Considering an Annuity?

Before purchasing an annuity, an investor needs to develop a thorough understanding of the annuity product. These products are often complicated and expensive. Your investments are locked up for long periods of time (10, 15, 20 years or more) eliminating any liquidity or flexibility within this portion of your investment portfolio. Our experience working with clients after they have purchased annuities is that they didn't understand what they were buying and have encountered "surprises" after purchasing. Use this guide to help avoid some of those surprises.

The most important step an investor should take before purchasing an annuity is to read <u>and understand</u> the prospectus. If you don't understand the prospectus ask the annuity sales person to clarify until you do. This is critical to avoiding future surprises.

After reading the prospectus, ask your annuity salesperson tough questions before committing to one of these products. RGB Capital Group does not consider an annuity a “safe” or worthwhile investment option for most investors. This is for the following reasons:

1. Brokers (salespeople) collect enormous fees for selling annuities under the pretense that they are safe alternatives to traditional investments.

2. A deferred annuity is supposed to allow an investor to deposit funds which can grow tax-deferred and later annuitize. This is essentially surrendering ownership of the assets in exchange for a periodic stream of income. However, most deferred annuities are never actually annuitized. The funds are withdrawn upon retirement which makes the annuity an investment account holding mutual funds or bonds with very high fees attached. This is not rational, as any investor can hold their mutual funds or bonds in regular accounts without annuity fees.

3. The equity-indexed annuity is one of the most common variable annuities being sold today. Coincidentally, they are the most confusing type of annuity available. Many equity-indexed annuity investors do not achieve stock market returns. By the time all of the fees are assessed, the caps are taken into account, taxes are paid, and dividends go unearned, investors can end up on the losing side of the equation.

4. Deferred annuities have high, ongoing fees. IRS penalties are assessed if withdrawals are made before the age of 59.5; 4-11% of the contract value goes straight to the salesperson, greatly reducing returns on investments; and there are early surrender fees.

5. Returns from an equity-indexed annuity are less than stock market returns, due to the fees. Annuity companies can also lower cap rates, and if the index used for market-participation calculation does not include dividends, the returns will be substantially lower than an index that does include dividends.

Perhaps most importantly, the lack of **liquidity** and **flexibility** associated with annuities does not allow an investor to adapt to constantly changing financial conditions. This includes changes in the financial markets as well as your personal financial situation. Reducing your flexibility will not allow you to adjust to these types of changes. While annuities claim to be conservative, they actually expose investors to more risk, especially during volatile markets when flexibility is critical to capital preservation.

Use these facts to hold your annuity salesperson accountable during the exploration stage. Capital preservation and controlled risk remains our goal at RGB Capital Group, and as always, we remain available to you as a resource in these matters. Please contact us at 888-742-7472 or at info@rgbcapitalgroup.com.