SOME IMMEDIATE ANNUITY FACTS

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These extraordinarily difficult markets have brought out from underneath the rocks, a bevy of unscrupulous insurance/annuity salesmen selling products that are nothing more than Trojan horses. I spend a large amount of time in my car and listen to hefty doses of AM radio; and I am very concerned with the volume of advertisements from these charlatans. Their advertisements usually contain some of the following claims:

Guaranteed results! 15% bonus for signing up! Our clients have never lost money! A Great Depression that will last for 20 years is coming!

The products they are often hawking are the infamous ***Equity Indexed Annuity*** (EIA) that we have written and warned about extensively over the years. The problem has gotten so extensive that we actually opened up a division that deals exclusively with aiding individuals in discerning between the quality products from the garbage. I like to compare annuity products with prescription drugs. They can be amazing when used correctly in accordance with one's financial plan, but if abused, then the consequences can be dire.

Immediate annuities are insurance products that convert cash into a steady stream of income that can be guaranteed to last a lifetime. Unlike the EIA, which are complicated and very expensive, immediate annuities have language that is often uncomplicated. However, individuals need to refrain from using insurance agents to purchase these products that are tied to one company because payouts vary between companies.

Immediate annuities function just like a pension, producing a predictable payout. As the "immediate" part of the name suggests, the distributions start shortly after the money is invested. The *"trade-off"* with an annuity is the fact that in exchange for that guaranteed payout, the individual gives up control of the money. Immediate annuities are priced dependent on the investors age (the older the investor the bigger the checks) and the level of interest rates. Rather than having to go to ones portfolio to sell stocks to pay for living expenses, it is a good idea to purchase an annuity to cover this part of one's life. It is often suggested that individuals not withdraw more than 4% a year from their portfolio for living expenses; the payouts from immediate annuities can be much greater.

Certain immediate annuities also insure against the erosion of purchasing power by adjusting for inflation; but the payout is less from these inflation insured products. We feel that rather than taking a lower payout, it might be better to purchase another annuity if inflation wears away purchasing power.

A question that we encounter on a regular basis is whether it is possible to use money in an IRA to purchase an immediate fixed annuity and whether the premium would be taxed immediately or the income distribution?

The answer is that if the tax rules are followed correctly their will not be a problem. To receive the tax deferral when using IRA assets one can either first withdraw money from the account and roll it within60 60 days to an individual retirement annuity or to do a direct rollover/trustee-to-trustee rollover. You are taxed when you start receiving payments under the annuity contract. If you made deductable contributions to your traditional IRA, the annuity payments are fully taxable. When you turn 70 ½ and are required to start making required minimum distributions each year, the annuity payments would cover the portion of your IRA that is an annuity. If there are other assets outside the annuity, one would need to calculate those mandatory withdrawals separately.

Is your insurance company on a naughty list?

An alarming number of major broker-dealers are booting certain insurance companies from their product platforms. There has been a wave of ratings downgrades from the major agencies, and a serious amount of red ink from earnings that has put firms on high alert.

More than 70% of financial advisers in a recent survey by Spehar and Roman said they were concerned about the risks insurers have taken on with guaranteed-minimum variable annuities. Nearly a third said they doubted the insurers themselves understood the risks. About two dozen insurers have seen their financial-strength ratings fall one or two notches during the first quarter. Ratings firms have placed a negative outlook to many of the insurers for the next 12-18 months and put a watch on many others for possible downgrades going forward.

To get more information on immediate annuities and whether or not they are right for you please contact us at (888) 950-0940.

Source:
Lauricella Tom Lock in a Lifetime of Income *Wall Street Journal* March 09
Greene Kelly How to Buy an Annuity with Your IRA *Wall Street Journal* March 08
Internal Revenue Publication 590 www.irs.gov
Scism Leslie Brokers Feel Many Insurers Are Ignorant of Annuity Risks *Wall Street Journal* April 5, 2009