this way, the market opens in the morning, the fees are then subtracted during the trading day and the cost of the fees is built into the NAV of that day....and guess what?

They are not reported as fees. This is a little know industry secret, how they get around the fee disclosure in the participants statement, the fees are built in.....BB

Famous Quote:

No greater market exists in our industry than the 401k rollout to self directed IRA's using our wonderful products, FIA.....Bill Broich

The Black Box of 401(k) Expenses

By Kerry Pechter *Wed, Jun 20, 2012*

The experts--Louis Harvey of Dalbar, Mike Alfred of Brightscope, David Witz of PlanTools, Phil Chiricotti of CFDD, Jonathan Leidy, CFP, and Tussey v. ABB attorney Jerry Schlichter--talk about what the 401(k) fee disclosure rules will mean.

(We have had Brightscope on Open MIC before....BB)

In an ideal world, perhaps, every 401(k) plan sponsor would choose low-cost funds, participants would pay a flat fee for recordkeeping, advisory costs would be prominent and fiduciaries in shining armor would slay the dragon of revenue-sharing for once and for all.

In other words, the black box of retirement plan fees would open wide and the sunlight of disclosure would disinfect all of its darkest, dankest corners.

The 401(k) fee disclosure regulations, 408(b)(2) and 404(a)(5), which the Pension Protection Act of 2006 created, which the Obama administration fine-tuned and which will finally take effect on **July 1, won't achieve that ideal.** The flaws of the 401(k) part of the defined contribution system—composed of some 400,000 plans ranging in size from a single person to tens of thousands—aren't so easily corrected.

But the new regulations are bringing—and have already brought—significant improvement, a number of 401(k) experts told *RIJ* in recent weeks. Here's what knowledgeable observers are saying about what the new regulation aims to do, what it has already accomplished, and how it might fall short of its ambitions.

Targeting the outliers

The Department Labor aims to make the 401(k) system operate more efficiently and transparently and to ensure that there's **less fee attrition** so that plan participants reach retirement with larger nest eggs that produce more lifetime income.

To get there, the DoL is requiring fees to be more visible—to recordkeepers and fund providers, to consultants and plan sponsor advisors, to plan sponsors and participants and to the DoL—and insisting that fiduciaries do their jobs and protect participants' interests.

It's generally agreed that high fees are mainly a problem at small plans.

The average annual all-in expense ratio for the 72 million 401(k) participants is 1.30% a year.

But the GAO recently found that small plans spend an average of **1.33%** of plan assets on recordkeeping and administration alone, while large plans average only 0.15%.

With regard to total annual spending on 401(k) plans, the DoL's goal is fairly modest. According to a report from Dalbar, the present **value of the savings** DoL hopes to achieve over 10 years is just $**14.9 billion**—in a $3 trillion industry where **direct fees from participants alone amount to about $40 billion a year.**

$40 Billion a year in fees

"The philosophy is to identify the egregious outliers," said Louis Harvey (below, right), president and CEO of Dalbar, which published a report last February called, "404(a)(5) A Game Changer?" Nowhere have I seen [the DoL] focus on overall lowering of revenue for everybody.

"The DoL could never have said, 'We're going to lower the average participant expense ratio to 1.2% from 1.3%.' Imagine the ruckus that would cause. But there are participants out there who are paying 300 basis points a year. So, strategically, the government is targeting the outliers and saying that these are the 'excessive' fees that we're going to recapture."

Revenue sharing will survive

Much of the opacity of the 401(k) fee structure arises from revenue-sharing relationships between fund companies and other service providers, but the new fee disclosure regulations aren't eliminating revenue-sharing, and probably won't get eliminate 100% of the opacity that goes with it.

Anybody who's familiar with how fees work in annuities can easily understand how revenue sharing works in 401(k) plans. For instance, if a commissioned broker sells an A share variable annuity to a client, the client has to pay the broker a direct, up-front and very palpable commission.

But when same broker sells a B share variable annuity, the insurance company pays the commission to the broker. The client might feel like he paid no intermediary fee, but the insurer earns the commission back by adding about 100 basis points to the annual so-called mortality and expense risk charge that the client is charge each year.

(Each year!....BB)

Revenue sharing in 401(k) plans works in a similar way. A plan sponsor or the plan sponsor advisor can choose from several classes of the same mutual fund, each with a different expense ratio. "R1" shares are the most expensive, and "R6" funds—the equivalent of no-load, no 12b-1 fee funds—are the cheapest. (See example of R1 to R6 shares of an American Fund.)

The difference is that much of the asset-based fee of the R1 share--collected from the participant's account by the fund company--may be paid to the plan providers—the broker who sold the plan, consultants to the plan sponsor, the recordkeeper, or a third-party administrator—as compensation for their services.

"Why would anyone select an R1 fund (or R2-R5, for that matter) over an R6? The short answer: to bury fees. Those that sell American Funds R1 shares can use the healthy 12b-1 fee [the fees that mutual fund providers are allowed to deduct from the fund for marketing purposes] as an offsetting credit towards plan-level expenses," wrote Jonathan Leidy, CFP, in *Fiduciary News* last March.

"Since fund fees are deducted daily, prior to fund pricing, participants never actually see the 12b-1 fees being debited. In this way, plan sponsors can offer participants a retirement plan that appears low or even 'no cost.' Of course, invisible is not that same as free. But many sponsors prefer this more opaque billing methodology," Leidy (at left) ventured.

There's nothing illegal about **revenue sharing**. It's a legitimate way to charge the plan participants for the cost of the plan. But it makes costs much less conspicuous and therefore less prone to monitoring. It leads many sponsors to believe the plan is free and leads most participants to believe that their 401(k) plan is a "benefit."

Revenue sharing can be especially inconspicuous if the fund company and the recordkeeping company are the same company.

Other problems may arise. The incoming revenue from the fund company might be applied to various service providers in non-transparent ways. When the shared revenue exceeds the recordkeeping and administrative expenses, there might not be a transparent mechanism for rebating the excess back to the plan or to the participants.

Ultimately, it would be as difficult to ban revenue sharing in 401(k) funds as it would be to require all variable annuity contracts to be no-surrender charge contracts. It is revenue sharing that allows commission-based brokers to sell 401(k) plans to

companies. Currently, different kinds of intermediaries are paid in different ways to sell plans—just as different kinds of advisors and brokers sell deferred annuities--and to ban revenue sharing would be favor one type of 401(k) intermediary over another.

Opacity may remain (opaque, not quite clear....BB)

The 404(a)(5) disclosure rule **may not shed light on all of this**. Although the rule requires that the participants' quarterly statements carry a "dollars and cents" expression of the costs that they pay, RIJ was told that plan providers can still merely reveal the "cost per thousand" that the participant pays while putting recordkeeping charges in a separate document that the typical participant won't bother reading.

"I still think there's a lot of opacity going on in those disclosures," Leidy told *RIJ* in an interview. "I've seen some disclosures, even in the part that the participant sees, that say, 'Refer to the recordkeeping agreement.' That's not in the spirit of consolidated fee disclosure."

"**The way they've written the rule, you can dodge a bullet by using an investment fund that has a heavy expense ratio to cover services,"** said David Witz (right), managing director at PlanTools LLC and Fiduciary Risk Assessment LLC in Charlotte. "Most people will not be inclined to multiply the cost-per-thousand by their account value. Most people don't know how to calculate a tip in a restaurant. There's a lot of speculation about why this loophole was not closed."

"Frankly, there are some companies that are planning to make their quarterly disclosures in such a way that you have to be **Sherlock Holmes** [to figure out what you're ultimately paying]," said Louis Harvey of Dalbar.

"But if your account is charged directly [for administration or recordkeeping, for instance], then the charge must appear in dollars and cents in your disclosure," he added. "If those charges come out of your investment fees, that fact has to be disclosed. It is questionable whether or not that disclosure will be in dollars and cents. Good guys will show you the dollars and cents. Those who are less forthcoming must still document the fact that the [recordkeeping fees] are being paid by a mutual fund, but they could theoretically write, 'See prospectus for details.'"

Ironically, the most forthright providers may not be rewarded for transparency, Witz told RIJ. "The [plan sponsor] advisors who are using open architecture with [low-cost] institutional funds are potentially the victims of the unfair assessment that their fees are too high. If I'm the guy who's fully disclosed, it might look like I'm charging more when I'm just disclosing more."

(www.brightscope.com is a much needed service in this arena....BB)

"If you are a plan broker [who is] paid through 12b-1 fees, the participant will never see that," Mike Alfred (below, left), co-founder and CEO of Brightscope, which benchmarks and publishes 401(k) plan fees, told *RIJ*. "It will look as if the broker is providing a free service. If you're an RIA [registered investment advisor] the fee will show up. That's an issue that we've heard more people talking about.

"The other issue is transaction [i.e., fund trading] costs," he added. "We believe that **transaction costs are a real cost and should be disclosed**. But there's no industry standard for that. The fund industry wants those costs to be baked into fund returns and not be visible. So fee disclosure isn't perfect."

The disclosure rules will not do away with the practice of charging a variable, asset-based fee for a relatively fixed expense like plan recordkeeping. "Recordkeeping is a commodity service. The account value has nothing to do with the cost of recordkeeping. You should get a flat rate. Maybe it's $40 per person per year," said Jerry Schlichter (below, right), the St. Louis attorney who on March 31 won a $35.2 million class action lawsuit, Ronald Tussey versus ABB Inc., where a federal judge held that a plan sponsor was liable for selecting an expensive fund share with no justification.

Another unresolved grey area in the disclosure landscape concerns non-monetary compensation. In a recent broadcast letter, ERISA expert Fred Reish wrote, "Of particular concern is the requirement that the disclosures include both monetary and non-monetary compensation.

For example, where a **mutual fund family or insurance company subsidizes broker-dealer or RIA conferences** for plan sponsors or advisers, there is at least an issue of whether those subsidies should be disclosed to the plan sponsor clients of those RIAs or broker-dealers. Another example is where a mutual fund complex or insurance company pays for advisers to attend conferences."

David Witz described the sorts of pay-to-play arrangements that may or may not be disclosed as a form of compensation to plan intermediaries. "Broker-dealers receive gobs of money from mutual fund companies and vendors to attend conferences," Witz told *RIJ*.

"I've had a broker-dealer say to me, 'I'd love to make you preferred provider. Can you give us a discount?' I said, 'My price to use my [401(k) fee evaluation] system is $2000 per advisor, but I just did a proposal for 2,000 advisors at $400 per person.'" But Witz had to pay to play. "'We cannot guarantee any sales,'" the broker-dealer said, "'and if you don't pay $75,000 to come to conference, then you're not a preferred provider.'"

Watershed moment

There are those who believe that much of the reform that 408(b)(2) and 404(a)(5) are meant to accomplish has already happened. In anticipation of stepped-up regulation and enforcement, many companies have already taken steps to comply with the letter and spirit of the rules. That's heartening to people like Mike Alfred, whose company, **Brightscope, has itself been a force for fee disclosure** and lower costs.

"When you talk to people at Schwab, in private calls, they'll admit that they invented Index Advantage because they know that the world is changing," Alfred told *RIJ*. And when a company like Schwab does it, others follow. [Fee disclosure] is transformative because of a domino effect from the top, rather than some rebellion from below. When we look back 10 or 15 years from now, we'll recognize that this was a watershed moment.

"In any competitive industry, when there's more data available, the market becomes more efficient and cheaper," he added. "The enforcement issue is interesting, but I don't think enforcement is the reason this is happening. When asset managers or recordkeepers know that their fees will fees will be displayed, they'll roll out products that are better. What some people don't consider is the impact of lawsuits."

"The compensation will be more visible. The gravy train of excess fees will come to an end," agrees Dalbar's Harvey.

But Phil Chiricotti, the president of Center for Due Diligence, an association for plan sponsor advisors, chafes at suggestions that the 401(k) system is fundamentally flawed. He's not embracing a *mea culpa* moment.

"The whole disclosure bandwagon is insane," Chiricotti (right) told *RIJ* in a recent email. Collectively, 401(k) plan fees are not too high now and they have never been too high. These plans are by far the most cost effective way for the average person to save. They are the most successful savings vehicle in history. They are not a failure.

"All this drivel in the media—**much of it fed by ill-informed Marxists and Socialists** in the academic world—is enough to make one gag," he wrote. "Coverage, participation, contributions and asset growth are all irrefutably a win for 401(k) plans. If some participants decide not to save, or some companies don't offer plans, that is not the fault of the supplemental savings vehicle. The mainstream media has really been incompetent with their reporting on this. The retirement plans industry is so margin-poor that many vendors are nothing more than the walking dead."

(What is this guy smoking?....BB)

Election wild card

The fact that fee disclosure regulations are taking effect on the eve of a presidential election raises the question of how a Republican victory would affect them. A **Romney-appointed Secretary of Labor** might not be as eager to enforce the regulations and might not push for new funding that would allow the Labor Department to hire the hundreds of examiners needed to enforce the new rules.

"The real question is how much enforcement will come from the Labor Department," Louis Harvey told *RIJ*. "When the Pension Protection Act was passed in 2006, Congress instructed the Department of Labor to move forward with it," said Harvey. "The Obama appointees have been far less tolerant than the Bush appointees had been. The question is, how eagerly will they do it? With a whimper, or with guns blazing?"

What participants will do is anyone's guess. No one knows what will happen if and a person with a $500,000 401(k) balance discovers that he's paying $1,250 a quarter for a service he or she thought was free.

Participants with small balances at large plans will likely have little reason to complain. The Labor Department may hope that participants—like the plaintiffs in Tussey vs. ABB Inc.—will blow the whistle on plans with egregious fees. That may or may not happen.

Ultimately, the success of fee disclosure regulation may depend on the willingness of plan sponsors--especially the tens of thousands of small plan sponsors--to take their fiduciary responsibilities more seriously. Research by Callan shows that a troubling percentage of plan sponsors don't know much about plan fees and don't wish to know.

The worst outcome might be if small employers decide that sponsoring a 401(k) plan is more trouble than it's worth. As Louis Harvey put it, "They may say, 'Why do I need to take on all this fiduciary risk and liability? I'll just tell my employees to go get a Roth IRA.' There's definitely a risk to all of this."

Important

This is important to learn and understand, because I think this is only the tip of the iceberg concerning VA benefits....The VA industry will change and become something other than it

currently now is, being in position to understand will help with FIA concepts.

I have highlighted in red and made additional notes in parenthesis. learning this will give you a greater competitive edge....BB

VA benefit exchange deals raise questions for B-Ds

By **Darla Mercado**
June 24, 2012 6:01 am ET

The VA benefit exchange deals that insurers are positioning as a win-win for legacy policyholders **actually could be a lose-lose**, according to financial advisers.

Axa Equitable Life Insurance Co. and Transamerica Life Insurance Co. — in moves that will help **reduce their liabilities** — are unveiling programs that will permit clients to drop living and death benefit guarantees in exchange for increases in their account values. Experts predict that other insurers with legacy variable annuity business will follow suit.

But advisers and broker-dealers still have plenty of questions about the practicality of the offers.

“From the insurance company's point of view, they are offering a client an additional option, but it creates some interesting suitability issues for the broker-dealer,” said Scott Stolz, president of Raymond James Insurance Group.

An immediate need for cash might be the only situation in which a deal to give up the benefit in exchange for a higher account value would make sense for policyholders, he said.

In the case of Axa, how much the policyholder gets is based on an actuarial calculation that weighs the client's life expectancy, the contract's current and projected account value, the current and projected death benefit, and

its enhancement. The offer is also based on the reserves backing the contract, so asset allocation in the variable annuity and interest rates are factors in the calculation.

Axa outlined its plans for holders of its **Accumulator** variable annuity in a June 8 filing with the Securities and Exchange Commission. The offer to allow holders to swap their guaranteed-minimum death benefit or their death benefit enhancement for a boost to their contract value will apply to those who bought their contracts between 2002 and 2007.

Last month, Transamerica made an offer to its legacy VA clients to swap their income benefits for a **lump sum equal to 80% of their benefit base**, to be added to their present account value.

Dave Paulsen, chief executive of Transamerica Capital Inc., said that based on initial activity in recent weeks, the company expects 15% to 20% of the eligible customers to take the deal, but he noted that the insurer doesn't have an end goal.

Advisers predicted that few of their clients will take the deals.

The fact that insurers are willing to offer the arrangement only emphasizes the true value of a living benefit, said Andrew Murdoch, an adviser with Somerset Wealth Strategies Inc., which is affiliated with **Raymond James Financial Services Inc.**

“It's like being offered a pension plan buyout,” he said. “Most of the time, people take the money and run, when actually the **buyout is a better deal for the company.”**

“This offer is completely optional for our customers and we don't require anybody to use it,” Mr. Paulsen said. “For those who will benefit by accepting the offer, there is some benefit for Transamerica, as well, as some older capital-intensive assets would be removed from our books.”

Taking the exchange may **create tax implications for investors**, according to Transamerica's filing.

(Tax issues should be addressed and understood, I haven't seen yet how the service will decide on this, if you run into this scenario, make sure the tax issue is brought up....BB

If a client takes the deal and then surrenders the policy — which they can do without surrender charges — the transaction could be taxable, the insurer warned.

Above all, advisers said, given today's investment climate, an ex-change could create reinvestment risk.

“If you take 80% of the [guaranteed-minimum-income benefit in the Transamerica deal], you'll have this lump sum, but where will you put it to get that income?” asked Kevin VanDyke, founder of Bloomfield Hills Financial.

“How do you re-create a 6% income stream? **You can't,”** Mr. VanDyke said.

One alternative might be to transfer the larger account value to another existing contract if its provisions are even more attractive than the original annuity, advisers said.

They also said that the math behind the deals isn't very clear.

In Axa's case, a website offering more information about the deal isn't yet live.

“A lot depends on the calculation and what it looks like,” said Stephen Esposito, an adviser at Macro Consulting Group LLC. “The difference between getting a $110,000 bump to the account, versus a $130,000 bump, is a big one.” **(I think a bonus FIA would be an option for a bump….BB)**

Experts noted that the more complicated the calculation is, the less likely customers and advisers are to take the deal.

“If it's something that varies with a million factors, it might dampen enthusiasm,” said Timothy Paris, vice president at Ruark Insurance Advisors Inc., an actuarial consulting firm.

Regardless of how clients proceed, the deals present advisers an opportunity to review the contract with the clients and remind them exactly why they bought the annuity in the first place. **(Here is an opportunity for us…BB)**

“The question is, "Have your goals changed, and do you really understand what you own?'” Mr. Murdoch said. “When owning a variable annuity, especially one bought years ago, a client might forget how it works and the insurer will get off the hook.”

(Fact finding and sales opportunity…BB)

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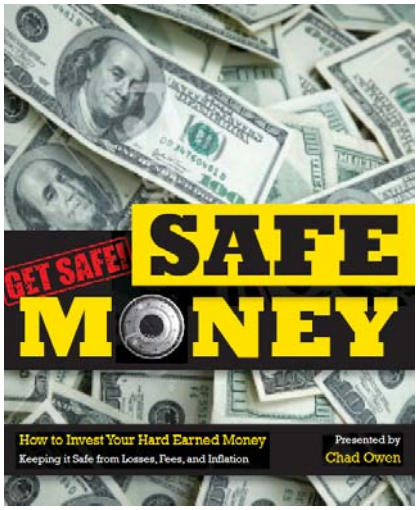

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