Best Annuity Rates Report

Retire Village 2018

What is an Annuity? The annuity contract is a legal document that provides specific benefits which are guaranteed in the annuity contract.

Fixed annuity sales in the United States are increasing dramatically. Several factors are contributing:

1. An aging population
2. Stock market volatility
3. National interest
4. More varied and competitive annuity products
5. The search for safety and security

Greater annuity popularity has come with increased consumer misunderstanding and confusion. No wonder given:

- Hundreds of insurance companies providing countless different annuity offerings.
- Existence of two distinct, and very different types of annuities: fixed and variable.
- As the Baby Boomer Generation evolves into retirement, the need for safety and security becomes vital.

Insurance companies attempt to educate and keep the annuity policyholder informed about product and suitability issues. As highly regulated entities by your individual state Department of Insurance, they provide extensive agent training on both product and sales practices. The intent is for the insurance agent to pass on that information and ensure that the purchased annuity is suitable to meet the needs of the policyholder.

The need for consumer awareness and education arises from the breadth and diversity of annuity types and providers, and the different terms and optional riders available.

Not only are there two distinct types of annuities, but within those types, there are countless variations and options available.

The Variable Annuity

Variable annuities are sold as securities, offered by licensed security professionals. Variable annuities are always offered with a required sales prospectus which discloses options, benefits and fees.

Simply put, the combination of high fees and exposure to market risk will often make the choice of purchasing a variable annuity an unwise decision. If an individual wants to participate in equities, a no-load mutual fund or a managed portfolio may be a better choice.

An even safer approach is to seek out simple, guaranteed benefits combined with protection from market risk exposure. Our choice for an annuity is a no fee, Tax-Deferred Fixed Annuity.

The Tax-Deferred Fixed Annuity

There are three distinct types of fixed annuities:

1. <u>Immediate Annuity</u> *(also known as a **Life Annuity** and **Pension Annuity**)*
This type of annuity is very common for those retiring from a position within a company. Immediate annuities provide income for almost any time period, either in specific years or for a lifetime. Many options exist. The system is simple, a deposit is made with the insurance company and it assumes fiduciary responsibility to provide the agreed upon income for the desired time period.

2. <u>Multi-Year Guaranteed Annuity</u> *(also known as a **CD Type Annuity**)*

The Multi-Year Guaranteed Annuity (MYGA) is much like a bank certificate of deposit. The MYGA pays a specific interest rate for a specific time period. Much like the CD, the time period could be from a couple of years to a longer time period, many options exist.

It is straightforward, you know what you are getting. The insurance company in the policy (contract) spells out the annuity benefits and yield. You know exactly what your investment is worth at the end of the investment period. Currently, the MYGA for a fixed investment horizon (3 – 10 years) yields currently are higher than Bank CD products. One advantage an annuity has over a Bank deposit is taxation is deferred until the fuds are accessed (tax deferral).

Bottom line, if you are currently investing in CD's or low interest bearing investments, consider the Multi-Year Guaranteed Annuity as an alternative with a very appealing blend of higher interest yield without sacrificing principal protection and investment safety.

3. <u>Fixed Index Annuity</u>

The *Fixed Indexed Annuity* (FIA) was first created in 1995. The concept is simple: the funds in the annuity are guaranteed, and the actual yield enjoyed with this product is tied to an outside source. The insurance company does not dictate yields. One popular source is basing the yield on a stock market index such as the S&P 500 stock index or the Dow Jones Industrial Average.

You do have a contractual minimum guarantee, yield is determined annually by movement in the chosen index (minus any connatural cap) but are not limited to a contractual maximum yield. Annually the gain is calculated and the percentage of gain allowed by your contract is then credited to your account. At no time are any of your funds invested in the stock market or exposed to market risk. The index is merely used to determine the annual yield.

While the Multi-Year Guaranteed Annuity is very straightforward, with virtually no moving parts or benefits subject to confusion, the FIA has many moving parts, and can seem complicated. In reality they are quite simple, your funds are guaranteed, a minimal amount of interest is guaranteed and the actual yield earned by your annuity is outsourced to a 3rd party.

A more extensive discussion of the FIA is important. Let's look at the genesis of the FIA to gain a greater overall understanding and appreciation.

The Fixed Indexed Annuity (FIA) was introduced in early 1995 and it was much different than the fixed annuities preceding it. It indexed the S&P 500 and the only index strategy available was an annual point-to-point (growth of index from policy anniversary to policy anniversary).

The FIA has exploded in the market place, now being offered by agents and brokerage houses everywhere. The reason is simple: **guaranteed growth and no exposure to market risk**. Currently, it is the most popular annuity product in the financial industry.

> When our economy crashed with the financial meltdown of 2008, those that were in FIA's never lost a penny.
>
> These products only move in one direction: up, never down. With that reality, investors demanded better products with more options, the industry obliged.

With new-found popularity, the FIA embarked into the 2000's. The Fixed Index Annuity has appealed to those wary of stock market risk, but wanted yields exceeding CDs and more traditional fixed annuities. The FIA was here to stay.

Performance of Multi-Year and Fixed Index Annuities

1. <u>The Multi-Year Guaranteed Annuity (MYGA)</u>

As of January, 2017, the average yield available on one to five year MYGA's is 2.0 - 3.5% APY which currently is higher than competing bank products.

We are proponents of **laddering - - - purchasing** *multiple bank CD's or MYGA's having staggered maturities.* It is a meaningful way to consider the improved yield of the MYGA.

The rates listed below are the average National CD interest rates as of July, 2017. An example ladder scenario of those CD rates would look as follows:

Amount	Investment Duration	Annual Percentage Yield
$25,000	One Year	1.25%
$25,000	Two Year	1.47%
$25,000	Three Year	1.60%
$25,000	Five Year	2.50%
TOTAL: $100,000	AVG TERM: 2.75 YRS	**AVG APY: 1.70%**

*rates provided by bankrate.com

A ladder of current MYGA rates shows:

Amount	Investment Duration	Annual Percentage Yield
$25,000	One Year	NA
$25,000	Three Year	2.05%
$25,000	Four Year	2.60%
$25,000	Five Year	3.40%
TOTAL: $100,000	AVG TERM: 4 YRS	**AVG APY: 2.87%**

As you can see, the MYGA is a 1.27% increase in overall average yield. If you ladder bank CD's or purchase CD's as part of your overall portfolio, you should consider the MYGA.

2A. <u>The Fixed Indexed Annuity (FIA)</u>:

It is now time to address today's Fixed Index Annuity. To gain a historical perspective, Dr. David Babbell, professor emeritus of insurance risk and management**,** stated in his June 2009 <u>Forbes</u> magazine article, "*There is no asset category that outperformed the Fixed Annuity in the 1995 - 2008 time frame. We were extremely surprised, really just amazed.*"

A 2009 study at Wharton further supported Mr. Babbell's conclusion. In their review of Fixed Index Annuity performance, they summarized their findings as follows:

Period	S&P %	FIA Avg %	Return Range
1997-2002	9.39%	9.19%	7.80% - 12.16%
1998-2003	-0.42%	5.46%	3.00% - 7.97%
1999-2004	-2.77%	4.69%	3.00% - 6.63%
2000-2005	-3.08%	4.33%	0.85% - 8.66%
2001-2006	5.11%	4.36%	1.91% - 6.55%
2002-2007	13.37%	6.12%	3.00% - 8.39%
2003-2008	3.18%	6.05%	3.00% - 7.80%
Average		**5.74%**	

Our average client with contracts anywhere from 2 - 10 year maturities going back to 1995 have had average returns in the 4% - 5% range. The best return has been just under 7% and the worst a little better than 1%. Going forward in a lower interest rate environment, yields will come down a bit, but will remain well ahead of other fixed investments.

> The intent of the FIA is not to replace equities in a portfolio, but provide a principal guaranteed alternative that bridges the APY gap between fixed investments (Treasuries, CD's,

MYGA's, etc.), and the risk/reward of equities. Does the FIA have a place in your portfolio?

2B. <u>The Fixed Indexed Annuity with Income Guarantee (Income rider)</u>
We have already touched on the past and anticipated performance of the Fixed Index Annuity. It's certainly better than other alternative fixed investments, but historical yields do not support equity-like returns.

If that's the case, how can the insurance industry tout FIA guaranteed income growth that in some cases may approach double-digits? ***The answer is in combining the FIA with a benefit rider that guarantees lifetime income.***

In 2004 insurance companies introduced a rider (some contracts charge a fee for the rider, other do not) that is referred to as a *lifetime income rider*.

The funds that accumulate in the income rider are not available for withdrawal - - - instead, they are used to calculate a guaranteed income payout.

In other words, there are two distinct FIA account values; the **accumulation value** (principal plus interest earned) that's available for withdrawal, and an **income base** that's strictly used to calculate income entitlement.

> Think of the accumulation value as your investment, and the income base as a number that converts to a future income.

What we've just described has become extremely popular, a guaranteed market risk free growth with a separate account that can guarantee income, income for life. When FIA interest yield is coupled with a lifetime of guaranteed income, you have a financial product that bears further examination.

While the calculation of **guaranteed lifetime income** is different across companies, all FIA share the following characteristics:

- It is a rider on a FIA
- The rider service fee is fully disclosed (or provided free)
- Future income increases at a guaranteed contractual rate or formula until distribution election
- Annuity accumulation value increases, less the withdrawal of rider fee and income (if any)
- Income is guaranteed for life regardless of the annuity accumulation value

Insurance companies use three strategies to grow the income base:

- Guaranteed roll-up rate
- Index performance rate
- Combination of roll-up and index performance rates

Currently, the highest guaranteed roll-up rates we are aware of provide 6% compounded interest. In the case of a 6% compounded roll-up, a starting income base value of $100,000 would be $106,000 beginning year two, $114,490 beginning year three, etc. If the annuity owner were to take income after 10 years at age 70 (for example), the base would be: **$196,715**. As we stated earlier that $196,715 is not your investment value but is used in the calculation of your income payout. The other component in this calculation is a *multiplier* that is adjusted for the income election age. The older you are at election, the greater the multiplier. Let's say that the multiplier at age 70 is 7%. If you multiply $196,715 times 6% you arrive at a guaranteed lifetime payout of $11,802 per year.

The advantage of using an income rider is obvious: **income you (and your spouse) can never outlive**. It is a wonderful way to outsource retirement income responsibility to a risk taker, the risk taker is the insurance company. Fully guaranteed.

Suitability

Insurance companies have become extremely diligent in verifying annuity suitability. They want to know an applicant's investment portfolio, liquidity, financial experience, income needs, investment horizon, and more. Whether you select a Multi-Year Guaranteed or Fixed Index Annuity (with or without lifetime income), the purchase must meet your financial needs and lifestyle requirements.

In assisting you in meeting your fixed interest and income needs, we believe in annuity and product education. This 11 page document is our attempt to help you better understand our annuity perspective. Once you have that understanding, you can make a decision if you want to learn more. For those wanting to learn more, we can provide specific product recommendations with accompanying insurance company brochures and illustrations.

Recommendations

1. <u>The Multi-Year Guaranteed Annuity (MYGA)</u>: MYGA's provide a guaranteed fixed interest rate for a guaranteed fixed time period. Important considerations include:

- How much you are investing
- Time period
- Contract Liquidity (most companies allow without penalty access to 10% per annum)
- How does this annuity fit with your other invested assets?
- and more . . .

We can show you all the best interest rates being offered by insurance companies throughout the United States, and let you make the determination of which company and rate best fits your needs. To have choice you must have the maximum number of companies to choose from and sufficient information to make an informed decision - - *we will provide you both*!

2. <u>The Fixed Indexed Annuity:</u> There are more than 100 insurance companies offering the FIA and most offer an income rider option. Most companies offer multiple:

- Index Crediting Strategies
- Investment Duration
- Index Selection
- Bonus Choice (many companies will offer a bonus on your deposit)
- Income Rider Elections

The factors of company, guarantees, liquidity, and overall benefits must be considered.

First of all, we hope you'll agree that this report has been insightful and will be helpful in your making an informed annuity decision.

Secondly, we are unfortunately unable to disclose specific annuity performance without prior insurance company approval and compliant disclosures. Given that the benefits we cite above come from multiple annuity products, it is not feasible to provide all available and up to date options that would suit your specific needs in this report format.

However, we are more than happy to verbally discuss with you by phone or personal meeting the companies we represent, and provide company approved illustrations and marketing materials that support our claims of highest yields, greatest guaranteed income, largest bonuses, and most lenient free withdrawals.

CONCLUSION:

In our work with retirees, and those considering retirement, we have arrived at one overriding conclusion - - - *safety of principal, and sufficient, guaranteed income provide **peace of mind**.*

All studies agree, that a person's greatest financial fear is the fear of running out of money!

We have chosen the *Tax-Deferred Fixed Annuity* as our financial instrument to allay that fear. We believe that the contractual interest yields and guaranteed income growth offered by the Multi-Year Guaranteed and Fixed Index annuities are compelling.

We look forward to assisting you, should you wish explore the suitability of specific product choices.

Here are links that offer independent information:
www.finra.org
www.sec.gov

Disclaimer: Like all important decisions, choosing an annuity must be done carefully. It is advised to obtain tax and legal advice from persons licensed and authorized to do so. Annuities may be a wonderful addition to your portfolio **BUT** only if the benefits they provide match up with your goals.

Help is available directly from your department of insurance, regarding the agent, the company and the annuity product. Always make sure you full understand the benefits and limitations your annuity has.

Annuities are long term commitments, access to your funds may be restricted. Always ask for time to fully understand any proposed annuity and often a second opinion form a family member or trusted advisor will help. Annuities are wonderful vehicles when used to obtain your goals, but everyone has different and specific goals. Make sure your goals are considered before buying an annuity.