ANNUITY
FACTS GUIDE

Compliments of
Kirt W. Carstens

Kirt W. Carstens, CLU®, ChFC®

Licensed Insurance Agent

Kirt Carstens, CLU, ChFC®, began his career in insurance and financial services in 1991 in the Iowa Great Lakes region and surrounding areas. Since that time, he has focused on providing asset management, estate planning and life insurance solutions for retirement and pre-retirement planning needs.

Kirt's personal commitment, professionalism and dedication to his clients have helped him cultivate long-term relationships. His full-service approach involves teaching and coaching business owners, successful professionals and individuals of the region about strategies to achieve their retirement goals.

Kirt received recognition in the industry as a qualifying member of the Million Dollar Roundtable (MDRT), an international organization that provides members with education to improve technical product knowledge and client service. He also earned the additional distinction of being named to the Top of the Table, an elite agent group, for the past two years.

He is an active participant in the community, volunteering his time and service as a speaker and seminar presenter. Kirt enjoys speaking at public forums on how financial products can be used to help meet the wealth accumulation and estate conservation needs of area residents. Kirt lends his time and talent to various Great Lakes Region charitable organizations, assisting with policy making, fundraising and personnel decisions. He is an Iowa State University graduate with a degree in English and a life-long resident of the Great Lakes area. He actively participates in area youth baseball leagues as a coach and mentor. He, his wife Jacque and their children Kole and Carly call Arnolds Park home.

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It's Your Money, You Should Know the Facts.

Between the enormous number of financial products available to you and the information you receive from an extremely competitive financial marketplace, it's easy to get confusing or even false information. The information presented here is intended to provide accurate, easy-to-understand information about fixed annuities and their role of insuring the retirement savings and retirement income of Americans. Here you should find many answers to your questions and insights about your options to protect and create a reliable retirement income.

How can I protect against fraud when buying a fixed annuity?

Fixed annuities are wonderful insurance products designed to provide consumers with a reliable way to accumulate and use their retirement savings on a tax-deferred basis, with guarantees to help protect them against various risks. Every day, fixed annuities offered by financially solid insurance companies are sold by reputable insurance agents, investment advisors and securities brokers to consumers who will benefit from their annuity purchases.

But from the Bernie Madoff scandal, we learned not everyone can be trusted and those who are not trustworthy are capable of tricking and victimizing well-meaning and intelligent people.

It is fairly easy for consumers to take a few simple steps to protect themselves, ensure they are not being scammed, and make certain the annuity they purchase is suitable for their retirement income needs. Please consider the following tips to enhance your financial well-being.

How does a fixed annuity work?

A fixed annuity is a contract with an insurance company that a consumer purchases with a sum of money. The insurance company credits interest to the contract value and provides options for the customer to receive cash from the contract. A particular strength of annuities is they can provide customers with guaranteed payments to last as long as they live.

Annuities differ in four key ways:

1. **How many premiums you pay -** The money you use to purchase a contract is called the "premium," and annuities can accept either a single premium or a series of ongoing premiums.
2. **When the company makes payments to you -** Payments can start immediately or be deferred to a future date of your choosing.
3. **How the money in the annuity earns additional interest –** Declared interest is either earned by a rate made in advance or by crediting interest to your policy based on the positive performance of a market-based index such as the Standard & Poor's 500 index or the Dow Jones Industrial Average.
4. **Penalties associated with early withdrawals –** Although you can earn interest in an annuity, it is not a savings account. If you buy an annuity, it should be used to reach long-term retirement goals. All annuities have surrender charges (also known as withdrawal charges). These charges are meant to discourage you from ending the contract early and taking out more money (withdrawals) than the contract allows.

How do I buy an annuity?

With fixed annuities, customers make checks payable to insurance companies and receive periodic account statements from insurance companies. The agent or advisor who is proposing the annuity purchase is facilitating a transaction between the customer and the insurance company. Thanks to the availability of information on the Internet, it is easy to check on the existence, location, regulatory license and financial strength of the insurance company being discussed with you by the agent who is proposing the annuity purchase.

Fixed annuities are sold by individuals who must be licensed as insurance agents. As part of their business, they may also be registered investment advisors or registered representatives in a securities firm. For ease of discussion, we will simply refer to annuity salespeople as agents. Agents are typically paid commissions by the issuing insurance company for the annuity sales they make, and thus, agents do not charge you fees for the service they provide to you. Agents are compensated by the insurance company. This compensation (also called commission) is a part of the company's overall expenses. These expenses are built into the annuity's benefits and limitations – similar to many other services and products you routinely purchase. The full premium you pay is applied to your policy.

Tips: *before you purchase*

When you meet with an agent or attend an educational seminar given by an agent, be on the lookout for a few warning signals. For example, there should be no sense of urgency around an annuity purchase. It is relatively unusual for there to be offers or specials with limited time availability in the annuity business. Also, your agents should not disparage insurers, regulators or other agents, as the vast majority of people and entities that operate in the annuity business are reputable.

The annuity business is regulated by state governments, so your state of residence has a Department of Insurance. You can easily find its website via a search engine or on www.naic.org, the website of the National Association of Insurance Commissioners. Your agent must be licensed as an insurance agent, and on most state insurance department websites, you can verify that your agent is licensed. If you cannot do it online, call your state insurance department to verify your agent's license. Also, every agent must be appointed by the insurance company whose product is recommended. The National Association for Fixed Annuities suggests you also call the insurance company and ensure your agent is appropriately licensed and appointed by them.

If your agent claims he/she is a registered investment advisor or a registered representative of a securities firm, you can check his regulatory record by going to the FINRA BrokerCheck website at finra.org/Investors/ToolsCalculators/BrokerCheck.

Don't be afraid to bring a trusted friend or family member when you meet with the agent. A friend or family member can often help spot issues or concerns you may not have considered and help keep you from feeling pressured.

Tips: *when you purchase*

Check to make sure the insurance company which you are purchasing an annuity from actually exists. You can often verify an insurance company is licensed in your state from your state insurance department website, and you can find the company's own website. Verify the company's address matches the information on any forms you are signing.

Make sure any check you write or authorization you sign is made out to the issuing insurance company and not to your agent or their agency. Keep a copy of any forms and paperwork your agent or you have filled out or signed. For an extra level of protection, you can even mail your check and application paperwork to the issuing insurance company yourself.

You can also check on the financial strength of the insurance company in a couple of ways. Many insurance companies receive a financial strength rating from a ratings company such as A.M. Best, Standard & Poor's, Moody's or Fitch. For example, you can find most companies' financial strength ratings on www.ambest.com. Many insurance companies have their stock publicly traded, and if so, you can find out information on the company by going to any major financial website, such as finance.yahoo.com.

Make sure the annuity you are purchasing is suitable for you. That means you should understand how the annuity works, and you should feel that it meets your needs. Because annuities are intended for your long-term retirement needs, consider that most annuities have significant penalties for early withdrawals, and these penalties can last for varying lengths of time depending on the policy and issuing company. While most products allow for some access to early withdrawals without penalty, make sure you have other savings available if you develop a significant financial hardship. It is not advisable to have all of your money in an annuity. Consider that while annuities have the advantage of tax deferral, they also have a penalty tax associated with any withdrawals that occur before age 59½. Thus, you want to make sure you are extremely unlikely to need to withdraw any money you put in annuities before the predetermined age.

If a concern arises regarding any of the matters mentioned above, simply stop the purchase transaction. Remember what we mentioned earlier about having no sense of urgency.

Shortly after you purchase an annuity, you will receive an annuity contract from the issuing insurance company. In most cases, this will be delivered to you by your agent. If you feel you are not receiving it in a timely manner, don't hesitate to call the insurance company and ask about it. Once you receive the contract, you will have a period of at least 10 days (and possibly longer) to examine the contract and, if you are dissatisfied, notify the agent and the issuing insurance company that you want a full refund.

What should I do If I suspect an annuity scam?

As we have mentioned, annuity sales are regulated by state insurance departments. The major goal of state insurance departments is to protect the public by ensuring insurance companies remain solvent, deliver on their contractual guarantees and use integrity in their sales process.

Regardless of whether or not the insurance company is actually located in your home state, your state's insurance department has jurisdiction over the carrier's activities in your state.

Thus, if you have any concerns at all about the insurance company or your agent, you should not hesitate to contact your state insurance department to discuss your concerns.

For simple access to all of this helpful information and more, go to the following websites:

Fixed Annuity Facts - fixedannuityfacts.com

FINRA's Broker Check - finra.org/Investors/ToolsCalculators/BrokerCheck

The National Association of Insurance Commissioners - naic.org

A.M. Best Company Ratings - ambest.com

Standard & Poor's - standardandpoors.com/ratings/en/us

Indexed Annuity Leadership Council - indexedannuityinsights.org

How will I get retirement income from my fixed annuity?

Annuity product innovations include a wide variety of ways to provide guaranteed income through annuitization choices, income riders called guaranteed lifetime withdrawal benefits (GLWB) or guaranteed lifetime income benefits (GLIB) and withdrawal benefits. These options provide retirees an amount of guaranteed income, as well as flexibility and control over their retirement savings.

Annuitization

Traditional income options from annuities include guaranteed income for life, for a specified period, or a combination of a lifetime payout with a guaranteed period. These options are typically referred to by the industry as "annuitization." Annuitization is available in both immediate (also called payout or income annuities) and deferred annuities. The selected income stream is guaranteed. Also, many products offer inflation adjustment features, and more innovation is currently underway that will provide guaranteed inflation protection using the consumer price index and other inflation measurement indices. Following are several annuitization options available on fixed deferred and lifetime income (immediate) annuities.

Life Option: The life option typically provides an income stream for life, which is an effective hedge against outliving retirement income.

Joint-Life Option: This common option allows the spouse to continue to receive payments when the annuity recipient dies. The monthly payment is lower than that of the life option because the calculation is based on the life expectancy of both the husband and wife.

Period Certain: With this option, the value of the annuity is paid out during a defined time period the owner chooses such as 10, 15 or 20 years. If a 15-year period certain payout is selected and the annuitant dies at any time during those 15 years, then all remaining payments through the end of the 15th year will be paid to the beneficiary.

Life with Guaranteed Term: Many people like the idea of guaranteed income for life (which they get with the life option), but are afraid to choose that option in case they die in the near future. The life-with-guaranteed-term option provides an income stream for life (like the life option), so it pays you for as long as you live. This option also allows the payout recipient to select a guaranteed period, such as a 10-year guaranteed term, for which the annuity must pay to the estate or beneficiaries even if death occurs before that guaranteed period is over.

Systematic Withdrawal Schedule: This method allows the recipient to select the amount of payment desired each month and how many payments are needed. However, the insurance company will not guarantee the recipient will not outlive income payments. How much is received and how many months payments are received depends on the annuity cash value at payout. The risk of outliving the income is borne by the recipient.

Lump-Sum Payment: Taking out all of the cash value is the least efficient payout method from a tax minimization perspective. Ordinary income taxes are due on the entire portion of the annuity (for IRAs and annuities in employer-sponsored plans) at the time of withdrawal rather than spread out over time, when the tax bracket may have been lower, such as in retirement.

Electing Not to Take Payments: With deferred fixed annuities, you are not required to take the payments unless you choose to. This is beneficial in that the retiree doesn't need to make any payout decision until, and if, income is needed.

Income riders

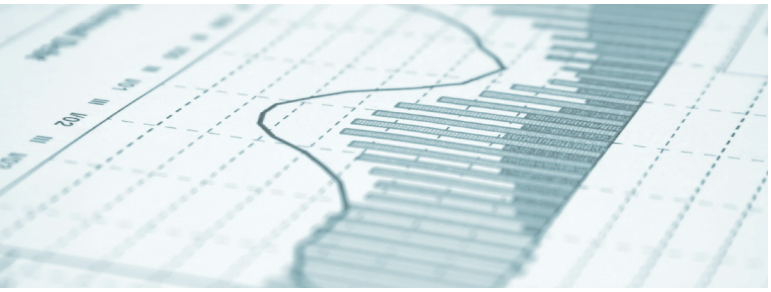
Income riders have become one of the most popular benefits ever added to fixed deferred annuities. NAFA members are reporting more than 50 percent of people who purchase fixed deferred annuities also elect to add an income rider. These income riders are called guaranteed lifetime withdrawal benefits (GLWB) or guaranteed lifetime income benefits (GLIB).

The first income riders were introduced on variable annuity products in 2003, and they became available on fixed and fixed indexed annuity products a few years later. Income riders provide consumers with guaranteed income for life (similar to what an annuitization can provide), but without giving up access to remaining principal – a feature that caused many consumers to shy away from annuitization. By purchasing an income rider on a fixed annuity rather than a variable annuity, a consumer gets the benefits of the income rider while also being protected from investment risk.

An income rider on a fixed or fixed indexed annuity allows a retiree to build a reliable retirement income. The payout provided by the income rider

Value	Accumulation Value	Income Value
How it is used	It is the basis for most benefit calculations, including the value to be paid upon death, surrender or maturity.	It has one purpose – it is the value used to determine the lifetime payments that can be taken from the annuity.
How it grows	Interest is credited to this value using a choice of fixed and/or index-based methods.	A separate fixed, guaranteed interest rate is credited to this value.

is guaranteed by the issuing insurance carrier for the life of the annuity owner. The issuing insurance carrier bears all of the investment and longevity risk on the guaranteed payout, which means the consumer is completely protected from these risks. Some annuity carriers even provide for the income to substantially increase in the event that the annuity owner becomes confined to a nursing home, further sheltering the annuity owner from risk. In addition, the annuity owner retains access to the annuity's remaining value and also continues to reap the benefits of interest credits to the annuity's value.



How Income Riders Work: As previously noted, a guaranteed lifetime income or withdrawal benefit is typically optional on a fixed annuity, and it is added to the annuity by a rider. Whereas, the annuity has an accumulation value to determine the death benefit or annuitization, the rider adds a second value, the income value.

The accumulation value works just as it always does on a fixed annuity. The annuity owner's premium earns additional interest that is declared and guaranteed in advance or guaranteed through a calculation of an index (or indices) performance, while at all times promising a minimum guaranteed interest. The unique benefit of a fixed indexed annuity (FIA) is it has a built-in inflation hedge because additional interest is calculated based on a formula tied to the designated index (e.g., S&P 500).

With income riders, the income value is completely separate from the accumulation value. It typically grows at a fixed rate of interest, and when the retiree elects to start taking lifetime withdrawals, a payout factor is applied to the income value to determine the guaranteed annual withdrawal. If the accumulation value is higher than the income value when the income is desired, then the accumulation value is used in the payout calculation instead. Once the amount of guaranteed withdrawal is calculated, the retiree may withdraw that amount from the annuity every year for life. While taking these withdrawals, the retiree is provided with two very valuable guarantees. First, although the annual withdrawals are deducted from the accumulation value, the additional interest (declared or indexed) continues to be credited to the accumulation value, and the retiree retains access to the remaining accumulation value at all times. Second, even if the annual withdrawals ultimately deplete the accumulation value, the issuing carrier must continue making the annual payments as long as the retiree lives.

Withdrawal Benefits: Most fixed annuities contain a provision to withdraw a portion of the annuity value without any surrender charge, usually after the first policy year. Many fixed annuities, which are qualified contracts (IRAs), allow the stated withdrawal amount or the required minimum distribution (RMD), whichever is greater.

However, this benefit is not guaranteed, and if you withdraw more than the amount specified by the benefit, you may incur a withdrawal charge. The withdrawal benefit allows access to funds in an emergency or planned withdrawal for income or required distribution under qualified retirement fund rules. The amount usually allowed is 10 percent of the annuity's account once per year. Some policies let you accumulate the percentage allowed if you do not take a withdrawal in a given year, with a maximum total accumulated percentage that is typically 50 percent of the account value. A few products limit penalty-free withdrawals to the interest earned during a year.

What types of liquidity are available with a fixed annuity?

Nursing Care Rider: This feature is a special form of penalty-free withdrawal. To qualify, you usually must be admitted to a qualified care facility (or receive home health care) after the first policy year, for a specified period of time (often 90 days). When you qualify, you may often elect a penalty free withdrawal of up to 75 percent or 100 percent of your account value.

Terminal Illness Rider: This feature is a special form of penalty-free partial withdrawal. To qualify, you must be diagnosed by a doctor as terminally ill (death expected within one year) after the first policy year. When you qualify, you may usually elect a penalty free withdrawal of up to 75 percent or 100 percent of your account value.

Trade-offs of Income Choices: *Annuitization or Lifetime Income Annuities*

As we have discussed, the fixed immediate or lifetime annuity's most significant (and understood) benefit is customers are guaranteed a steady stream of income for the rest of their lives, a specific period or a combination of lifetime and period guarantees. Economists have suggested individuals can achieve substantial gains to their welfare if they eliminate the uncertainty related to their lifespan by purchasing annuities.[1]

The first trade-off for the guarantee of not being able to outlive your savings is that the customer may not change their election. Therefore, if the customer needs more money for unexpected expenses, they may not access the money they have chosen to annuitize. But note: the insurance industry has recognized and solved for this need with GLWB income riders mentioned previously.

In addition, many annuities do not owe the beneficiary any remaining value when the customer dies. Retirees who would like a payout of the remaining value need only select from the products that offer this benefit and, in exchange for the benefit, accept a lower income stream than he or she would have received otherwise.

Charges for Income Riders

Income riders attached to a deferred annuity provide consumers with more flexibility to access their remaining annuity value if the consumer needs money for unexpected expenses. However, that flexibility comes at a cost. While the income riders guarantee lifetime income or withdrawal amounts that add a valuable benefit to the fixed annuity for retirees interested in a reliable retirement income, the riders are not free. Some carriers build the rider into the annuity product, so the cost is reflected in a lower interest rate on the accumulation value, the income value or both. Other carriers charge directly by deducting a fee from the accumulation value of the annuity, usually based on the income benefit base. This charge may cause the accumulation value to fall in years in which no indexed interest is credited. Rider charges normally continue until the accumulation value of the annuity is depleted or the rider is removed from the contract.

[1] *fixedannuityfacts.org - Supporting Member: NAFA (National Association for Fixed Annuities)*

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