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ANNUITY STRATEGIES FOR INCOME, GROWTH, AND SAFETY

This report explains how indexed annuities work and reviews the development of features and benefits that might interest you. Even if you have an existing pension or 401(k) plan, annuities may supplement your income or enhance benefits during retirement.

Impact Wealth Group's Annuity Strategies include the evaluation of hundreds of annuities. We know the features best suited to our client's needs, and have developed management techniques to leverage these features and available options – or riders – to maximize income and optimize benefits throughout retirement (or a specific timeframe).

While reading this report, remember that we describe advantages derived from the purchase of additional riders and other techniques – like laddering – that allow us to generate much higher income than strategies using a single annuity.

Please note that our examples are not company specific. They are concepts to demonstrate how these products work. Annuity contracts can change and not all contracts or rider features are available in every state.

How Indexed Annuities Work

One of the most attractive benefits of indexed annuities is that there is ***no loss of principal because of stock market declines.***

Indexed annuities offer a low, guaranteed* interest rate ***plus*** the potential for additional interest credits based on a percentage of the gains of a specified stock market index – the S&P 500® or other, sometimes less traditional, indexes. No matter how much the stock market declines, the annuity owner's accounts are not affected, because annuity premiums do not directly participate in the stock market by purchasing individual stocks or mutual funds.

This protection from downside losses is a primary feature distinguishing indexed annuities from variable annuities. In variable annuities, your funds purchase investments in "sub-accounts." For this reason, a variable annuity has the opportunity to increase in value when the market rises, but can also decrease in value in a declining market.

Although indexed annuities carry a guarantee of no principal loss from market exposure, they still have certain limitations. As you may know, there are very few unconditional and everlasting guarantees in life. Whether you buy a new car, television, or almost anything else, the guarantee it comes with usually has limitations and exclusions.

Let's examine the limitations of the guarantees* offered by indexed annuities.

A Closer Look at the Guarantees and Limitations of Indexed Annuities

Most annuities allow you to take penalty free withdrawals. For example, suppose you have $200,000 in an annuity, you could, in many cases, withdraw 10% per year ($20,000) without penalties and without affecting the annuity guarantees. This is reasonable liquidity.

However, withdrawals outside of the annuitizing structure may reduce the contract death benefits and impact the amount of income stream received. Also, taxable amounts (on earnings from the principal) withdrawn prior to age 59½ may be subject to a 10% IRS penalty in addition to ordinary income tax.

Most annuities have a surrender period for the first 5 to 10 years of ownership. Early withdrawals, beyond that allowed under the contract, will deplete your principal by the amount of the surrender charge still in force. These excess withdrawals, or a full surrender of your index annuity contract during the surrender charge period, will be subject to withdrawal charges and potential market value adjustments.

With the 10% per year penalty free withdrawal privilege, virtually all of your principal could be withdrawn over a 10-year period without paying surrender charges. However, most of our clients have no intention of doing so. They would rather enjoy the income stream for the maximum possible amount of time.

Some annuities have a built-in lifetime income benefit, while other annuity contracts provide 10 or 20 years of income – these latter contracts can usually be changed to lifetime income with the purchase of an additional rider. With this benefit, even if you lived to 120 or older, your annuity would continue to provide the income or withdrawals promised, each and every year! How many other financial vehicles can you think of that offer this benefit?

The ***payout amount*** for a fixed index annuity income is determined by a growth factor based on the client's age, typical life expectancy, and ***"Income Benefit Base."*** This term refers to the dollar amount on which guaranteed* income payments will be based, whether the annuity contract is a basic indexed annuity or a fixed index annuity with an income rider. Please keep in mind that the income benefit base is used to calculate income and is not the same as the accumulation value. The income benefit base is a value only available over time in annuity payments, and is not a value that can be withdrawn at will.

Income That You Can Turn On or Off as Needed

Fixed index annuities may also allow you to get money if needed, and to start receiving payments or start withdrawals on demand. You can turn annuity withdrawals on and off at will. For example, assume that you received an inheritance, sold real estate, or withdrew money from a stock market investment. You might have sufficient income for that year. With no need for extra income from your annuity, you can let that income accrue in the annuity, potentially increasing the value even more.

Many fixed index annuities offer riders** that can provide guaranteed*, **ever-increasing income for life.** There is an extra charge for riders. You may find, however, that the potential benefits are worth the extra cost. For this reason, several types of riders have become very popular. As an example, an inflation rider offers a hedge against inflation. Since we are unlikely to experience any year with no inflation, a fixed index annuity with an inflation rider** will pay out a guaranteed* income that increases each year to help protect the purchasing power of your principal.

Please note that once you start the income stream from your annuity, the income withdrawal percentage is locked in for life and normally cannot be increased. However, in some cases your income can be increased – if you need long-term medical or nursing care for example – provided you have purchased an inflation rider** or a confinement benefit rider**. (The confinement benefit rider may not require confinement to a nursing home to pay a higher level of income. Under the terms and conditions of many confinement benefit riders, if you require long-term medical care or nursing care that you can receive in your home, you can still receive a higher income from your annuity. You need to carefully read

the annuity contract and any riders you are considering to ensure that the benefits you want are provided.)

Another benefit offered by many fixed index annuities is specific control over how your money is paid out. You have an option to make income payments to yourself and/or another individual for a guaranteed period of time. (For example, you might want to provide income payments for 20 years to one of your children or to a favorite charity.) Some parents are concerned that if a great deal of money is left to their children (even adult children) in a lump sum, they might misuse the funds. In other cases, a child may need special care, or work in a high-satisfaction but low-income career. The fact that the annuity can space out cash distributions to help support a child over 20 years (or another selected time period) gives these parents greater confidence in their child's financial well being.

Crediting Methods and Cap Rates

We believe it is important to choose an annuity that locks in increases in value as often as possible. In annuity parlance, this is called "ratcheting" or "ratcheting up."

Consider two different annuities – one ratchets every year and the other ratchets every two years. As the time period between locking in increases, the higher the probability of losing increased value due to market volatility. If your annuity ratchets every year, you will ***lock in increases every year*** when the stock market goes up. In a down year, ***you will not lose money***. Thus, every single year, your annuity ***can only increase in value*** or remain flat. No matter what the stock market does, your annuity will not decline in value during any year if you have an annual lock-in of any increased value.

For comparison, consider an annuity that ratchets every two years. Suppose that the stock market goes up 15% in year one, and in year two declines by 16%. If your annuity only ratchets every two years, you would realize no increased value for this two-year period. However, in an annuity with a ***one-year ratchet***, you would lock in increases for the first year (subject to the contract rate cap) and not have lost any value during the second year.

The potential for growth in your annuity will be based a portion of the growth in the corresponding index. Some familiar indices are the S&P 500®, the Dow Jones Industrial Average, and the NASDAQ 100 – although some fixed index annuities are tied to more "exotic" indices. Once you find a product linked with an index you want, you may also have options for a crediting strategy used by the insurer. Based on our research, we have concluded that there are two crediting methods that are the most successful.

1. ***Annual point-to-point:*** This crediting strategy resets annually and compounds, but will not outperform the index in a big up year because of rate caps. A "rate cap" places an upper limit on the maximum percentage for the annuity's index crediting in a given year. This is a trade-off for never needing to worry about losing money in your annuity if the market declines.

   For example, if the annual point to-point rate cap is 6%, this means that 6% is the highest interest rate the annuity will be credited during a given year regardless of how high the stock market rises.

It is important to remember that fixed index annuities are ***not designed to compete with the stock market.*** Fixed index annuities provide the potential for higher interest crediting than traditional fixed annuities.

Remember, for the protection of your principal, fixed index annuities do not directly participate in individual stocks or the stock market. Rather, your annuity is credited with an interest rate based on the percentage gain in a stock market index or bond index. Fixed index annuities are not insured by the FDIC, however every state has a fund – financed by the insurance companies –which is used to pay for any potential losses to annuity owners.

2. ***Monthly point-to-point:*** The cap or limit on gains is a monthly cap, and your gain is locked in at the end of the year. This method can perform very well if there are several up months with no large down months. However gains can be lowered dramatically if there is even one large down month.

We would be happy to explain all crediting methods with you before you select an annuity.

Remember, no one can predict what the stock market will do tomorrow, next month, or next year. For this reason, you may wish to work with two crediting methods and purchase two annuities – one with the annual point-to-point crediting method, and one with the monthly point-to-point crediting method. Then, if the stock market experiences one of those rare, very high return years, the monthly crediting annuity could do extremely well. However, if the stock market had an average year with steady (but relatively low) monthly gains, the annual crediting annuity could give you a higher crediting rate.

By diversifying between two crediting methods, you may avoid the challenge of trying to guess how the stock market will behave over the next year. *However, no matter what the stock market does, as long as it rises in value your annuity will rise in value.* And, if it falls, you will not lose any money and your entire principal and interest credited from prior years will be protected!

Income Riders**

Now that we have reviewed the base contract, let's discuss some of the benefits and limitations of income riders.

These benefits include:

- The ability to retain access to the initial purchase value of your annuity.
- The ability to turn the annuity's income stream on or off as desired.
- The ability to withdraw an additional portion of your annuity's value every year without penalty.

Some of the limitations:

- Each rider added to an annuity has an annual fee that comes out of your withdrawal value.
- If the benefits of a certain rider are built into the base contract, the contract may balance that with a lower cap or other limits.

- Withdrawing excess money from your annuity value decreases the value of the annuity and the death benefit.

With some fixed index annuities, you do not lose control of your money. Instead, you have the ability ***to turn on income payments when you want them*** and to turn them off when they are not needed. By turning off the income payments, you have the potential of reducing your taxes for a period while accruing more value in your contract. Then, whenever you desire, you can turn the income payments back on. (See each annuity contract for specific features and limitations.) Depending on the length of time the income stream is turned off — as well as the features, benefits, and riders of your annuity, when you turn on income payments again later in life — ***those income payments could be higher!***

With almost all fixed index annuities, you now have the ability to have your annuity cover the ***lifespan of two people***. After you pass away, your annuity could continue to make income payments to your spouse for as long as he/she lives. And if your index annuity also has an income rider**, you and your spouse might both have the ability to turn on or turn off the income stream as desired. When one of you passes away, the surviving spouse might be able to retain this ability to turn income on or off whenever needed. The exact features and benefits of income riders differ among insurance companies. If one of these benefit is important to you and your spouse, make sure you read the annuity contract and rider language before you buy the annuity to make sure the income rider will have the benefit(s) you want.

When you work with us; we will show you annuities that allow the owner to receive a guaranteed* income stream and have the ability to take out a large sum of money if an unexpected need arises. A very large withdrawal could result in a termination of the rider and all future income withdrawal amounts. We will show you how to avoid this type of situation, and maximize the potential benefits of your annuity.

By purchasing a fixed index annuity with the benefits you want, including a higher income stream, you can enjoy retirement with more financial confidence. This is true regardless of the premium amount of the fixed index annuity; it offers you the possibility of maximizing your income stream for each premium dollar placed in the annuity.

With a Fixed Index Annuity, Your Principal Is Protected

When you purchase stocks, bonds, mutual funds, real estate, gold, silver, or most other investments, your principal is normally not protected. The value of your investments can rise or fall at almost any time (including loss of principal). These investments have a greater potential for growth than fixed products, but they also have a much greater potential for loss.

When you purchase an immediate, fixed, or index annuity, your principal is protected as long as you do not withdraw more of its value than the contractual terms allow.

Many of our clients approaching retirement feel they do not have enough money saved and are concerned about stock market volatility. If financial stability in retirement is important to you, and if you would like to purchase principal-protected vehicles with your retirement assets, Impact Wealth Group's retirement planners can help you.