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

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and always will be.

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

Words of Wisdom

Broken pencils are pointless Ernie Linkous

Did you even know we have a **Federal Insurance Office?** I didn't, I thought States' Rights still existed, what do they actually do? Look below….BB

Federal Insurance Office

The Dodd-Frank Wall Street Reform and Consumer Protection Act established Treasury's Federal Insurance Office (FIO) and vested FIO with the authority to monitor all aspects of the insurance sector, monitor the extent to which traditionally underserved communities and consumers have access to affordable non-health insurance products, and to represent the United States on prudential aspects of international insurance matters, including at the International Association of Insurance Supervisors. In addition, **FIO serves as an advisory member of the Financial Stability Oversight Council**, assists the Secretary with administration of the Terrorism Risk Insurance Program, and advises the Secretary on important national and international insurance matters.

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http://www.investmentnews.com/article/20131020/REG/310209989?

FINRA urges brokers to adopt a 'best interests' standard

Finra moving inexorably in the direction of emphasizing a fiduciary like standard'

By **Mark Schoeff Jr.**
Oct 20, 2013 @ 12:01 am (Updated 10:28 pm) EST

A new report by Finra designed to help brokers avoid conflicts of interest encourages them to adopt a code of conduct that sounds similar to the fiduciary standard followed by investment advisers.

Last Monday, the **Financial Industry Regulatory Authority** Inc. issued a report based on its observations of 14 large firms.

Finra suggested that firms avoid conflicts by:

• Establishing a firm wide focus on conflicts to set a “tone from the top.”

• Implementing a code of conduct based on the “best interests” standard.

• Making investment recommendations that don't favor proprietary products.

• Compensating brokers independently of the products that they recommended.

“The word "fiduciary' jumps out on every page, even though it isn't mentioned,” said Duane Thompson, senior policy analyst at Fi360 Inc., a fiduciary-duty consulting firm. “Finra seems to be moving inexorably in the direction of emphasizing a fiduciary like standard for disclosure of conflicts.”

“Broker compensation is at the heart of these conflicts of interest,” Mr. Mahoney said.

Suitability is the key to survival in our industry. In past Open MIC notes I have explained how important suitability is and why we must do better and adjust to the current and coming changes.

Our industry is behind the security industry’s push for suitability, listed below is 8 questions a broker needs to be able to answer to compete in the suitability arena.

Could you answer them? Could your practice comply and be in compliance?

I am not looking for more work that has to be done to keep my office rolling along but I am incorporating these questions in how I look at and conduct my business.

I urge you to do the same; I have answers as well as remarks.

I wish I had a foolproof way to express the importance of this issue. It is essential you understand these issues because it is coming and nothing will stop it. We can learn from the FINRA leadership....BB

Here is his summation of FINRA's eight questions; these questions must be answers by the broker.

1. **What training has the firm deployed regarding the change in suitability rules? In our world you have two influences,**

Open MIC says you should always complete a fact finder and make decisions based on need, and the insurance company that provides the annuity compels you to complete a suitability form and a financial worksheet. What other outside influences do you use?

Our industry must step forward with better guidelines to help us help our clients. **NAIC** is going to adopt the FINRA guideline, when? How will that affect us and our new regulations?

2. **Does the firm offer training for associated persons to address investment strategies and hold recommendations?**

The companies I represent do not and they should. The DOI should require class hour training for this important issue, but they are not.

3. **How are investment strategies (including hold recommendations) defined and supervised?**

This is important and our industry is neglecting, this is key to suitability, guidelines for recommendations. If NAIC adopts the FINRA rules, you will be dictated to as to how you can recommend an EIA.

4. **What are the firm's supervisory and compliance procedures for determining whether there was a reasonable basis for the investment recommendation?**

Who is our firm? The FMO? The insurance company?

5. **What tools does the firm deploy to uncover in-and-out trading, high turnover rates and commission-equity ratios?**

Replacements would certainly fall in here, would 1035s? How would you like to have a supervisor at the insurance company need to approve all 1035 before you even did the paperwork? Will we be forced to disclose compensation? My guess is yes.

6. **How does the firm go about determining if a client constitutes an institutional investor for the purposes of being capable to independently evaluate investment risks?**

This has to do with compensation levels generated form sales charges, we might escape this, but disclosure is coming at us full throttle.

7. **What protocols does the firm use to ensure that it obtains an affirmative acknowledgement from an institutional client that it is exercising independent judgment?**

I think we are safe here.

8. **If the firm uses a portfolio analytic tool or model, how does it determine whether the tools or models make recommendations subject to the suitability rule or satisfy the safe harbor criteria in Rule 2111.03?**

What tools do you use? Income illustrator? Personal Planner?

How do you keep track of your client's information. How about security, are your records safe? Do you have a locked file cabinet? What precautions have you taken? Do you have a security system? How do you back up your computer? Is your computer safeguarded against physical theft?

2111.03 Suitability:

http://finra.complinet.com/en/display/display_main.html?rbid=2403&element_id=9859

(a) A member or an associated person must have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile. A customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose to the member or associated person in connection with such recommendation.
(b) A member or associated person fulfills the customer-specific suitability obligation for an institutional account, as defined in Rule 4512(c), if (1) the member or associated person has a reasonable basis to believe that the

institutional customer is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies involving a security or securities and (2) the institutional customer affirmatively indicates that it is exercising independent judgment in evaluating the member's or associated person's recommendations. Where an institutional customer has delegated decisionmaking authority to an agent, such as an investment adviser or a bank trust department, these factors shall be applied to the agent.

In 2012, suitability violations were the top fine-getter for FINRA, with fines totaling $19.4 million in suitability cases, up 152% from the $7.7 million in fines reported in 2011.

FINRA Fines Jump in Suitability, Due Diligence

Overall fines last year totaled **$78.2 million up 15% from 2011**

Fines issued by the Financial Industry Regulatory Authority last year totaled $78.2 million, a **15% jump** from the $68 million levied in 2011, with suitability violations the top fine-getter, according to data just released by the law firm Sutherland Asbill & Brennan.

Indeed, as Sutherland found in its yearly analysis of FINRA sanctions, released Wednesday, **suitability cases were the top enforcement issue in 2012**, followed by due diligence, research, advertising and ETF violations.

If the top enforcement issue at FINRA is suitability, what does that say about our industry? My guess is we are just as guilty just not caught as often.....BB

Big Truck Partners

Dave and Shaun

USA and the UK

Safe bets.

US Treasuries and **UK Gilts**, we talk about US Treasuries all the time on Open MIC, their counterpart in the UK are called Gilts.

Definition of 'Gilts' (Investopedia)

Bonds that are issued by the British government and generally considered low risk. Gilts are the U.K. equivalent to U.S. Treasury securities. The name originates from the original British government certificates that had gilded edges.

With the news about the government going back to work your clients and prospects may have questions.....here is an overview and a good piece for your off week drip, I made a few highlights in red....BB

A Short-Term Deal Ends the Shutdown

The fix is merely short-term, but it is certainly welcome.

At the eleventh hour, a default is averted. After weeks of contention, a bill to reopen the bulk of the federal government and raise the debt ceiling made its way to the White House late Wednesday. President Obama signed the bill into law shortly after midnight, and by the middle of Thursday's trading day, both the S&P 500 and the Russell 2000 had reached all-time highs.[1,2]

In a sense, Congress merely kicked the can down the road. Capitol Hill lawmakers passed a stopgap deal to fund the federal government through **January 15** and extend America's borrowing authority through February 7. A bipartisan negotiating committee will face a December 13 deadline to create a federal spending and tax blueprint for the next ten years.[1]

Asked Wednesday night if another shutdown would occur in the coming months, President Obama emphatically told a reporter: "No." On October 17, Senate Minority Leader Mitch McConnell (R-KY) told the conservative National Review that "a government shutdown is off the table" this winter.[1,3]

The deal resulted in just one alteration to health care reforms. The Affordable Care Act emerged from this battle relatively unscathed. People who receive federal subsidies for their health insurance under the ACA will face a new income verification test, but the subsidies will remain in place. House Republicans had demanded a 2-year delay for the 2.3% tax on medical devices stemming from the ACA, but that effort was set aside Tuesday. Congressional Democrats had argued for a 1-year delay in the $63 per-person "reinsurance" fee slated to hit group health plans in 2014; they didn't get it.[4,5,6]

Retroactive pay is coming for furloughed federal workers. All federal employees sent home as a result of the shutdown are slated to receive delayed salary payments "as soon as practicable."[7]

The budget cuts passed into law in 2011 remain in place. The $1.2 trillion in automatic federal spending cuts scheduled through 2021 will still be carried out, as mandated by the Budget Control Act of 2011 that brought an end to that summer's debt ceiling fight. The 2013 sequester cuts represented the first step in this reduction of federal spending.[4,8]

A short-term fix is better than none at all. You could argue that this deal simply postpones a solution in favor of a short-term truce on Capitol Hill. Even so, it beats the potentially catastrophic alternative of a U.S. default. Wall Street will now wait to see if Congress can provide a gift for the holidays – a larger-scale solution to trim future deficits.

Citations.

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<u>This is a Win/Win idea</u>.

Create your own leads from your client and prospect list.

This letter was recently sent to our database, it resulted in **15 calls, several appointments and 2 sales.** Feel free to copy and use. This is called **"story telling"** marketing, tell a story and let the recipient transfer himself/herself into the story….BB

A Physicians Career and Your Retirement Funds

Imagine the life of a physician. Many years of study, financial hardships, long time periods as a resident, and having to build a practice, investing more money and dealing with government regulations. Being a physician is not for everyone and it is a very difficult career choice.

The other side of being a physician is dealing with another human's health issues. The decisions a physician makes can affect a person's health both for

the good and the bad. Can you imagine anything worse than losing a patient? I am sure the loss is both mental as well as personal.

- What more could be done?
- Was the diagnosis correct?
- Did the physician make the best choice?
- Were better or additional options available?

For a physician to work his or her whole career without losing a patient would be near miraculous. There are so many variables that would make it nearly impossible to not ever lose a patient.

I think of myself as a physician in a small way, I am educated, I invest in my business, I care for my clients, I deal with government regulations and I have had to build my business.

The difference between me and a physician is simple, the products we are experts in. A physician is an expert in health issues and I am an expert in risk issues. I have an advantage over the physician; I never lose any of your money. Never! Ever! Your money is never exposed or placed in a position of loss or risk.

Being a physician is an honorable and wonderful career and a way to serve other people. Providing fixed indexed annuities is also a way to enhance a person's life. The avoidance of risk and the knowledge that retirement funds are safe and secure provides the same piece of mind well placed advice from a physician does.

Being free from risk with your retirement funds is a healthy and obtainable goal. Consider the benefits of an annuity, safety and security is available now!

Please give Betty or me a call at 360 352-9942 if you have questions or need more information.

Indexing will beat **Performance Investing**; tie your clients annuity returns to indexing.

This is a simple explanation, *"Mrs. Jones, would you like your IRA returns based on one person's decision or would you like them tied to our whole American Economy?"*....BB

The 'Glory Days' of Performance Investing Are Over

http://www.thinkadvisor.com/2013/10/10/charles-ellis-the-glory-days-of-performance-invest?

"Active management is behind us, not in front of us," **Charles Ellis** told RIAs Thursday morning in a session kicking off the sixth annual Think Retirement Income conference in Boston.

Ellis, founder of the international consulting firm Greenwich Associates and author of the newly published "What It Takes: Seven Secrets of Success from the World's Greatest Professional Firms," argued that income security in retirement has nothing to do with beating the market. Instead, advisors need to give more consideration to indexing, which will let them devote more attention to their clients' needs and interests.

"What needs to be done [with the client] is crucial," he said, pointing to the many 401(k) participants who know **little or nothing about investment diversification or risk**, let alone how to take income from their savings in retirement.

Ellis, whom *Forbes* has called an "indexing hero," launched his case against active management by noting that fully 80% of people think they're above-average investors, when in reality even so-called experts are unable to forecast the future.

- **Hindsight bias:** We often blame poor results on mistakes by "bad people," not on uncontrollable factors. Doctors, for example, are blamed when patients don't survive. Success usually results from combining a little talent with a lot of luck, Ellis said.

By going passive, advisors can focus their skills on making "strategically active" decisions about their clients' long-term objectives, risk, portfolio structure, spending and liquidity.

"The investment management world is not going to solve this problem," Ellis said.

In his view, the **"glory days" of performance investing are over**. "We have huge problems in our country with retirement security," he concluded. "We have far too many people who are dependent on a 401(k) and don't know how to behave in savings, don't

know how to behave in investing. Just wait until they start having to take money out of their account."

In his view, the "glory days" of performance investing are over. "We have huge problems in our country with retirement security," he concluded. "We have far too many people who are dependent on a 401(k) and don't know how to behave in savings, don't know how to behave in investing. Just wait until they start having to take money out of their account."

For more on Charles Ellis, see Investment Advisor's August 2013 cover story on leadership.

Let's examine a few investment options available to the Baby Boomers.

Mutual Funds: The classification of mutual funds is very wide and diverse. Mutual Funds can own almost any available asset such as stock and bonds or any combination of these assets. In essence a mutual fund is a group of assets banded together to help diversify the investment risk. A common mutual fund could be a "large cap" fund, a fund invested in only large American companies. Still another could be a bond mutual fund where investment is limited to only bonds (debt instruments). Still more options could be combination of stocks and bonds known as a balanced fund. Many options are available to you the investor, you can diversify and choose between more than 8,000 mutual fund options.

One thing all mutual fund owners share regardless of which fund they select is fees. Mutual funds have a wide and varied source of fee structures and depending on your choice, **the fees can vary from over 3% to less than ½%.** The real effect on your invested asset can be critical; the percentage of fees is calculated against your entire account. As an example, if your invested asset was $100,000 and your mutual fund fee was 2%, the overall cost of owning that specific mutual fund would be $2,000 a year. Giving away such large fees can drastically change the funds available to you for your future retirement needs.

What to do? Ask your broker to explain to you fees and expenses. If you still are not sure and the prospectus is difficult to understand, call the mutual fund company and ask them about the annual fees.

Mutual Funds = Fees

Individual Stocks: Purchasing individual stocks allows you to focus on one specific company. The selection of your stock investment can require research, past experience and knowledge. Once again, your investment in that company is tied to that company, changes in product line, competition and after tax earnings can have both a positive and negative affect on your investment. Investing in individual stocks should be looked at as a long term investment. Performance should be weighed over a number of years and not a number of months. What about Bull Markets? (price decrease) How would you protect yourself? How many months would you need to recover your retirement funds?

Bear markets are usually characterized by high volatility and often steep losses. What happens if a Bear Market hits when your time horizon for retirement appears?

Peak	Trough	Total Return Decline	Months To Recovery
9/7/1929	6/1/1932	-84%	152
3/6/1937	4/28/1942	-42%	14
5/29/1946	6/13/1949	-13%	5
8/2/1956	10/22/1957	-13%	9
12/12/1961	6/26/1962	-22%	10
2/9/1966	10/7/1966	-16%	6
11/29/1968	5/26/1970	-29%	9
1/11/1973	10/3/1974	-43%	21
11/28/1980	8/12/1982	-17%	3
8/25/1987	12/4/1987	-30%	17
7/16/1990	10/11/1990	-19%	4
3/24/2000	10/9/2002	-47%	48
Average		**-31%**	**25**

Source: Global Financial Data

The table below shows returns for the Last 12 Historical Bear Market Recoveries.

Individual Stocks = Volatility

Bonds: Investing in bonds means loaning an entity (bond issuer) money. The bond issuer pays a fixed interest rate for the life of the bond and upon the end of the bond

period the original purchase price of the bond is returned to the bond investor. The problem with bonds is simple:

- **Buying a bond means you take a credit risk**. The credit rating of the bond issuing company is your reference to the amount of risk that your money will be returned at the end of the bond time period.
- Once a bond is issued, the actual value of that bond can change daily as the value of money changes. This means that over the course of a 20 year bond, the value can go up or go down based on market conditions. Bonds should always be considered a long term investments.

With bonds come many choices and categories: Corporate Bonds, US Treasuries, Municipal Bonds, Junk Bonds, High Income Bonds. Make sure you understand the length of the bond period (maturity), the interest originally paid on the bond and the interest you are currently receiving (yield) before making any decisions to use bonds for your retirement investing.

Bonds = Being a lender

Real Estate: The old adage used to be that buying your home is the best investment you can make. Over the past few years we have seen firsthand what can happen to the value of real estate. Home values (and other real estate) have dropped dramatically in recent years and planning to use your home as part of "downsizing" later in life may not be a reality.

Real Estate = Mortgage commitment

Commodities: Gold, silver and other precious metals have for years been considered a hedge against inflation or a natural home for safety. In reality, for the past 30 years (since 1982), gold has not kept up with inflation. Precious metals are significantly volatile and hedging retirement best can be very dangerous with this class of assets can be very dangerous.

Commodities = The Unknown

Annuities: Annuities are extremely boring. Older generation annuities were fraught with contractual restrictions and favored the insurance company. With proper regulation and a newly designed financial model, annuities have become an important part of any serious financial planning. Annuities have joined the 21st Century.

The reason? Simple. Annuities are safe, secure and risk free. A key benefit of annuities is allowing the participant to receive money over any period of time even lifetime and in most contracts the unused balances continue on to heirs. Annuities allow investing without concern over account values and long term performance.

Annuities = Safety

MIBCA

Mutual Funds	**=**	**Fees**
Individual Stocks	**=**	**Volatility**
Bonds	**=**	**Being a lender**
Commodities	**=**	**The Unknown**
Annuities	**=**	**Safety**

Your clients will ask….BB

Seniors to get small Social Security increase in 2014

By Chris Isidore @CNNMoney October 15, 2013: 4:29 PM ET

http://money.cnn.com/2013/10/15/news/economy/social-security-benefits/index.html?iid=HP_LN

NEW YORK (CNNMoney)

The cost-of-living adjustment in Social Security for 2014 is likely to be very small, marking the fourth year in the last five that recipients receive little or no increase in benefits.

Social Security benefits are expected to rise between **1.4% and 1.6%** next year, according to the American Institute for Economic Research. That follows a 1.7% increase in 2013 and no increases in 2010 and 2011. A 3.6% adjustment in 2012 has been the only significant rise in benefits in recent years.

The two biggest marketers on planet earth are coming our way, will we be ready to compete? Remember, they are transactional, we are relational....BB

Selling is easy, **Marketing** is hard, Selling is order taking **Marketing** is finding the order, Selling has limited income **Marketing** has an unlimited income, Selling is easy if the focus is on **Marketing.** Bill Broich

http://insurancenewsnet.com/innarticle/2013/10/14/google-amazon-might-plant-big-footprints-in-insurance-distribution--a-404490.html#.UmVhCnbn8iR

Google, Amazon Might Plant Big Footprints in Insurance Distribution

October 14, 2013

By Linda Koco
InsuranceNewsNet

Internet superstars **Google and Amazon** are likely to become competitors for online insurance sales, according to predictions from life insurance and property-casualty executives polled by Accenture, a global consulting firm.

The executives came from 78 European companies, but since they were commenting on digital sales trends and expectations, and since digital is global, the findings should have value to U.S. insurance professionals forming digital strategies.

The overwhelming majority — almost 90 percent — are expecting competition to intensify in the insurance distribution market over the next three years, Accenture said.

Where do Google and Amazon fit in? Almost two-thirds (64 percent) of the executives believe this intensified competition in insurance distribution will come from non-insurance players such as Google, or e-commerce giants like Amazon.

This was up last week, it is information you need to memorize, it will make you money....BB

This question came up this week, about an in force 401 (k) with the employee under age 59 ½ and still working.....BB

401k Penalty Free Withdrawal

Many aspects of a particular 401k plan are governed by plan-specific rules. You should contact your plan administrator for particular rules specific to your plan.

Generally speaking, the IRS imposes a 10% penalty for withdrawals from 401k plans for taxpayers under the age of 59 1/2. However, according to the IRS, the following situations are an exception:

General exceptions: The 10% penalty does not apply to distributions that are:

1- Made as part of a series of substantially equal periodic payments (made at least annually) for your life (or life expectancy) or the joint lives (or joint life expectancies) of you and your designated beneficiary (if from a qualified retirement plan, the payments must begin after separation from service).

2- Made because you are totally and permanently disabled, or

3- Made on or after the death of the plan participant or contract holder.

4- From a qualified retirement plan (other than an IRA) after your separation from service in or after the year you reached age 55

5- From a qualified retirement plan (other than an IRA) to an alternate payee under a qualified domestic relations order,

6- From a qualified retirement plan to the extent you have deductible medical expenses (medical expenses that exceed 7.5% of your adjusted gross income), whether or not you itemize your deductions for the year,

7- From an employer plan under a written election that provides a specific schedule for distribution of your entire interest if, as of March 1, 1986, you had separated from service and had begun receiving payments under the election

8- From an employee stock ownership plan for dividends on employer securities held by the plan, or

9- **From a qualified retirement plan due to an IRS levy of the plan**.

(I bet you thought a 401 (k) was exempt under ERISA rules.....NO)

The Other Side of the Table

.....it's all based on your view.....

Sometimes it is how you look at things that can make the difference. The other side of the table is all about that....how you look at things.

Congrats to Dan Barnard for his first **$1,000,000** month! Dan has been in this crew for 7 years and has developed into a powerhouse producer. Nice job Dan....BB

This past week I have had one phone call and 3 emails about our old nemesis, Variable Annuities. **Chris Thomas** wrote the very best definition of VA a couple years ago and even though I promised not to talk about them for a while, this really hit the spot. One crew member used this very piece and made a nice sale in a competitive situation, congrats

Chris Thomas is a safe money advisor and retirement specialist based in Flowery Branch, GA and serving people around the nation. His conservative and proactive guidance has helped numerous clients achieve

their retirement goals and provided peace of mind in times of financial uncertainty.

His VA explanation is below:

Five Reasons You Should NEVER Own a Variable Annuity

DISCLAIMER: These are my personal views only. They are my view of the realities of our world today. They are presented with the hope that you will personally evaluate your own investments taking into account the factors discussed below.

Are variable annuities right for you? If you are a conservative investor that wants a reasonable return even in unreasonable times, then the answer is no.

Are variable annuities inherently bad for everyone? Not at all. Variable annuities provide good death benefits, a possible guaranteed income, and stock market potential that is tax-deferred. These are good for some of you who can afford to risk money in the market and want the tax-deferred growth.

But for most of us, variable annuities are the wrong investment. Here are five reasons why:

1. Distress
2. Paying the Piper
3. Smoke and Mirrors
4. Watergate on Wall Street
5. Insurance for Insurance sake

1. Distress

A variable annuity is a variable investment. What does that mean? Well, according to most people that I speak with that own variable annuities, it means heartache: a combination of uncertainty, worry, complexity, insecurity, and restless sleep.

Most people that own a variable annuity check on their investments within that annuity on a regular basis. Some people even check daily - now, that is asking for some serious heartburn. When the market goes up and the mutual funds do well, there is a sigh of relief. When the market goes down, there is distress and uncertainty.

Why own these types of investments for those sacred dollars you cannot afford to lose? Why have daily uncertainty and heartache when you don't have to?

The bottom line with a variable annuity is that your money is at risk for loss and gain - there are no guarantees unless you die or take lifetime income with an optional lifetime income benefit rider(LIBR). Most people I have talked to lately lost 30-50% from the years 2000-2002, 30-50% again in 2008 and then moved their money into a money market.

There is no peace of mind with a variable annuity (I know you are thinking, "What about the guarantees?" We will get to that in a minute).

2. Paying the Piper

Recently, the SEC began to crack down on variable annuity carriers and their practice of charging excess fees. When you buy mutual funds outside a variable annuity, you pay fees. Inside a variable annuities, there are fees to purchase the mutual funds, sales fees to pay your broker, administrative fees to set up and maintain the account with the insurance company, mortality and expense fees to pay for the guaranteed death benefit, and optional fees to pay for riders, such as the Guaranteed Minimum Income Benefit (GMIB, also known as GLIB, GIB, and many other names).

The conservative average of these fees is **2.5% annually**. In layman's terms, that means 2.5% of your money is taken out to pay other people, regardless of the annuity's performance. In many cases, there are fees in excess of 4%!

To put this in real numbers, if the variable annuity averaged 9% annually over a 10 year period, it would really only earn you 6.5%. What's more is that there is not a variable annuity on the market today that has average 9% annual return over the past 10 years.

If you are a reasonable investor, you are probably hoping for an average 7% growth over the next 10 years. With a variable annuity, that very reasonable goal has to be increased to 9.5% because of its fees or you can re-adjust your target growth to 4.5%. WOW.

Owning a variable annuity means you are paying the piper, and paying him handsomely. Are you playing the stock market with the goal of attaining 4.5% growth?

3. Smoke and Mirrors

Ok. Let's talk about the guarantee riders that most people purchase on their variable annuities.

Most of the time, your broker/agent/advisor tells you that the variable annuity has a 5% (or more) guarantee on the principal of your annuity. This gives you peace of mind because you are thinking that if something goes wrong, in 10 years, you have the guarantee to back up your money. THIS IS FALSE. There is a very necessary distinction that you need to understand. The 5% guarantee is not a guarantee of your principal.

IT IS A GUARANTEE OF YOUR PRINCIPAL WHEN ONLY USED FOR LIFETIME INCOME.

What does that mean? It means you may elect the guarantee as long as you also elect to receive monthly income payments for THE REST OF YOR LIFE. These income payments generally offer 5-7% of the guaranteed Income Account Value annually, which means it would take 15-20 years just to receive your guaranteed value.

Let's decipher this with an example. Assume you have $100,000 today deposited into a variable annuity with a 7% living benefit or income benefit. Let's also assume that in 10 years, the annuity has not done as well as you hoped and your cash value is $170,000. The income benefit if elected, however, makes your account worth $200,000.

You have two options:
1. Take the $170,000 and do with it what you want OR
2. Take the $200,000 spread out over the REST OF YOUR LIFE.

You DO NOT have the option to:
1. Take the $200,000 and do with it what you want OR
2. Take the $200,000 and move it into another annuity (you can only move the cash value, which is $170,000)

The bottom line here is that the guarantee is only good if you elect to receive a monthly income and the ultimate conclusion is that the insurance company wins...you take the risk in the market for 10 years, they get paid, and they never have to payout for the guaranteed income provision if you should choose to walk away.

There are other guarantee provisions available in variable annuities, such as guaranteed

death benefit riders, which escalate the death benefit upon death of the annuitant. These are good things, but they always cost you. Further explanation in section 5.

4. Watergate on Wall Street

Corporate scandal has shaken the stock market over the past few years. I am sure you can name at least one culprit, and unfortunately, it is not going to stop anytime soon. The SEC is just now starting to crack down on mutual fund trading practices, the expenses involved with variable annuities, and many more financial woes surrounding corporate America.

There are many world events that are out of our control. The impact of 9-11 and the ongoing war on terrorism had a significant impact on our economy and the stock market.

But I think most of you would agree that world events are out of our control, that the threat of terrorism is real and a continuous possibility, and that those events can significantly impact our investments in the stock market.

Unfortunately, most advisors downplay the potential impact that scandals, terrorism, and other world events could play in the stock market. They may be right, and we hopefully will not have to experience such tragic and difficult events again. If they are wrong, however, you are up the creek without a paddle and the boat is sinking with your retirement dollars.

I don't say this to scare any of you. It is reality. It scares me every day that people who own variable annuities are exposed to this type of risk when they don't have to be. Don't leave so much to chance.

5. Insurance for Insurance Sake

One of the most touted aspects of a variable annuity is the guaranteed death benefit. In many cases, as we mentioned in section 3, there are also guaranteed death benefit riders which escalate or lock in the death benefit as it grows.

Let's start with an example: you have a $100,000 initial premium that grows to $130,000 in 4 years. From that point forward, even if the annuity declined in actual value in future years, the death benefit is locked in at $130,000. You can plug in any number, and the highest value will be locked in as the future death benefit.

Sounds like a great deal, right? WRONG. When you take a closer look, there are some things that may surprise you.

First, you get what you pay for. You pay a mortality and expense (M&E) fee for the death benefit. When the death benefit grows, the cost of that fee grows as well. Let's assume the M&E fees are 1.5% in the above example. For a $100,000 death benefit, the fee amounts to $1,500/year. When it grows to $130,000, then the fee grows to $1950. This is money coming directly out of your account on an annual basis. If your cash value is $130,000, what are you paying this fee for? The fee is the cost of life insurance to maintain the $130,000 death benefit in case your account decreases in value.
OK, so here is where it gets interesting...what happens if the annuity loses value? Because the death benefit is locked in, the fees are locked in on the high amount. In other words, if your variable annuity lost value to $115,000 but had a high of $130,000 (the death benefit remains locked at $130,000), then you are still paying $1950 to maintain that high death benefit. As a percentage, your M&E expenses grew from 1.5% to 1.7%. If you purchased a life insurance policy with $1950/year premium, how much insurance could you purchase? Probably more than $15,000 worth (the difference between the max death benefit in the annuity of $130,000 and the current cash value of your account $115,000).

When your annuity grows, you pay M&E fees and get nothing in return. When your annuity loses value, you pay higher M&E fees than you would for traditional life insurance.

This always leads me to the following conclusion. If you want life insurance, purchase life insurance. If you want an investment, purchase an investment. As soon as you start mixing the two, you can get yourself into trouble.

CONCLUSION

Don't get yourself into something until you fully understand what it is you are purchasing. If you desire principal protection, financial certainty and security, and 100% of your money working for you, then you should stay away from variable annuities. There are other annuities out there that make more sense for you.

If you want to explore how to protect your assets, safely participate in stock market gains with the full protection of your principal, and reduce your exposure to market volatility in these uncertain times, please give me a call at xxx-xxx-xxxx

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