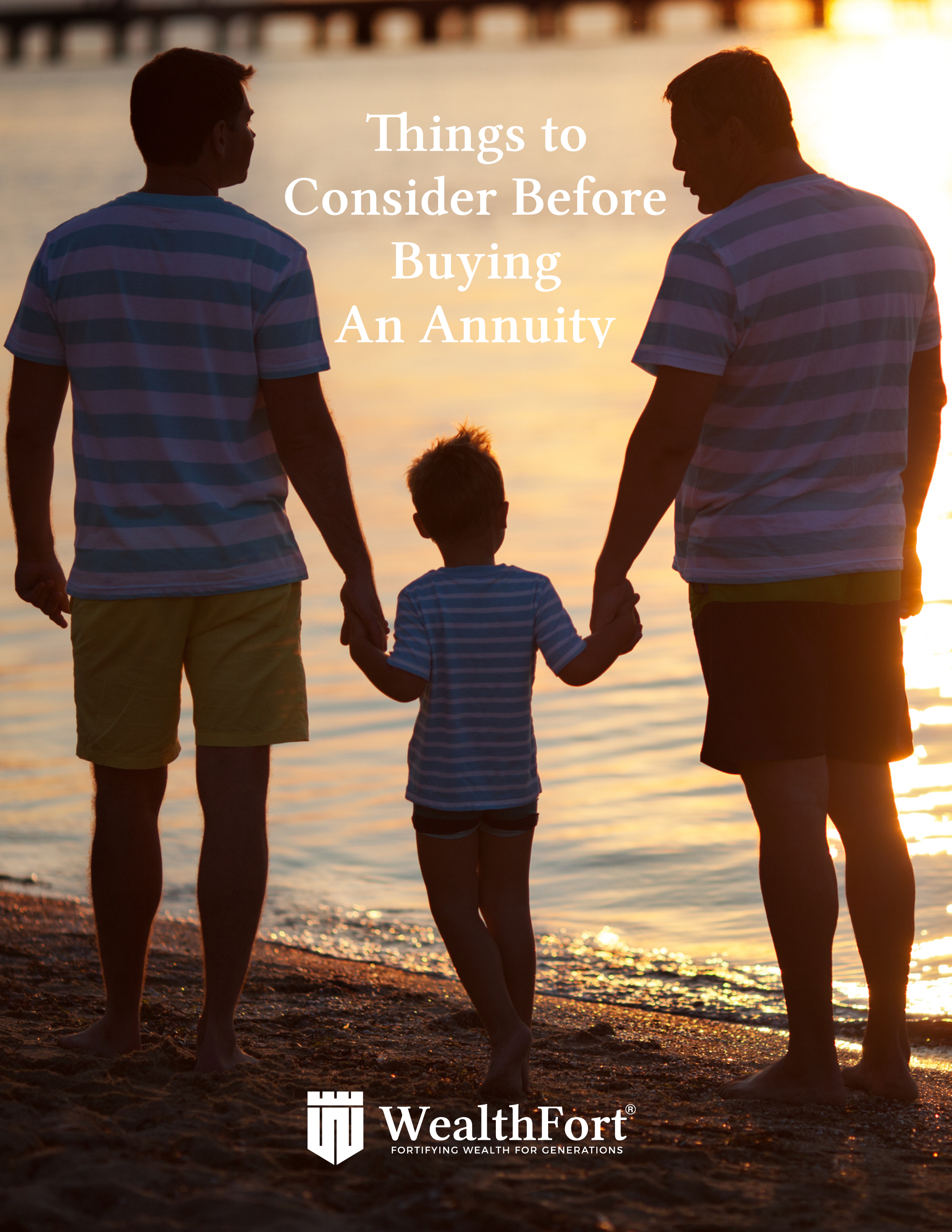
Things to Consider Before Buying An Annuity



WealthFort®
FORTIFYING WEALTH FOR GENERATIONS

What is an Annuity? An Annuity is a financial instrument issued by insurance companies and used by individuals for protection of principal, predictable monetary growth, and or future income payments. Annuities offer a low risk and stable cash flow for retirements years. Some are designed for greater potential growth through stock market indexing while others can offer guaranteed, dependable cash flow. Still, some annuities offer a potential for greater growth with guaranteed minimum income. There are two main annuity types: fixed and variable annuities.

Fixed Annuities: offer a low, fixed rate of return that is determined at the beginning of a fixed contract period. Although they are primarily used for principal protection, they may present opportunity for supplementary income during retirement, from a "period-certain" (set number of years) and throughout a lifetime.

Variable Annuities: resemble a stock market portfolio exposed to risk but can offer some guarantees through the purchase of additional benefit features called riders. They can lose value in a down market, including loss of your premium and they can increase in value in an up market cycle. They have relatively high sales and investment fees, in addition to the annual fees contained in variable annuity products. Variable annuities are only sold by Registered Representatives (RR). Due to high risks and high fees associated with these products, WealthFort™ does not sell nor use variable products in client portfolios.

Fixed-Index Annuities (FIA): are a hybrid fixed annuity with variable features. In addition to having a low guaranteed interest rate, FIAs have potential for additional growth by being linked to the movement of a stock and/or bond market index without being directly invested in the stock or bond markets. These products came about as fiduciary-licensed investment advisors looked to offer clients possible growth and income tied to market performance without the risk of principal when the markets went down. FIAs can also be used to provide clients guaranteed lifetime cash flow.

All FIAs Are Not Created Equal. The general premise of an FIA is that your principal has a low, guaranteed interest rate (which can change over time), with the potential for additional credited interest if your linked index rises. The growth during each crediting period is locked in too so that you can never lose those gains. Some FIAs have caps on your credited interest such that if the linked index rises above your cap, you only receive credited interest up to the cap. There are also uncapped strategies offered, often tied to indexes that may limit upside potential. Riders are also offered for an additional fee that will increase lifetime payouts and are designed to combat inflation. You can even pay to guarantee a death benefit for your heirs. It is important that you understand and note both the features that you want and those contained in the product you are purchasing. Our advisors will always help you fully understand what is contained in an annuity and how the product meets your needs before you make a purchase.

Growth, protection from loss, guaranteed lifetime cash flow sounds too good to be true—what's the catch?

There is no single product that offers growth, guaranteed lifetime cash flow, principal protection, liquidity, income tax deferral, and inflation protection. Before purchasing an annuity, or any financial product, make sure you and your advisor or agent clearly define how your entire asset profile works together to meet your financial needs and goals, especially as you approach retirement.

FIAs likely outperform variable annuities in a down or volatile market, such as the decade marked from 2000 - 2009. Variable annuities, given their high risks and costs, likely will outperform FIAs in a steady or increasing market such as the period of 2009 - 2017. FIAs also lack the liquidity of traditional stock and bond portfolios—some contracts allow for a 10% annual withdrawal without penalty after the first year of the contract has ended (early and excessive withdrawals will most likely negatively impact the annuity income stream and death benefit). We use FIAs as a tool to address market and longevity risks. Market risk protection addresses not losing your principal no matter what happens to the markets in a given contract year. Longevity risk protection means not losing your annual cash flow due to you or your spouse outliving your initial premium. With an FIA, the obligation to cover these risks is transferred to the insurance company issuing the annuity.

All Insurance Companies Are Not The Same. When purchasing your annuity, the contract is only as good as the insurance company that sells it to you. Check out the credit rating of the company and always choose a product backed by a company with a high rating (A or better). In California, annuity contracts are insured by the California Insurance Guarantee Association but it's important to note that you will not receive full contract value should the insurance company default.

Fees Can Significantly Impact Returns. Typically, fixed and fixed-index annuities have low fees for the base product compared to variable annuities. Sales commissions paid to the sales agent or their company is paid by the issuer and not you. Riders are available for both FIA and variable annuities that may be appropriate for those seeking additional benefits such as: enhanced income streams or death benefits. Each rider can add one percent onto any annual fees. An FIA does not usually charge a fee unless a rider is selected.

Surrender Periods Affect Your Liquidity. Annuities often carry a 5-12 year surrender period that includes a surrender charge (early withdrawal penalty). This surrender period affects your asset liquidity and it needs to be consider when determining your liquidity requirements.

Guaranteed Growth. Annuities that include guaranteed lifetime income benefits, a "guarantee" return on your income or account value, does not necessarily mean that your cash value is growing at the same rate. Insurance companies keep track of a separate income account that determines your "paycheck" when you decide to turn on your guaranteed lifetime income benefit feature.The account value is not cash in the bank should you elect to terminate your contract rather, it is used for calculation purposes of your income stream only—it's the cash value that you get to take to the bank. While the increase in account value may increase your future annuity payout, you are not truly receiving a guaranteed (insert guaranteed percentage that you were told here) "return on your money." Please understand or ask a licensed fiduciary to explain the difference between cash or accumulated value and income or account values—they are not the same.

Annuities Are Not One Size Fits All. As for the reasons you have read here, annuities should not be used as the sole instrument for your retirement nest egg. FIAs are valuable in so much as they are a tool to help you further diversify away from market and longevity risks while also helping to provide you with guaranteed income streams that can last throughout your retirement.