

INSIDE A GUARANTEED ANNUITY

In this section, we will discover what makes one annuity superior to another. All annuities are not created equal!

Have you ever wondered what makes one annuity pay higher interest rates and offer better features when compared with other annuities?

Would it help you to avoid a costly mistake if you could differentiate between superior and inferior annuities? The answer is obviously yes!

Let's go inside an annuity and identify which components have the greatest impact:

I. Commission

The number one component that impacts the competitiveness of an annuity is the amount of commission paid to the agent by the insurance company.

When you purchase a guaranteed annuity 100% of your money is invested. However, the insurance company pays a commission to the agent. When higher commissions are paid to the agent, the client earns less interest, receives less features, and is at greater risk to experience penalties.

For example, assume *Annuity A* pays a 3% commission to the agent, and *Annuity B* pays a 10% commission to the agent. Which annuity will pay better interest, and offer better features? Obviously *Annuity A* will be superior. The insurance company can't possibly pay a high interest rate to the client and a high commission to the agent! High commission annuities have **higher** surrender charges (12% to 15%) and they typically last **at least** 10 years. Many agents are forced to sell high commission annuities because of the small volume of business they generate.

II. Withdrawal Features

Guaranteed annuities offer a variety of free withdrawal features including: Interest only, 10% of accumulation value, nursing home waivers, hospitalization waivers, terminal illness waivers, and death benefit waivers. When you purchase an annuity, decide how much liquidity you need. The more liquid the annuity, typically the lower the interest.

III. Market Value Adjustment (MVA)

Many annuities have an MVA. If you surrender your annuity prematurely, or take excessive withdrawals prematurely, the insurance company is forced to sell some of their investments to cover your withdrawal. Their investments could be worth more or less at the time they are forced to sell, and you share in the gain or loss. The MVA is only applied if you exceed the free withdrawal features. These annuities will typically pay a higher rate because you share the risk of selling prematurely.

It's essential to analyze the inside of an annuity prior to purchase. The wrong annuity can be costly. If you have questions, we are happy to help you evaluate and analyze annuities before you make a commitment.

Call Richard K. Kelly with any questions and for guidance. Call 480-948-1048 or 1-800-315-7233.