

# THE PERFECT COMBINATION

## Annuities are Ideal for IRA Growth and Distribution

BY DAVID F. ROYER

**S**INCE THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974 (ERISA) gave birth to most of today's qualified retirement plans, Wall Street has been asking the question "Why would anyone put an IRA in a fixed annuity?" in an effort to gain more qualified assets under management.

IRAs are already tax deferred, says the Street, so what advantages do tax-deferred annuities offer to owners of IRAs? According to the Investment Company Institute, at the end of the third quarter of 2009, 46 percent of America's retirement savings was in mutual funds, 36 percent in other securities, 10 percent in banks and thrifts, and a mere 8 percent in annuity reserves held by insurance companies.

So why consider annuities for IRAs and other tax-qualified accounts? Let's get started with the five reasons annuities are the ideal place for IRA growth and distribution.

### 1 SAFETY

Fixed annuities are free from market risk and guaranteed never to decline in value. If we learned anything from the Great Market Crash of 2008, it was that what the Street gradually gives can be taken away quickly—and without warning. Many investors who were planning

to retire had to postpone their plans after losing as much as 50 percent of their IRA and 401(k) values in 2008 and the first quarter of 2009. Some already-retired investors are considering rejoining the work force while unemployment is close to 10 percent. Insurance companies invest primarily in conservative bonds and they take all the risk. Even if a bond fails, the insurance company guarantees the annuity value will not go down. Just this May, we saw the Dow Jones Industrial Average lose 1,000 points, one-tenth of its value, in an intraday sell-off. One thousand points equal \$1 trillion. Some reported that the drop may have been caused by a typo. Imagine a trillion-dollar typo! There is clearly no security in securities.

### 2 COST

The real cost of doing business on Wall Street is, more often than not, greater than the advertised price. While most mutual funds have advertised expense ratios between 0.6 percent and 1.5 percent, they also have hidden costs due to the commissions paid to the Street's middlemen for the buying and selling of securities within the funds. The real cost of owning mutual funds, including the hidden costs, is closer to 2 percent—and frequently higher. Fixed annuity commissions are paid by the

insurance company and are not taken out of the annuity owner's account. Hence, 100 percent of the annuity deposit is working for your client's retirement. Your prospects have two clear choices: pay the price of doing business with the Street or take charge of their retirement savings. The expenses of owning many securities combined with the risk of ownership should be more than enough to convince conservative savers to take the short walk from Wall Street to the realities of Main Street.

### 3 REQUIRED MINIMUM DISTRIBUTIONS

After your clients turn 70½, they must begin taking required minimum distributions (RMDs) from their IRAs, 401(k) plans and other qualified retirement accounts. The first RMD is 3.65 percent of the account balance as of Dec. 31 of the year prior to the year they turn 70½. If they lost money between Dec. 31 and the date they take their first and subsequent distributions due to market downturns, their required distributions will still be based on the account balances as of Dec. 31 of the prior year. This creates an amplified drain on their retirement savings and often forces unwanted changes of lifestyle. The Street's fees and loads can add an additional negative blow to their retirement plans. Equity

accounts that average a 5 percent yearly gain will only produce a net of 3 percent to the owners if they are paying 2 percent in fees and loads. The fees that are extracted from their accounts are out of the compounding formula forever. Fixed annuities are not burdened with fees, loads or hidden expenses, so a 5 percent return is 5 percent to the annuity holder.

#### 4 RELIABLE INCOME PLANNING

Today's soon-to-be-retired workers are focused on the all-important question: will they have enough income to maintain their lifestyles during retirement? People are living longer, so it takes more savings to make it through the long haul. There are approximately 78 million baby boomers who share a common fear: will Social Security be there for them and will it be enough? This year, Social Security will pay more in benefits than it collects in taxes and the future of the entitlement may require greater contributions or reduced benefits. Annuities have a unique quality in the income-planning arena.

Annuities can be transformed into an income stream that cannot be outlived in two ways. One, they can be annuitized over clients' life expectancies with the option for continuation of income to their surviving spouses. Second, there is a relatively new income option called the guaranteed lifetime income benefit rider (GLIBR) that can be added to many fixed annuities for a small reduction in the interest rate. These new riders pay slightly less income than immediate annuities, but they give the annuity holders access to their remaining annuity value while guaranteeing income that cannot be outlived. Both guaranteed income options offered by fixed annuities are ideal vehicles for reliable income planning.

#### 5 GROWTH

Times are changing rapidly. There is clearly an accident waiting for any excuse to happen that could have a negative impact on Wall Street. Now we must all focus on inflation, recession, increasing medical costs, changing legislation, living longer and retirement planning

simultaneously. For many retired or planning-to-retire Americans, it's like juggling six balls at the same time and the future of retirement plans are up in the turbulent air. CD interest rates are low. Wall Street's promise of steady growth "buy and hold" has become an empty promise. We are all learning an entirely new financial vocabulary, including difficult-to-grasp terms such as swaps, derivatives, sub-prime, Ponzi schemes—and the list goes on. The entire financial services industry is under increasingly tighter scrutiny, and it's about time.

Annuities offer steady growth, competitive interest rates and guarantees for those who have grown tired of the empty promises, loss of savings and uncertainty of their financial futures.

The more important question is: *why would anyone put an IRA anywhere but in a fixed annuity?* [INN](#)

For more information about David F. Royer or IRA planning, go to [www.IRAkeys.com](http://www.IRAkeys.com).



## Is Your Client Safe from the **TAX TIME BOMB?**

Annuities are excellent for accumulating money on a tax deferred basis and providing a steady stream of income. But what about the **HUGE TAX TIME BOMB** your client could leave their family upon death?

The reality is that their payout will be taxable to the next generation and the windfall could put their heirs in a higher tax bracket, meaning more taxes. **There's a better way that's highly appealing to your client.**

Cash in the annuity, pay the taxes now, and move that money to a single premium life policy. It's one of the hottest and fastest growing markets in the industry and most IMOs and BGAs have no idea how to do it.

We can help, from soup to nuts. We have the life expertise, the software package, factfinders, marketing kits – everything you need.

**Curious? Find out more from our FREE video: "Eliminate Your Client's Tax Time Bomb." Call us at 877.844.0900 today!**



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