



Open-access to financial education, for all.

Front Street Foundation is a nonprofit 501(c)(3) organization
Money Series / Youth Investors / Mentor Pros

FRONT STREET
FOUNDATION

Front Street Foundation is a Traverse City, Michigan based 501(c)(3) nonprofit founded on the commitment to provide open-access to financial education, for all.

Money Series' presentations are delivered by financial professionals with practice-area expertise through live presentations and interview-style discussions covering a wide-range of personal financial planning and public finance topics.

Front Street Foundation's Money Series is presented in cooperation with Traverse Area District Library and the Grand Traverse County Senior Center Network with special thanks to UpNorthTV.

FrontStreetFoundation.org



Upcoming Program

Planning for the Future of the Family Cottage

Wednesday, October 12, 2016

Contributing Presenter:

Dan A. Penning

The Penning Group, Advisors and Attorneys

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Disclosure

This presentation is designed to enhance your understanding of various financial planning topics. Often, this is generic information and may not apply directly to your particular circumstances. In some cases, examples of rates of return are given and are used for illustration purposes only.

Given this, we strongly encourage you to seek professional advice from as many sources as possible. This advice may take the form of tax, legal, insurance and investment professionals, among others.





Today's Program

Annuities, Safely Explained

Wednesday, September 14, 2016

Contributing Presenter:

Jason P. Tank, CFA

Front Street Wealth Management

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Biography | *Today's Presenter*

Jason P. Tank, CFA

Jason is the founder of the Front Street Foundation, the owner of Front Street Wealth Management and is a frequent guest business section columnist for the Traverse City Record-Eagle.

Front Street Wealth Management is an independent, fee-only, fully-discretionary wealth advisory firm for individuals, families and trusts, since 2003.

Jason earned a Bachelor's in Mathematics from Michigan State University, is a former actuary and holds the Chartered Financial Analyst designation.



Intro | *Annuities, Safely Explained*

*“Everything should be made
as simple as possible,
but not simpler”*

- Albert Einstein



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Annuities | *No two are the same...*

First, a Caveat...

Many annuities are designed to look and feel different from company to company, making direct comparisons difficult.



Money Series Speaker | Jason P. Tank, CFA

Annuities | *Why?*

Why people consider annuities?

Desire to control uncertainty.

(\$250 billion sold last year)



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Annuities | *The Possible Benefits*

*The shifting of risks to
an insurance company...*

Investment risk

Longevity risk



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Annuities | *The Possible Downsides*

However, shifting risk is not free...

Added costs

Restricted access to money

Higher taxes possible



Money Series Speaker | Jason P. Tank, CFA

Annuities | *The Natural Lifecycle*

The Natural Lifecycle of an Annuity

Accumulation Phase

You pay, then you wait

Income Phase

You start to receive payments



Money Series Speaker | Jason P. Tank, CFA

Annuities | *Basic Types*

Types of Annuities

Fixed

Act more like CDs or bonds

Variable

Returns depend on the markets



Money Series Speaker | Jason P. Tank, CFA

Annuities | *Fixed Annuities*

Deferred Fixed Annuity

A set period of fixed return

*After, you often receive a
declared crediting rate*

(subject to a guaranteed minimum)



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Annuities | *Fixed Annuities*

Immediate Fixed Annuity

*Pay a premium and
receive payments for life*

(Single life, joint life, period certain)



Money Series Speaker | Jason P. Tank, CFA

Annuities | *Fixed Annuities*

Simple Stuff is Over!

Equity-Indexed Annuities
&
Variable Annuities



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Annuities | *Fixed Annuities*

Equity-Indexed Annuity

A (much) more complex fixed annuity

The stock market starts to matter...



Money Series Speaker | Jason P. Tank, CFA

Annuities | *Fixed Annuities*

Equity-Indexed Annuity

Multiple “buckets” to track

Guaranteed Buckets (very low today)

Stock Market Buckets (only sort of)



Money Series Speaker | Jason P. Tank, CFA

Annuities | *Fixed Annuities*

Equity-Indexed Annuity

*Your money tracks stock market returns...
...but you only earn part of it.*

Your returns are based on complex formulas.



Money Series Speaker | Jason P. Tank, CFA

Annuities | Equity-Indexed

Participation Rate

A set proportion of the stock market's return

Cap or Cap Rate

Stock market return up to 2% to 3%, today

Spread or Margin

Stock market return minus 3% to 5%, today

Floor & Ratchets

You can't lose gains, from highs



Annuities | *Equity-Indexed*

Costs are hidden or built-in through the adjustable caps or spreads.

These adjustable profit dials are under the control of the insurance company.

Difficult to analyze, based on a future that's has not yet unfolded.

No dividends, included



Annuities | *Variable Annuities*

Variable Annuity

*Basically, invested in mutual funds
held inside an insurance wrapper.*

These mutual funds are called, sub-accounts



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Annuities | *Variable Annuities*

Variable Annuity

Expenses are known and can be high.

Mortality & expense (M&E) charges = 0.5% to 1.5% per year

Sub-account expenses = 0.5% to 1.5% per year

Surrender charges of 7% to 10% lasting up to 10 years

...and then the cost of living benefit riders...



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Annuities | *The Riders*

Living Benefit Riders

(add-ons to Equity-Indexed & Variable Annuities)

Introducing the “phantom account balance”

Bonus rate offers

Roll-up features

Lifetime Withdrawal Benefits



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Annuities | *The Riders*

Living Benefits

The cost can range from 0.75% to 1.25% per year...

...on top of the other costs.

Total cost can be 2% to 4% per year.



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Annuities | *The Alternatives*

Ways to handle high cost annuities

Penalty-Free Withdrawals (10%)

1035 Exchanges

Dropping High-Cost Riders

IRA Rollovers



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Annuities | *The Alternatives*

Alternatives to Annuities

Working longer

Saving more

Budgeting responsibly

Diversified investing

Conservative investing

Cost-conscious investing



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Thank You



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