

# **An Annuity Is...**

**...a tax deferred, long term savings plan through an insurance company. Your principal investment is 100% guaranteed by the company's assets. Insurance companies are required under federal law to meet certain Legal Reserve requirements, at least 80% of its assets invested in above investment grade investments, much like the F.D.I.C protection at the bank, but more secured. Also, the State of Michigan guarantees up to \$100,000 in your accumulated account, giving you an extra level of protection. Interest is allowed to compound on a tax-deferred basis, which means that the investor will be earning interest on money that would have gone to pay taxes.**

**Many annuity contracts let the owner make partial withdrawals without penalty (like 10% annually and if not used can be accumulated to the following year and so on), providing access to your savings if you need it. For withdrawals greater than the usual 10%, annuities have restrictions much like those found in Certificates of Deposit. The value of the deferred annuity will pass on to the named beneficiary free of probate, avoiding the delays that probate presents as well.**

**Another benefit is the right to exchange an annuity, under Section 1035 of the tax code, to another annuity without tax consequences. In other words, if the owner is able to obtain a more favorable interest rate with another annuity contract, he/she may**

**roll over the current annuity into that contract without the fear of having to pay taxes.**

# Annuities

Tax Deferred Savings

Long Term Investment

By-Pass Probate

100% Guaranteed Account

# The Basics

Understanding what an annuity is and the way it works will help you better sell the product. It's the unique features with the annuity that give it an advantage over many of the products being sold in today's investment market. Throughout this section we will target the main concerns of the conservative investor using the fixed annuity.

An annuity is a tax deferred savings program purchased from an insurance company. They are similar to a CD from the bank but it allows your client liquidity, flexibility and a higher rate of return not offered by a bank CD.

There are three main types of annuities, 1) a single premium annuity; 2) a flexible annuity; multiple deposits (amount and frequency usually determined by the client), and 3) an immediate annuity; provides immediate income from principle and interest. Of all annuities sold, the single premium is the most popular.

The money being deposited into an annuity can be classified as qualified or non-qualified money. Qualified money is before-tax dollars and non-qualified money is after-tax dollars. Some examples of qualified money are TSA's, IRA's and 401K's, while money from your savings or checking account would be non-qualified money.

The insurance companies accepting funds will automatically transfer money from one institution to another through a 1035 transfer or a direct custodial transfer making it easy and convenient for your client to start their annuity.

## **How Does The “Tax-Deferred Annuity” Work?**

**The Alternative** -The tax deferred annuity can provide you with an ideal investment that guarantees highly competitive rates of return along with unparalleled safety. 100% of your investment will be credited with the initial declared interest rate which is guaranteed

**Built In Safety** -Your annuity policy is guaranteed by the insurance company. A legal reserve life insurance company is strictly regulated by the insurance departments of all states in which it conducts business. Your funds are deposited with safety and yield in mind.

**No Sales Charges or Fees** -There are no sales charges or annual maintenance fees subtracted from your deposit. 100% of your funds are immediately credited from the first banking day following receipt at the home office.

**The Advantage of Tax Deferral** -Both federal and state taxes on the continually accumulating interest are deferred until you decide to make withdrawals or to receive annuity income payments (U.S Internal Revenue Code 72(a)(1)(b)). This advantage enables you to accumulate funds more rapidly than funds left on deposit that are taxable each year because the pre-tax interest is compounded each year.

**Death Benefit** -In the event of the death of the annuitant, the entire account value is payable to your beneficiary in either a lump sum or annuity payout.

**Partial Account Access Option** -Each annuity policy has a provision allowing you to withdraw portions of your accumulated account value with no company penalties. This provision enables you to conveniently access funds for ordinary income or for other financial needs and opportunities. If you request a withdrawal that exceeds the policy’s provisions, a surrender charge will be applied.

**Annuity Income Feature** -At any time after the first policy year, you may elect to begin receiving income guaranteed for a life time or for a period of five or more years without incurring any surrender charges or fees. Once you begin receiving your monthly annuity income, the payments are guaranteed and will never change for the duration of the period you selected. Thus you can provide yourself with an income you cannot outlive.

**Federal Income Tax Treatment** Distributions from annuity policies are first considered to be a taxable withdrawal of the earned interest and, after all accumulated interest has been withdrawn, the remaining distributed funds will be considered a tax-free return of principal. Distributions from annuity policies issued before August 14, 1982 receive a special tax treatment whereby distributions are first considered to be a tax free return of principal (FIFO). Once all principal funds have been distributed, all remaining funds distributed will be considered taxable withdrawals of interest. Although certain exceptions may apply, a 10% excise tax is generally assessed to any taxable withdrawals from any annuity policy prior to age 59 ½. We recommend that you consult your personal tax advisor for your own particular situation.

**MAKE THE RIGHT DECISION,  
CONTACT OUR SPECIALIST TODAY!!!**



# **PROBATE**

**With an annuity, upon death your funds pass directly to your named beneficiary.**

**Avoiding:**

**Emotional strain for family**

**Delays**

**Publicity**

**Costs**

**Lone Decision Making**

**Without a trust, upon your death your family would be controlled by probate in settling your estate.**

# **Creditor Protection**

**With an annuity account, in most states:**

“No one can garnish, levy or attach your funds while an annuity, nor through judicial process.”

## **Rock Solid Protection!**

**Does your current investment or savings plan have this kind of protection?**



# SAFETY

\*Not one person in the history of this nation has lost \$1 invested into annuity accounts\*\*

\*Consider the Babe Ruth story and the Great Depression.

\*Consider that the state lotto funds are paid through annuity accounts.

\*Schools, hospitals, and churches don't have social security; they use annuity accounts for retirement.

\*Even "The Wheel of Fortune" on television provides, as one of their prizes, an annuity.

\*High salaried athletes receive a portion of their pay through annuity accounts.

\*Most annuity accounts invest their money in United States Government securities.

\*\*Based on principal investments\*\*

## **Michigan Life & Health Insurance**

### **Guaranty Association Act**

The association is activated when a licensed insurer is declared financially impaired or insolvent by a court order and a receiver is appointed. Once a licensed insurer is declared insolvent, the Guaranty Act states that all court proceedings in which the insolvent insurer is a party in a court in this State shall be stayed for 60 days from the date an order of liquidation, rehabilitation, or conservation is final.

The receiver should promptly notify insureds, agents, and other concerned parties of the insolvency. The notice should contain information regarding :

1. How and where to file claims.
2. Where to send premiums due.
3. The date of cancellation of policies that do not contain terms of conversation or renewability.

#### **Why pay premium of the company is insolvent?**

It is vital to the continuation of your insurance coverage that premiums be paid within the grace period. Failure to make such payments on time will result in cancellation of the policy.

#### **Can my policy be cancelled?**

The Association is liable for the contractual obligations of the policy. Policies other than guaranteed renewable or non-cancellable are subject to cancellation. Read your policy, or check with your agent. Contact your agent immediately if you feel you need replacement insurance.

Agents or policy owners may contact the Michigan Insurance Bureau for assistance or information.

#### **What is the Association liable for?**

The Association is liable for the lesser of :

1. The contractual obligations of covered policies for which the insurance company would have been liable for, or
2. The payment of covered claims with respect to any one life, but the aggregate liability of the Association shall not exceed \$100,000 in cash value or \$300,000 for all benefits, including cash values, with respect to a single life.

In other words, if the insured chooses to withdraw the cash surrender or cash withdrawal values for life insurance, health insurance or an annuity, the Association will not pay in excess of \$100,000. The annuity would also be subject to any penalty charges stated in the policy contract. The Association, with court approval, may impose a temporary moratorium on payment of cash values and policy loans.

**In addition, an annuity  
account can provide a  
guaranteed lifetime  
income you can never  
out-live!**

**No matter where the interest rate goes up  
or down, no matter what the economy is  
doing!**

**PEACE  
OF  
MIND**

**If you had a choice**

**Between giving**

**The**

**IRS**

**Your money or**

**YOURSELF**

**Or your family the**

**Money, which would**

**You choose?**

# **Annuity Accounts Receive Special Tax Treatment**

Section 72 of the Internal Revenue Code States:

You are eligible to take advantage of  
Preferential tax treatment which permits  
You to earn interest and each year pay:

**NO STATE TAXES!**

**NO FEDERAL TAXES!**

Therefore, your money grows faster

Because you earn:

Interest on principal.

Interest on interest.

Interest on the money you would

Normally pay in taxes, therefore you have

Your total estate to spend or leave

With your family

# BECAUSE...

“The legal right of a taxpayer...to decrease the amount of what otherwise would be his taxes, or altogether avoid them, by means which the law permits, cannot be doubted.”

Gregory vs. Helvering

293 U.S. Tax Court 495

(Judge learned hand in 1935)

**LOOK TO**

**Estate planning to**

**Keep more money**

**For your family and you!**

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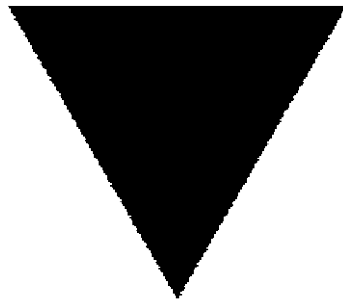
# PRIVACY PROTECTION?

With a tax-deferred annuity account, as your money is growing, the government does not receive a 1099 each year showing where your money is and how much interest you've earned!

CD



ANNUITY



**GOVERNMENT**

**1099**

**BANK CD**

**INTEREST ANNUALLY**

**GOVERNMENT**

**NO**

**1099**

**INTEREST ANNUALLY**

# How to get high returns without market risk!

<b>BANK CD</b>		<b>ANNUITY</b>
<b>1975</b>	<b>8%</b>	<b>12%</b>
<b>1980</b>	<b>9%</b>	<b>14%</b>
<b>1985</b>	<b>11%</b>	<b>15%</b>
<b>1990</b>	<b>9%</b>	<b>13%</b>
<b>1993</b>	<b>2.9%</b>	<b>6.25%</b>

**With a bank CD, you must pay taxes to the Government thereby further reducing the return you receive on your CD.**

**Annuity Accounts have, on average, paid higher interest rates than CD's**



Using The Following Chart To Inform Your Prospect About Annuities and How They Compare.

## INVESTMENT FEATURES COMPARISON CHART

	<b>Annuity</b>	<b>Money Markey</b>	<b>C.D.</b>	<b>Corp Bond</b>
<b>Is your principal 100% Guaranteed?</b>	YES	NO	YES	NO
<b>Is your money Free From Market Risk And Price Fluctuations?</b>	YES	NO	YES	NO
<b>Is your interest free From current Income tax?</b>	YES	NO	NO	NO
<b>Is your interest Compounded and Reinvested automatically With no current income Tax?</b>	YES	NO	NO	NO
<b>Can you make small Additional contributions?</b>	NO/YES	YES	NO	NO
<b>Can you ever make cash Withdrawals without Penalty?</b>	YES	YES	NO	YES
<b>Do you have to pay Commissions?</b>	YES	NO	NO	YES
<b>Is there a provision To provide a Guaranteed lifetime Income with additional Tax advantages?</b>	YES	NO	NO	NO
<b>Is there automatic Avoidance of probate Expenses and delays?</b>	YES	NO	NO	NO

**To keep it simple, ask your prospect if he would be interested in a CD with an insurance company. Be sure to explain this is a comparable statement.**

**Always carry this investment comparison with you.**

# SELLING ANNUITIES

*Helping prepare Americans for retirement is the business of the financial industry. Over the next 20 years, new and improved wealth accumulation products will help keep you, the producer, on the leading edge of consumer demand for living benefits, not death benefits.*

*The problems with junk bonds, savings and loan failures, and real estate foreclosures in the 80's have led to today's common sense and conservative investments. At the forefront of this retirement savings revolution will be the further expansion of tax-deferred annuity sales.*

# ANNUITIES ARE THE INVESTMENT OF THE 90'S

*The real key to beating inflation is on the investment side. There's an old saying by an unknown philosopher that is as true as it was years ago, " **It's not how much you make, it's what you get to keep.**"*

*With any investment, it's not how much it earns and grows, it's how much the investor keeps after the government gets it's slice of the pie and after inflation.*

*Consider this example. A client has \$10,000 in a one year certificate of deposit earning 6% annual interest. That means one year after the client makes the investment, the bank will return the \$10,000, plus a check for \$600. Of that \$600, the federal government will take \$168 (assuming a 28% tax bracket); the state government will take another \$30 (assuming a state income tax of 5%); and inflation will eat up another \$400 of the original \$10,000 investment (assuming a 4% annual inflation rate). How much is left after everybody else gets their share? A lousy \$2.*

*Can your clients beat inflation, even at the moderate 4% levels being discussed today? Absolutely. However, **they will have to earn more than is being offered by today's banking institutions.***

**One of the best investments for today's pre-retirement investor is the modern annuity. They could very well replace certificates of deposit. Annuity's rates are higher than those paid by banks; they offer tax deferral; And principal safety. In a nutshell, they offer all those things that ultra-conservative savers have wanted for years, only in a better package.**

# **ECONOMIC DEPRESSION PROTECTION**

*If you'll recall the Great Depression, you may remember what happened to people who had their money in the banks,*

**They lost it!**

*Do you know what happened to people who had their funds in annuity accounts?*

**They kept it!  
Their Funds grew!**

*It is a fact, during the Great Depression, the assets of insurance companies actually grew. They continued to employ people and paid their claims! A popular story is about Babe Ruth. He put his funds into annuities before the Stock Market crash of 1929 and kept his funds!*

**Annuities have a Lifetime Minimum  
Interest Guarantee!!**

**NOW YOU CAN SEE WHY**  
**ANNUITY ACCOUNTS ARE**  
**VERY IMPORTANT FOR THE**  
**SAVINGS OF SENIORS..**

**THEY FEATURE:**

**Safety**  
**Liquidity**  
**High Yields without Risk**  
**Tax Advantages**  
**Flexibility**  
**No Probate**  
**Incontestability Provisions**  
**Creditor Protection**  
**Depression Protection**  
**Medicaid Protection**  
**Lifetime Income**  
**Privacy Protection**

**ANNUITIES PROVIDE ALL**  
**THESE IMPORTANT**  
**FEATURES TO YOU.**

# ANNUITY BASICS

“The two best and quickest ways to introduce the annuity”

Wouldn't it be nice to have an easy and quick way to introduce the annuity to a customer? A way that makes sense to the customer. A way that motivates the customer to want more information from you. Wouldn't that be nice?

Sure it would and it's now possible. How? By simply comparing the annuity to something they already understand. Therefore, on the following two pages, we unveil the two best ways to introduce the annuity to your customers. You just compare. What to show your customers is on the left side of your encyclopedia. What to say to them is on the right. It's that simple.

**SELLING TIP #1 WHENEVER POSSIBLE, COMPARE. PEOPLE BUY THINGS THEY UNDERSTAND. COMPARING THE ANNUITY TO OTHER FINANCIAL ALTERNATIVES WILL HELP YOU AND YOUR CUSTOMER**

# YOU AGAIN RECEIVE

- \*No Sales charge
- \*No Fees
- \*Choice of interest rates and guarantee periods
- \*Partial access
- \*Premature penalties for surrender
- \*No market risk

# BUT NOW YOU HAVE

- \*A choice of when to report interest earnings
- \*A choice of when to pay taxes
- \*A choice of an insurance company not the government backing your principal and interest

# Annuity Basics

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“The annuity is  
Similar to where  
They have their  
Money now but...

“Mr. Jones, the annuity is similar to where you have your money now. There are no sales charges and no fees. You again receive a choice of interest rates and guarantee periods. You have partial access to your money prior to maturity and again there are penalties for early surrender. There is no market risk. However, fortunately, there are Differences.

With an annuity, you have a choice of when to Report your interest earnings since you only pay taxes When interest is withdrawn. Speaking of choices, a large and established insurance company, not the government, will be backing your principal and interest. Right now, you are paying taxes whether you leave the interest in or take the interest out. With the annuity, you have the freedom of choosing when to pay taxes on your interest. You do want that freedom, don't you?”

...with the annuity,  
They have the freedom  
Of choosing, when to  
Pay taxes on their  
Interest.”



# Annuity Basics

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The annuity  
Picks up where  
The IRA leaves  
Off.

Another effective way to introduce the annuity is  
to compare it to their Individual Retirement  
Account.

“Mr. Jones, the annuity is similar to your IRA to this extent. You pay no taxes as interest accumulates. You pay taxes only when dollars are withdrawn. You again have a 10% excise tax penalty for withdrawals made prior to age 59 ½.

Unlike your IRA, the premium cannot be tax deductible. However, you will be able to put in as much premium as you like at any age and you will be able to defer distributions indefinitely. Many people say that the annuity picks up where the IRA leaves off. You agree, don't you?”

# Annuity Basics

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**Show how the Annuity works Graphically and Visually.**

It is often helpful to show the customer the components of the annuity graphically and visually. The page to the left does precisely that. In the top box, we see how \$100,000 accumulates to \$200,000, free of any current income taxes since interest has not been withdrawn.

The boxes on the bottom show the 3 ways money can be withdrawn from an annuity. The box to the left shows a partial withdrawal of \$16,000 (8% of the accumulated value, \$200,000). Is the \$16,000 taxable? Yes, interest comes out first and taxes are paid when interest is withdrawn. Notice the 10% Excise tax penalty box if a withdrawal is made prior to age 59 ½. The middle box shows surrendering, the second way people can get their money. Since they have never paid taxes on that \$100,000 of interest, they now will. (And a 10% excise tax penalty if owner is younger than 59 ½). The box to the right shows annuitization, in other words, electing guaranteed income. This is the third way people can get their money. In this example, they elected income for life. Notice that there is *no* 10% excise tax penalty box. Why? The government waives the 10% excise tax penalty if your customers receive substantially equal payments over their life expectancy. Speaking of payments (annuitizing), they will not pay taxes on 100% of the income they receive. The government allows them to use an exclusion ratio. Simply put, a percentage of their payments will be income tax-free until they have recovered their initial premium [their cost basis].

**Show the customers The different ways They can withdraw Their money.**

# Annuity Basics

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**The owner is  
The boss.**

## **THE OWNER**

The owner is the boss. The owner names the beneficiary. The owner can name himself or someone else as the annuitant. The owner decides when to withdraw money, when to surrender, and when, if ever, to begin receiving guaranteed payments. It is the owner whose current income taxes are reduced because of the annuity. It will also be the owner who pays taxes when the interest is received. With many annuities, a death benefit is paid to the beneficiary when the owner dies.

**The payments  
Will be based on  
The annuitant's  
Age.**

## **ANNUITANT**

The annuitant is usually the owner but not always. If and when the owner annuitizes (10 yr. certain and life, for example), the payments will be based on the Annuitant's age and, in most instances, payments will go directly to the annuitant and not The owner. The annuitant enjoys no other rights (in many annuities). In most instances, A death benefit will be paid to the beneficiary if the annuitant dies. Some annuity Contracts have a contingent annuitant provision. Simply put, if the annuitant dies, the Person named contingent annuitant becomes the annuitant. This can delay a death benefit Being paid to the beneficiary if the "initial" annuitant dies.

# Annuity Basics

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## **BENEFICIARY**

**The beneficiary  
Is the one who  
Can receive the  
Death benefit.**

The beneficiary is one who can receive the death benefit. We should be very careful whom the beneficiary is, and whose death – the owner and/or annuitant triggers payments of the death benefit to the beneficiary. We don't want our customers losing their money if the wrong person dies. This is another reason to read and understand your annuity contract because annuity contracts differ. When the beneficiary receives the death benefit, that person will have to pay income taxes on all of the accumulated interest upon receiving the dollars. How can the beneficiary defer taxation? If the beneficiary is the spouse of the owner and the owner dies, beneficiary can defer taxation indefinitely. If the beneficiary is the non-spouse of the owner and the owner dies, beneficiary can defer taxation by selecting one of two options: 1) receive the entire interest in the annuity within 5 years of the owner's death, or 2) within one year of the owner's death, beneficiary may elect substantially equal payments over his/her own life expectancy.

**We recommend  
That you simply  
Make the owner  
And the annuitant  
The same person  
Since distribution  
Rules are more  
Liberal if owner  
Dies.**

Now that we have discussed what happens when the owner dies, let's discuss what happens when the owner and annuitant are different and the annuitant dies (and the annuity contract provides for a death benefit to be paid to the beneficiary). It is our opinion that the beneficiary must receive the death benefit in a lump sum or under a life income or installment option. The latter option enables the beneficiary to enjoy the exclusion ratio on payments received with their cost being the decedent's cost. If this concerns you that the beneficiary is not permitted to defer taxes on the death benefit when the owner and the annuitant are different and the annuitant dies (and a possible 10% excise tax penalty if annuity was issued after 4-22-87), we recommend that you simply make the owner and the annuitant the same person since distribution rules are more liberal if the owner dies.

# Annuity Basics

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## **PARTIAL WITHDRAWALS**

**Owners have  
Many different  
Ways to withdraw  
Their money.**

A partial withdrawal is one of the ways that owners can withdraw a portion of their money. Most annuities allow one withdrawal up to 10% of the annuity value to be withdrawn each year without surrender charges. Excise tax Penalties will apply for withdrawals made prior to owner being 59 ½.

## **SURRENDER**

Surrender is the right of an owner to surrender (to close out) their entire Annuity. Some annuities allow surrender at any time but with surrender charges During the early years. Some of the annuities now being introduced allow surrender only At renewal (anniversary). Naturally, all interest withdrawn will again be taxable to The owner and a possible 10% excise tax penalty if the owner surrenders before Age 59 ½.

## **INITIAL GUARANTEED INTEREST RATE**

The initial guaranteed interest rate is the current rate (the new money rate) And is typically guaranteed for one year with most annuities. A handful of annuities Do offer longer interest rate guarantees for 2,3,4,5,7, and 10 years.

# Annuity Basics

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## RENEWAL RATE

The renewal rate is the interest rate credited to annuities in the Years following the initial rate. This renewal rate is seldom identical to the new money rate for good reason. The new money rate reflects the investments that the insurance company is buying today. The renewal rate reflects what the insurance company bought when the annuity was initially purchased. Admittedly, this explanation is over-simplified and there are insurance companies that have a renewal rate strategy which may be different. Once again, it is important for you to ask.

## LIFETIME GUARANTEED RATE

**Can you name another financial vehicle that guarantees an interest rate for life?**

Lifetime guaranteed rate is the minimum interest rate which is guaranteed for the life of the annuity. Each state department of insurance has jurisdiction over the many fixed annuities that are sold in their state and they mandate that annuities provide this lifetime guaranteed interest rate. Since the interest rate is for the life of the annuity, most insurance companies Offer rates of 3% to 5%.

## SETTLEMENT OPTIONS

**Can you name Another financial Vehicle that Guarantees income For life?**

The settlement options are additional ways that owners can receive their money. As stated earlier, an owner has a wide range of ways to receiving guaranteed income. In fact, guaranteed income can be received on a monthly, quarterly, semi-annually, or annual basis. We will be discussing the different ways of receiving income later. What you should know here is That when owners elect a settlement option, they are applying their entire Annuity value for income. They are saying to the insurance company, "I do not Want access to this money anymore. Keep it! In return, give me guaranteed Income for five years or over the lifetime of myself and my spouse." (or any of The many other options available to the owner).

# Annuity Basics

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## **MONEY BACK GUARANTEE**

**Customer is  
Receiving the  
Protection.**

The money back guarantee found in many annuity contracts is considered by some as a major selling feature since there is no market risk for the customer. The Insurance company is assuming the risk. The customer is receiving the protection. If Owner is unhappy with his annuity 10-20-30 days (depending on the insurance company) After the annuity is issued, he can get all of his money back. In addition, many annuities contain guarantee of principal language which state that surrender charges will never dip Into principal. In other words, the owner cannot get back less than his initial premium.

## **SURRENDER CHARGES**

**Unlike most  
Other  
Alternatives,  
Penalties don't  
Reappear each  
Year. In fact,  
They disappear  
Over a period  
Of time.**

Surrender charges protect the insurance company like guarantee of principal protects the customer. Surrender penalties with most annuities disappear over a 5 year to 10 year period of time. Most of the time, the penalties are imposed on principal and interest (excluding the 10% free partial withdrawal). One example of penalties might be 7%, if the annuity is surrendered during year one. Penalties could then decrease 1% each year (-6%,-5%,-4%,-3%,-2%,-1%,-0%). Some of the annuities now being introduced have surrender charges like "the 1<sup>st</sup> 6 month's interest."

## **BAILOUT CLAUSE**

A bailout clause is an agreement by the insurance company to waive surrender Charges under certain conditions. The most common example is an "interest rate" bail-Out clause (also known as an escape clause). Simply put, the insurance company will Waive surrender charges if the interest rate decreases below a certain level. Some Annuities have other bailouts. For example, some annuities waiver surrender charges if One is confined to a nursing home or charges could be waived if a terminal illness is Diagnosed.

# Annuity Basics

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## The Most Frequently Asked Questions About Annuities

1. Q: *What is a tax-deferred annuity?*  
A: It is a tax-advantaged product issued by an insurance company where long term financial needs can be solved better than with most other financial alternatives.
2. Q: *What is the major advantage with annuities?*  
A: Interest (earnings) accumulates income tax deferred until dollars are withdrawn. This helps the customer build a substantial fund for their retirement and can give them an income they cannot outlive.
3. Q: *Is the annuity a safe alternative?*  
A: Their annuity value is backed by the general assets of the insurer which issues the annuity.
4. Q: *Who wants the annuity?*  
A: Customers want a safe way to reduce taxes; customers who want to decide when to pay taxes.
5. Q: *Who is the average annuity purchaser?*  
A: Average age is 55 with an average premium of \$20,000 and they are not “currently spending” the interest they earn on their taxable alternatives.
6. Q: *What kind of dollars are going into the annuity?*  
A: Maturing CD’s, passbook savings, money markets and Treasury bills.
7. Q: *Is the annuity for everyone?*  
A: No. Dollars earmarked for short-term needs should go into the annuity. In addition, at least, 6 months income should be on deposit outside of the annuity. And, lastly, those who need current income should not consider the deferred annuity. On the other hand, those looking for one of the safest ways “to accumulate” dollars on a tax-advantaged basis will find the deferred annuity extremely beneficial.
8. Q: *Does the IRS impose a ceiling on how much can go into a tax-deferred annuity?*  
A: No, the government imposes no ceiling, nor does an individual need earned income to qualify for the annuity. However, since the tax-deferred annuity is designed as a retirement supplement, the government does impose a 10% excise tax penalty on “pre-tax dollars” withdrawn before age 59 ½.
9. Q: *Since a withdrawal of principal is tax-free and IRS penalty free, can principal be withdrawn first and then interest?*  
A: No, the government considers interest earnings coming out first. Naturally, any portion of a withdrawal exceeding interest earned would be a tax-free return on principal.
10. Q: *What if the annuity is paying an interest rate less than other financial alternatives?*  
A: You should first compare the virtually no market risk feature of the annuity to other alternatives you are considering. You then must remember that the interest on many alternatives is currently taxable every year. Also, Section 1035(a) of Internal Revenue Code allows annuity owners to transfer their dollars from one annuity to another annuity tax-free.
11. Q: *How is the interest rate declared after the initial guarantee period (1 year or 3 years)?*  
A: Current market conditions and the insurance company’s portfolio will dictate renewal rates.
12. Q: *How will customers know their annuity balance?*  
A: The insurance company will provide a statement of annuity value once a year.



# Annuity Basics

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13. Q: *When does the annuity mature?*  
A: Although an annuity is similar to many safe taxable alternatives in many respects, an annuity does not mature after the initial interest rate guarantee period. Interest continues to accumulate on principal until the annuity is surrendered or when a settlement option is elected.
14. Q: *Will the annuity be tied up in probate proceedings?*  
A: No! If you list a “named” beneficiary, other than your estate, annuity dollars will avoid the delay and expense of probate.
15. Q: *Will the beneficiary be taxed on the interest that has accumulated inside the annuity?*  
A: Yes, beneficiaries will be taxed on the tax-deferred interest when they receive those dollars. However, if a beneficiary is the spouse of the owner and the owner dies, he/she may elect to continue the annuity and postpone taxes if the owner dies. Once again, the customer decides when to pay income taxes. If the beneficiary is not the spouse and the owner dies, then dollars must be totally withdrawn within five years or they may be received over the beneficiary’s life expectancy. However, this latter option must be elected during the first 12 months following owner’s death.
16. Q: *Is the annuity identical to an IRA?*  
A: Although the annuity can be used as a funding vehicle for an IRA, the scope of this presentation has been directed to after-tax dollars. Therefore, dollars deposited into the annuity are not deductible. And because of this, there is no government imposed ceiling on how much premium can go into an annuity, nor do distributions have to begin at age 70 ½. Some people have said that the annuity picks up where the IRA leaves off.

# Annuity Basics

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**We now know  
How one annuity  
May benefit our  
Customer more  
Than another.**

You now know the best ways to introduce the annuity. Just compare the annuity to what your customer understands best. It's that simple. It's also simple because you now know the best visual way of showing how an annuity works and the 12 important rights and privileges your customers can receive. Are all annuities the same? No. That's why we, as professionals, must know the differences of how one annuity may benefit our customer more than another. One of the ways is to know your annuity – backwards and forwards – Because you care.

# Annuity Basics

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## 4 IMPORTANT STEPS TO UNDERSTANDING ANNUITY TAXATION

**It is our job to  
Help people  
Accumulate  
More money.**

Selling tip #3 Always urge your customers to seek advice from their own tax adviser as I ask you to do. Why? You nor I are trained or qualified to provide tax advice. There are gray areas where even tax attorneys disagree. It is not our job to be a tax practitioner. It is our job to help people accumulate more money. Understanding basic annuity taxation will allow you to do your job.

**Understanding  
Basic annuity  
Taxation will  
Allow you to  
Do your job.**

# 4 IMPORTANT STEPS TO UNDERSTANDING ANNUITY TAXATION

---

## WITHDRAWALS

**Many of your  
Customers will  
Enjoy paying  
Taxes *only* when  
Interest is  
Withdrawn.**

Withdrawals from annuities are taxes in one of two ways depending upon when the annuity was issued. Annuities issued prior to 8-14-82, had FIFO accounting (first in, first out). Since principal was first in, it came out first, tax-free. With annuities issued on 8-14-82 and thereafter, taxation changed to LIFO (last in, first out). Simply put, withdrawals are now taxable since interest is Withdrawn first. Many of your customers will enjoy paying taxes only when Interest is withdrawn since most of your customers are now paying taxes on Interest even if they don't withdraw it.

# 4 IMPORTANT STEPS TO UNDERSTANDING ANNUITY TAXATION

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## 10% EXCISE TAX PENALTY

**Just like an IRA, there is A 10% excise Tax penalty.**

The government extends tax advantages to the annuity for retirement purposes. The government also extends tax disadvantages to taxpayers who do not use the annuity for retirement. All interest withdrawn prior to owner being 59 ½ will be subject to a 10% Excise tax penalty. Are there exceptions? Yes, here are some of the most common.

## 6 WAYS TO AVOID 10% TAX

1. *Disability of taxpayer*
2. *Distribution from a pre 8-14-82 annuity*
3. *Death of owner (but death of annuitant for annuities issued before 4-23-87)*
4. *Payment from an immediate annuity where benefits commence within one year Of purchase*
5. *Payment from a structured settlement*
6. *Substantially equal payments over taxpayer's life expectancy*

# 4 IMPORTANT STEPS TO UNDERSTANDING ANNUITY TAXATION

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## EXCLUSION RATIO

**A percentage of Each payment is Considered a Return of the Owner's cost Basis and is tax-Free.**

When and if the owner annuitizes (applies their annuity value toward a settlement option), the annuitant will receive equal payments. How will the owner pay taxes on the payments? Will they be fully taxable like withdrawals? No. An exclusion ratio is applied to each payment received. What is an exclusion ratio? A percentage of each payment is considered a return of the owner's cost basis and is tax-free. The Balance is taxable.

How do you calculate this exclusion ratio? You divide the expected return into The total of all premiums paid into the contract. For example, assume that 1 year ago I Bought an annuity for \$80,000. It is now worth \$88,000. Let's further assume that I Wish to annuitize and I elect the settlement option of a 5 year Period Certain (60 months) Where monthly payments will be \$1,667.00 a month. What is my expected return? \$100,000 (\$1,667.00 times 60 months) is my expected return. Therefore, 80% of all Payments I receive are income tax free ( $\$80,000 / \$100,000 = 80\%$ ). With options using A life contingency, you must calculate their life expectancy using government tables to Determine the expected return. Will a percentage of each payment be tax-free forever? No, effective with all annuity starting dates after 12-31-86, payments become fully Taxable after the owner recovers the total of all premiums paid into contract (determined By adding all dollars excluded from taxes). In other words, after they have lived beyond Their expectancy (as calculated when payments began), payments then become fully Taxable.

# 4 IMPORTANT STEPS TO UNDERSTANDING ANNUITY TAXATION

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## 1035(A) EXCHANGE

**One unique tax Advantage with Annuities is that You can transfer Money from one Annuity to another Income tax-free if You are careful.**

One unique tax advantage with annuities is that you can transfer money from annuity to another annuity income tax-free. The section in the Internal Revenue Code that allows this is section 1035(a). However, great care should be given.

### ***Selling Tip #4 Here are 5 Important Tips to 1035(a) Exchanges***

1. *Assign the old annuity contract (if premiums are non-qualified) to the new Insurance company.*
2. *Exchange the entire annuity. (You cannot transfer some of the money)*
3. *If there are loans outstanding, repay loans before exchanging.*
4. *Parties designated in the old contract as owner, annuitant, and beneficiary should again be designated in the new contract.*
5. *Customers should consult with their tax adviser before the exchange.*

# 4 IMPORTANT STEPS TO UNDERSTANDING ANNUITY TAXATION

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**Freedom of  
When to pay  
Taxes!**

You now know the basics to annuity taxation. Taxes are only paid when interest is withdrawn. The 10% excise tax penalty exists just like another tax-advantaged vehicle, the IRA. Regarding the exclusion ratio, this can become your customer's new way to receive income partially income tax-free. And 1035 exchanges, your way of helping your customers move their money income tax-free.

**Similar to  
An IRA.**

**Percentage of  
Payments are  
Income tax-free.**

We recommend that you purchase a copy of Tax Facts, published by NU Law Services in Cincinnati, Ohio. Tax Facts provides specifics and accuracy. This encyclopedia provides ideas, not tax advice.

**Moving money  
To another  
Insurance company  
Income tax-free.**



# WHAT YOU SHOULD KNOW ABOUT AN IMMEDIATE ANNUITY?

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**You simply ask  
Customers what  
They want. Then,  
You give them what  
They want.**

A customer should elect an immediate annuity or a settlement option (annuitize) if they want “income”, not accumulation. However, which option is best for your customer? You will only know that answer after you have gathered more information from your Customer and are better acquainted with his/her needs and goals.

Speaking of more information, the following pages will give you more information on the benefits and ways that your Customers can receive guaranteed income.

# WHAT YOU SHOULD KNOW ABOUT AN IMMEDIATE ANNUITY?

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## THE 4 BENEFITS OF RECEIVING GUARANTEED INCOME

- 1. Your customers can be assured of receiving a steady income which they cannot outlive.*
- 2. Customers may ask for their payments to be automatically deposited to their bank account.*
- 3. Customers receive peace of mind and security knowing that guaranteed income will continue without interruption or market fluctuation.*
- 4. Customers can now be assured that a percentage of the payments they receive during their life expectancy will be income tax-free.*

# WHAT YOU SHOULD KNOW ABOUT AN IMMEDIATE ANNUITY?

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**Here are the 6 Ways they can Receive guaranteed income.**

## **PERIOD CERTAIN**

Level payments are made for a fixed number of years. If the annuitant dies before the period expires, the payments will continue to the named beneficiary until the expiration of the certain period. Usually the minimum Period is 5 years and the maximum is 30 years.

## **LIFE ONLY**

Life Only provides level payments during the lifetime of the annuitant. At the time of the annuitant's death, the payments stop without refund or Continuation regardless of how many payments have been made.

## **LIFE WITH PERIOD CERTAIN**

Life Annuity with a period certain provides level payments during The lifetime of the annuitant. If the annuitant dies before the period certain Expires, for example 10 years, the payments will continue to the named Beneficiary until the expiration of the certain period.

## **JOINT AND SURVIVOR**

The Joint and Survivor Annuity provides payments during the lifetimes Of two annuitants and stops at the death of the last remaining survivor. Again The owner may add a guarantee period certain of 10 years to 30 years. Payments usually remain level but variations like Joint and Survivor 2/3 and Joint and Survivor 50% are available. Simply put, payments to the survivor Would decrease a third or a half depending upon the option selected.

## **CASH REFUND**

Level payments are made during the lifetime of the annuitant. When The annuitant dies, if sum total of all payments received is less than the dollars Annuitized, the balance is paid to the beneficiary.

## **INSTALLMENT REFUND**

Payments are made to the annuitant. When the annuitant dies, if the Sum of all payments made is less than the dollars annuitized, payments will Continue to the named beneficiary until the payments to annuitant and Beneficiary equal the dollars annuitized.

# WHAT YOU SHOULD KNOW ABOUT AN IMMEDIATE ANNUITY?

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**Your customers  
Can now receive  
Income for as  
Long as they  
Wish.**

The chart to the left represents the monthly payment your customer could receive under each settlement option. Notice that payments decrease (as they should) when the owner elects options with more guarantees. These payments assumed a 65 year old couple With a premium of \$100,000.

In summary, you now know the 6 different ways your customers Can receive income. They can receive payments for as long as they wish. Your customers cen receive income for 5 years. They can receive income For their lives. Income can even be paid during the lifetime of two lives. Your Customers can receive peace of mind, assurances, guaranteed income, and Security because of you and the immediate annuity.

# THE TWO ANNUITY PRESENTATIONS THAT DELIVER THE MOST RESULTS

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**The first annuity  
Presentation is  
Only 3 to 4 minutes  
Long and it is  
Extremely benefit-  
Oriented.**

Your annuity presentation will control your level of annuity success. However, you don't have to worry about your annuity presentation anymore because we are going to give you two presentations that have a track record of delivering very favorable results.

The first annuity presentation is on the next page and it has Delivered super results. One reason is because it is short and it is Extremely benefit-oriented. Another reason this presentation has Worked so well is because it is often used in conjunction with our Special 4 color newspaper. (You'll hear about our newspaper later)

*Selling Tip #5 Your presentation, your ways to close, and Your ways to overcome objections must be in your personality (not Your manager's nor in mine). Use your personality. Also, if your Current presentation is working, please stick with it. "If it's not Broken, don't fix it" is also a rule to follow in the profession of Annuity selling.*

# THE TWO ANNUITY PRESENTATIONS THAT DELIVER THE MOST RESULTS

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**Here is your  
New benefit-  
Oriented  
Annuity  
Presentation.**

“Mr. Jones, your first benefit is that your money will grow faster. There are no up-front sales charges, no annual fees, and you will receive an interest rate of \_\_\_\_% guaranteed for one year.

Your second benefit is that you will pay less income taxes. You are Currently reporting 100% of the interest you earn on this Schedule B right here Regardless if you leave the interest in or take the interest out. Because of that, You are paying up to 28% of the interest you report in income taxes right here, On this 1040. With the annuity, if you don't withdraw the interest, you do not Report the interest on this Schedule B. Therefore, you will not have to pay 28% Of the interest in taxes. With the annuity, you only pay taxes when you with- Draw the interest.

Therefore, Mr. Jones, your third benefit is that you will have more Money. Right here (show an accumulation comparison between an annuity and A taxable alternative), I have compared where your dollars are now to where They should be. As you can see, you will have \$40,000 more dollars after 10 Years and \$159,000 more dollars after 20 years. This will occur because Interest accumulates 3 ways inside of your annuity. Interest compounds on top Of principal, interest compounds on top of interest, and, what really gets your Annuity to work, interest compounds on top of the dollars that you normally Send to the government in taxes.

**A 1040 and a  
Schedule B  
Should become  
Your two newest  
Marketing tools.  
Your customer  
Has to be  
Reminded.**

# THE TWO ANNUITY PRESENTATIONS THAT DELIVER THE MOST RESULTS

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**“Interest com-  
Pounds on top  
Of principal,  
Interest com-  
Pounds on top  
Of interest, and  
Interest com-  
Pounds on top of  
The dollars that  
You normally send  
To the government  
In taxes.”**

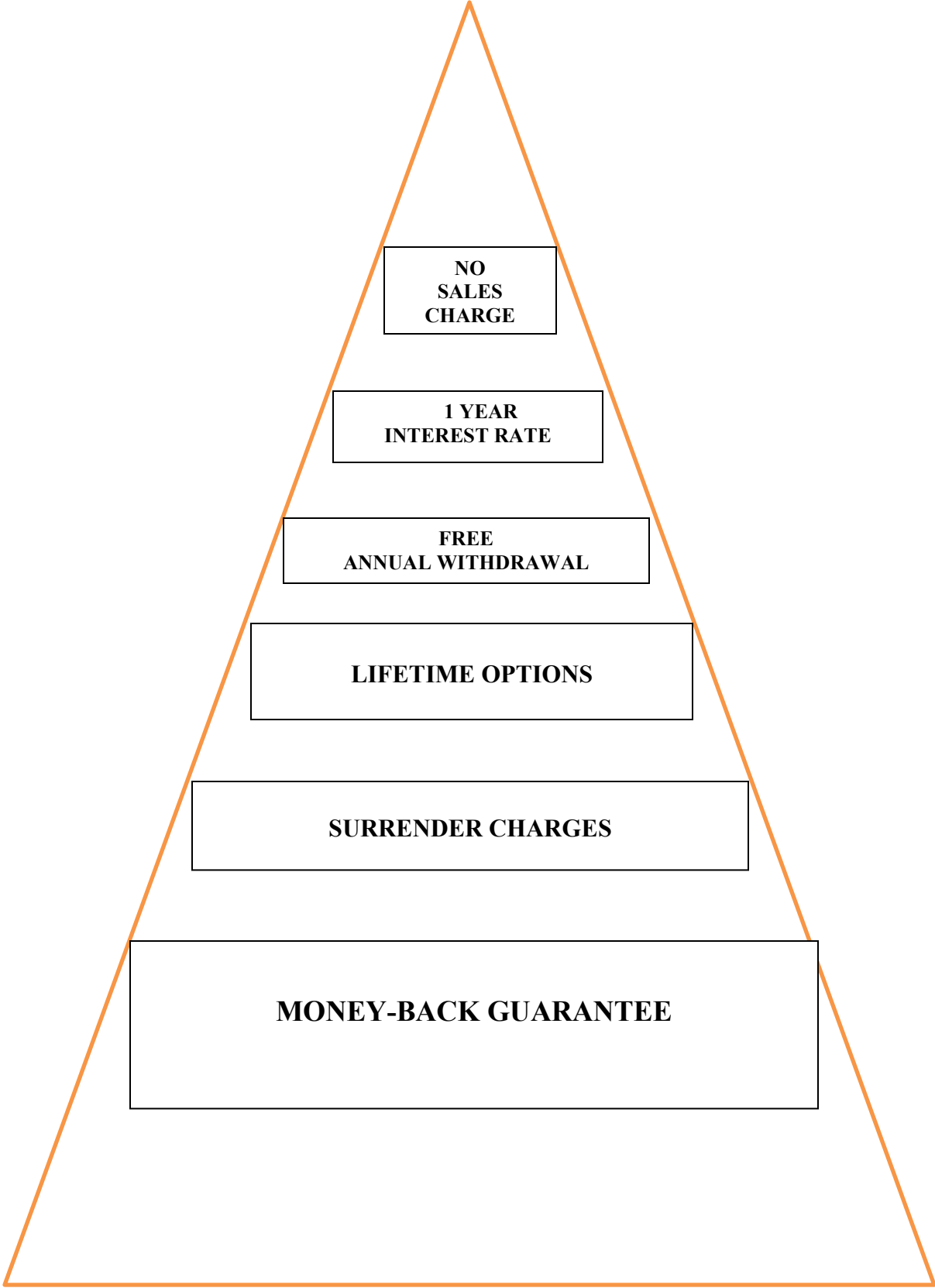
Your fourth benefit is that you will have three ways to withdraw your money. The first way is your withdrawal privilege where you can take 10% of your money out each and every year. Your second way is called your surrender privilege where you can surrender your annuity. If you surrender during the first 6 years, there are loss of interest penalties. Annuities call them surrender charges. Your third way of withdrawing money is called your monthly income privilege. When you want monthly income, you ask for it.

Your fifth benefit is that you will enjoy the tax advantages that the Government has extended to annuities. You will say that the annuity picks up where your IRA leaves off because just like your IRA, interest accumulates without current taxes. Just like your IRA, taxes are paid when interest is withdrawn. Just like your IRA, there is a 10% excise tax penalty if dollars are withdrawn prior to age 59 ½. Unlike the IRA, the contribution into your annuity will never be tax deductible but there will be no maximum on what you can put into your annuity.

**“When would  
You like to stop  
Paying taxes?”**

Your sixth benefit is that you will feel safe and secure because your principal and interest are backed by the general assets of one of the oldest, one of the largest, and one of the most respected insurance companies in America.

**Mr. Jones, when would you like to stop paying taxes?”**





# THE TWO ANNUITY PRESENTATIONS THAT DELIVER THE MOST RESULTS

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**Here is your  
New feature-  
Oriented  
Presentation.**

In the previous presentation, we stressed benefits. This presentation will stress features. So let's set the stage. You are with a 60 year old who does not enjoy paying taxes. Instead of using the Schedule B and 1040, you will use exactly what you see here To the left in your encyclopedia. You will routinely cover each point and then move to The next feature.

**Add a check  
mark after  
you cover  
each feature.**

"Mr. Jones, with the annuity there are no up-front sales charges and no Annual fees. In addition, a one year interest rate of \_\_\_% is available. You will Not have to pay income taxes on this interest earned until you withdraw it. If You need money, no problem, you can take 10% of your money out each year Without any insurance company surrender charges. In fact, if you desire, this Annuity can provide you income for as long as you live. You can elect this Option anytime again without surrender charges.

**"Penalties do  
Not reappear  
Each year like  
Where your  
Money is now.  
In fact, they  
Will disappear."**

Speaking of surrender charges, insurance companies are smart since They try to protect themselves from premature or excess withdrawals. This Annuity has surrender charges of the first 6 month's interest for six short year. Thereafter, insurance company imposed penalties on this annuity disappear Forever. That's right, the penalties do not reappear each year like where your Money is now. You also receive a money back guarantee. In fact, your money Is backed by the general assets of one of the oldest, one of the largest, and one Of the most respected insurance companies in America.

Mr. Jones, which will you enjoy most, the competitive interest rate, the Easy ways you can withdraw your money, or that you only pay taxes when Interest is withdrawn?" (Wait for a response from the customer) "Mr. Jones, That's one of my favorites, too. What is your social security number?"

# THE TWO ANNUITY PRESENTATIONS THAT DELIVER THE MOST RESULTS

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**Stress benefits  
Or stress  
Features, but  
Keep it simple.**

You now have two different presentations. One of the presentations is benefit-oriented. It gives you the opportunity of stressing the benefits to your customer like, “You will pay Less current taxes.” “You will have more money.” “You will feel Safe and secure.”

You, also, will feel safe and secure knowing that either a Benefit-oriented presentation or a feature-oriented presentation Will put a smile on the face of your customer and result in more Money for both of you.

# 6 WAYS TO INCREASE YOUR SUCCESS IN THE PROFESSION OF SELLING

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## **Know your Profession.**

If we are in the profession of annuity selling, we are in the profession Of helping. All we have to do is ask customers what they want and we will help Them get what they want, won't we? We just have to ask. Fortunately, there are Additional ways for you to increase your level of success fairly easily.

You have already begun the first way of upgrading your level of Success by reading this encyclopedia. You want to learn more about your Profession. You want to know the best ways to market, to prospect, to fact-find, To present, and to close. You want to create a strong basic foundation of know- Ledge about the field of annuity selling.

### **Selling Tip #6**

***Rehearse and role play your presentation, your closes, Your new ways to overcome objections. This can be done at Home or in the car but not when you are sitting across the desk From a person who has \$250,000. We've seen too many Producers "try something out" at the wrong time. Every time it Was a costly lesson.***

# 6 WAYS TO INCREASE YOUR SUCCESS IN THE PROFESSION OF SELLING

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**Create your  
Own formula  
For success.**

The second way of increasing your level of success is by creating your own formula. What do I mean? Recognize which characteristics, traits, And habits of yours deliver results and stick with those. For example, I'll share With you the formula that I have used in the profession of annuity selling. You May wish to add some of these to your formula.

**Accentuate your  
Strengths and  
Never say  
Anything negative  
About a competitor.**

**BE PROUD.** Know your profession well. Attempt to know the Annuity better than anyone else.

**BE AMBITIOUS.** 40 hours a week is perfect for anyone who is Happy with their current economic status. Otherwise, use single premium Math. Increase your income 14% (work Saturdays). Increase your income 100% (work 80 hours a week). We once celebrated the introduction of a new Annuity by opening the office at 6:00 AM and closing at midnight.

**Your customer  
Comes first.  
You come  
Last.**

**BE A TEAM PLAYER.** Place your customer and their needs first, Then your employees, then your needs. Ironically, the person who places Himself last always really wins.

# 6 WAYS TO INCREASE YOUR SUCCESS IN THE PROFESSION OF SELLING

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## 8 Superlatives That will Multiply results For you.

Is there anything else that will improve your level of success? Yes, the words that you use in your delivery are critical to your success. Are there special words that are more effective than others? Yes, this encyclopedia is full of power phrases, buzz words, button-down questions, and test closes that have consistently delivered annuity success. However, you can increase your level of success by using superlatives whenever possible. In fact, here are nine examples that will multiply your results.

## 8 SUPERLATIVES

1. *“You think the greatest benefit is safety, don’t you?” (or use liquidity or tax Deferral in place of safety)*
2. *“In your opinion, Mr. Jones, which will grow fastest: a CD, a Treasury bill, Or an annuity?”*
3. *“The annuity now becomes your highest yielding financial vehicle, doesn’t It?”*
4. *“This insurance company is the most dominant player in the annuity market-Place.”*
5. *“You can select any annuity from among the finest companies in America.” (Or use the oldest or largest in place of the finest)*
6. *“100% of your money, in other words, all of your money will earn interest for You.”*
7. *“With the annuity, you receive monthly income which you cannot outlive.”*
8. *“Yes, tax-deferred accumulation will give you the maximum performance That you desire.”*

# 6 WAYS TO INCREASE YOUR SUCCESS IN THE PROFESSION OF SELLING

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**Adding 7 guarantees  
To your vocabulary  
For guaranteed  
Success.**

Is there anything else you can do that will increase results for you?  
**YES**, use the word guarantee (if they are guaranteed in the annuity contract)  
Whenever possible and watch your level of success increase. **GUARANTEED.**  
Here are seven examples.

## 7 GUARANTEES

1. *“You receive 9% guaranteed for one year.”*
2. *“I guarantee that your annuity will be valued at \$109,000 next year, Guaranteed.”*
3. *“I guarantee no sales charges and no fees.”*
4. *“I guarantee that the surrender charges will disappear after 6 years. And, they will not reappear, guaranteed.”*
5. *“If you wish, you can receive guaranteed monthly income. We can Guarantee that it will continue for life. If you wish, we can even guarantee 10 years, 15 years, or 20 years of payments.”*
6. *“You also receive an interest rate guaranteed for the life of the Annuity.”*

# 6 WAYS TO INCREASE YOUR SUCCESS IN THE PROFESSION OF SELLING

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**Would you like  
It if your customers  
Started asking you  
For the benefits of  
Owning an annuity?  
It is now possible!**

Another way of increasing your level of success is by sharpening your fact-finding skills. Allow me to ask a question. Would you like to learn how to get customers to tell you where all of their money is and when it Matures? What if you could get customers to ask you for an annuity? That Would help you, wouldn't it? All of the above can be done during the first 60 seconds if you use this special form on the next page the right way.

# **5 WAYS TO INCREASE YOUR SUCCESS IN THE PROFESSION OF SELLING**

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You now know the easy yet important ways to increase your level of success.

- 1. Be willing to grow professionally by sharpening your selling skills**
- 2. Be convincing and carry your annuity with you.**
- 3. Use superlatives whenever possible.**
- 4. Add the word GUARANTEE to your delivery for guaranteed results.**
- 5. Use that special fact-finding form at the onset.**



# THE 7 BEST WAYS TO SOLVE NEEDS VISUALLY

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When we solve more needs, we help more customers. When we help more customers, we get more premium. Furthermore, the more we get away from transactions and into need solving, the more professional we become (the average premium per annuity case also increases).

However, we must learn more than which needs can be solved. We must also learn how to visually present the need to your customer. The following pages will do both for you.

# THE 7 BEST WAYS TO SOLVE NEEDS VISUALLY

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**Reducing taxes  
On Social  
Security income  
Is easy but how  
To present this  
Need is what  
Counts.**

The first of many needs that we can solve is reducing the tax on Social Security income. However, the way you present this need to your customer is also important.

“Mr. Jones, if I could show you a way to reduce or Eliminate income taxes on your Social Security income, you Would be interested, wouldn't you? However, in order for Me to solve this problem of yours, I need your help.”

You then spin the form that's on the left hand side of your encyclopedia In their direction. You then complete this simple form together. It takes 3 Minutes or less to complete. This form serves two purposes: 1) your customers Will tell you where all of their money is. If they hold back, you can't solve their Problem, can you? 2) This form identifies a problem and a need. The problem Being that 50% of their Social Security income is being taxes. Their need is Having more spendable income (less current taxes).

They will now have more income because you repositioned some of Their savings dollars that they identified on line 1 of this form and transferred Some of their municipal bonds that they identified on line 2. You have reduced Taxes for them on their Social Security income and, in return, you have Increased their spendable income.

# THE 7 BEST WAYS TO SOLVE NEEDS VISUALLY

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**More spendable  
Income is more  
Likely for your  
Customers if you  
Show them this  
Pie.**

Many of your customers need more spendable income. They just don't know how to get it. *You* do know how they can get more income and it is this special pie to the left that will help you solve their problem. Once again we want the customer to ask you for help. How? You simply say,

“Mr. Jones, if I could show you how to have more spendable Income, you would be interested, wouldn't you?” (Then show Them this pie) “Mr. Jones, this, unfortunately is what is Happening to most of the interest you now earn.” (Again Refer to pie) “28 cents is going to Uncle Sam, 8 cents is going To your state capitol, and 4 cents is going because of that tax On your Social Security income. This leaves you only 60 Cents out of every dollar. Mr. Jones, what are you doing About this problem of yours?” (await response) “We can Do nothing about it or you can sit down with me for 3 minutes And I can reduce this tax, this tax, and this tax.” (Naturally, Pointing to each tax on pie). “You are now ready to do Something about these unnecessary taxes you're currently Paying, aren't you?”

**“Sit down  
With me for  
3 minutes and  
I can help you  
Reduce this tax  
And this tax  
And this tax.”**

# THE 7 BEST WAYS TO SOLVE NEEDS VISUALLY

---

**You now know  
How to solve  
More needs  
Visually.**

Well, you now know how to solve more needs simplistically, graphically, and visually. Needs that are important to your customer: less Taxes on Social Security income, more money later, overcoming inflation, Tax-advantaged income, an annuity which makes sense to followers of Real estate, and an annuity offering a return likened to 8.6% after taxes. Your customers have more spendable income because you solved their Needs. Speaking of needs, your need for knowing the special ways to Convey tax deferral are only a chapter away. You do want to know the 9 Best ways to illustrate the power of tax deferral, don't you?

## THE 9 BEST WAYS TO ILLUSTRATE THE POWER OF TAX DEFERRAL

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### Rule of 72

The next way of illustrating the power of tax deferral is the Rule of 72. You know how the Rule of 72 works but your customer does not. They will, however, Very much appreciate you teaching them how the Rule of 72 works.

“Mr. Jones, I would like to share with you the Rule of 72. Simply put, The Rule of 72 computes how quickly your dollars will double. How Does the Rule of 72 work? You divide the interest rate you are Currently receiving into 72. The answer will be the number of years it Will take for your money to double. For example, Mr. Jones, your Current taxable plan is yielding 8.5%” (you would write 8.5% on a Legal pad). “Since you are in the 28% tax bracket, unfortunately, You are only keeping 72% of that 8.5% This means your net taxable Yield” (fill this in) “is 6.1%” (72% of 8.5%). “Now let’s divide the Net taxable yield, 6.1% into 72. What do you know, your monies will Double every 12 years.”

**Dollars inside of an annuity  
Accumulate much faster  
Than a taxable financial  
Vehicle since annuities give  
Your customers the freedom  
Of when to pay income taxes.**

You can stop here and say, “Mr. Jones, would you rather have your Monies double every 12 years or every 8 years? The choice is yours.”

**If you wish, you can continue and show them how their annuity dollars will Double. The difference, of course, is that you will use the gross annuity interest Rate. When it comes to tax bracket, you’ll say non-applicable. Assuming an Annuity interest rate of 9% (9% divided by 72=8), their dollars every 8 years And quadruple in 16 years.**

## THE 9 BEST WAYS TO ILLUSTRATE THE POWER OF TAX DEFERRAL

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### **Taxable Equivalent Yield**

Another way of conveying tax deferral to customers is using taxable equivalent yields if you do it correctly. It is unfair to say that an annuity yielding 8% is equivalent to a 11.11% taxable alternative. What is fair is showing people what kind of taxable equivalent yield they would need from a taxable alternative in order to accumulate the same amount of money as an annuity. For example, we have \$100,000 going into an annuity at 8% interest. We show the customer that in five short years they will have \$146,933 with the annuity. We then show them (assuming a 28% federal tax bracket) what kind of taxable equivalent yield they would need in order to accumulate \$146,933. The bottom line answer is 11.11%. A test case might very well be,

**“Mr. Jones, do you agree with me that there is not one bank in the United States offering 11.11%?” (Await response) “You want a safe way for your money to grow faster and I’m now going to show you what you want. You do want a safe way to accumulate more money, don’t you?”**

# THE QUALIFIED MARKET

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**All of us should  
Know how to  
Move money  
Since the  
Government  
Is making it  
Easy.**

I told you the story on the previous page for three reasons. Firstly, you just have to ask. We are in a numbers game. Secondly, I've been in the annuity business for well over 13 years now and I have seen my fair share of 1.3 million, 1.1 million, and 1 million dollar cases and many \$500,000, \$600,000, \$700,000 cases. They are out there. You just have to look for them By asking. The third reason I told you that story is that it is a smooth transition To explain the basic differences between an IRA Rollover and an IRA Transfer.

## **4 THINGS WE SHOULD KNOW ABOUT THE IRA ROLLOVER**

- 1. It is a tax-advantaged way to reposition qualified money that has never been taxed.*
- 2. IRA Rollovers can be preceded by the owner taking constructive receipt of the dollars And taxes will still be deferred if these dollars are "rolled over" within 60 days.*
- 3. Many IRA Rollovers are preceded by a distribution from one's pension plan. If so, At least 50% or more of the distribution must be "rolled" in order for taxes to be Deferred.*
- 4. You can "roll over" dollars only once per 12 month period.*

## **3 THINGS YOU SHOULD KNOW ABOUT AN IRA TRANSFER**

- 1. There is no limit on how many times money can be repositioned if you use the IRA Transfer.*
- 2. Owner never receives constructive receipt.*
- 3. Dollars are transferred from trustee of the old plan to trustee of the new plan. (trustee to trustee) It can be that simple.*

# THE QUALIFIED MARKET

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Fortunately, Individual Retirement Accounts have been around for many years  
And, fortunately, your customer understands how they work. Unfortunately, customers tend to  
Have their IRA's scattered among many different institutions and/or mutual fund companies.  
This is unfortunate since consolidation often makes better sense.

## **5 REASONS CUSTOMERS SHOULD CONSOLIDATE THEIR IRA'S**

1. Consolidation means more money under one roof and more money often  
Higher return.
2. Less IRA accounts mean fewer and less fees.
3. It also means less administration expenses.
4. Less accounts also mean less statements and far less bookkeeping.
5. Lastly, one IRA account will make it easier [and less costly] for the accountant  
To calculate minimum distribution requirements at age 70 ½.



# 9 INTERESTING WAYS TO MARKET ANNUITIES

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**Your staff can  
Help you once  
They learn the  
Special questions  
To ask.**

Cross-selling enables your staff, your associates, and even your customers to help you. They just need the right questions to ask. In fact, we have included 8 questions they can begin using today. Matter of fact, You can also use them as a way to introduce the annuity.

## 8 CROSS-SELLING QUESTIONS

**In fact, get  
Buttons with  
These questions  
On them.**

1. *Are you paying taxes on interest you are not withdrawing?*
2. *Are you paying taxes on your Social Security income?*
3. *Would you like to get a higher rate on your IRA? Or Where is your IRA?*
4. *Are you reporting all interest on your income tax returns?*
5. *Are you paying taxes on interest you're not spending?*
6. *Have you heard about the Super IRA?*
7. *Would you like monthly income on a tax-advantage basis?*
8. *Have you learned the new safe way to reduce current income?*

# THE 24 RIGHT QUESTIONS TO ASK EVERY ANNUITY

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## THE 24 QUESTIONS TO ASK

Here are 24  
Questions that  
Appear simple.

1. *If owner surrenders, can owner receive less than the initial premium?*
2. *Are there any up-front sales charges?*
3. *Are there any administrative fees or annual fees?*
4. *What are the surrender charges and how long do they last?*
5. *Are surrender charges imposed on principal or on principal and interest?*
6. *Will surrender charges be waived for a partial withdrawal? If so, how much Can be partially withdrawn?*
7. *Can you take a partial withdrawal during the 1<sup>st</sup> year without a surrender Charge?*
8. *Will surrender charges be waived if the initial interest rate decreases? If so, How much must the interest rate decrease?*
9. *If the interest rate does decrease and the surrender charges are waived, how Many days does the owner have to surrender before surrender charges Appear?*
10. *Does the annuity policy describe how renewal rates will be declared? If so, how?*
11. *What is the history of renewal rates for that specific annuity? What is the History of renewal rates for the insurance company's other annuities?*
12. *Will surrender charges be waived if the annuitant dies?*
13. *If annuitant dies, will a death benefit be paid? If so, to whom (owner or Beneficiary)?*
14. *Will surrender charges be waived if the owner dies?*
15. *If owner dies, will a death benefit be paid? If so, to whom? (Owner or Beneficiary)?*

# **THE 24 RIGHT QUESTIONS TO ASK EVERY ANNUITY**

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16. *Will surrender charges be waived if owner annuitizes? If so, what is the minimum Annuitization period for these charges to be waived? (5 years certain? Or must Option have a life contingency?)*
17. *Unless already noted, in what other instances, if any, can surrender charges be waived?*
18. *For how long is the initial interest rate guaranteed?*
19. *What is the minimum premium?*
20. *What is the maximum premium?*
21. *What is the minimum issue age?*
22. *What is the maximum issue age?*
23. *What are the guaranteed settlement rates? Current settlement rates? (use ages 65 and 75 and 10 year Certain and Life unless conditions of case warrant otherwise)*
24. *What other features, positive and negative, should perspective purchaser know? Are We saying that features of an annuity are more important than the insurance company Standing behind the guarantees? No, in fact, we are saying the opposite. However, we are Also saying that it pays to know your annuity as well as your competitor's annuity since Annuities are not created equal.*

## 11 INSURANCE PRODUCTS GRANDFATHERED

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1. Deduction of interest on borrowed dollars to purchase SPDAs – 3/1/54
2. Deduction of interest on 100% premium financing to pay for annual premium  
Life or annuity – 8/6/63
3. No PS58 costs for split dollar plans – 11/13/64
4. Tax-deferred interest on CDs via the investment annuity – 3/6/77
5. Stepped-up cost basis at owner’s death for a variable annuity – 10/20/79
6. Cost basis (principal) withdrawn first tax-free from SPDAs – 8/13/82
7. Tax deferred interest on corporate owned annuities – 2/28/86
8. Deduction of IRA contribution for everyone – 12/31/86
9. No excise tax penalty to beneficiary (if younger than 59 ½) upon annuitant’s  
Death - 4/22/87
10. Tax-free distributions via loans and no excise tax penalties for SPWL –  
6/20/88
11. Annuities purchased from same insurance company in one calendar year  
Not aggregated – 10/21/88

**Dates reflect the last day before new tax law went into effect.**

**Copyright owner is not implying or stating that future tax legislation will contain grandfathering since there has been legislation without grandfathering.**

## TAXABLE EQUIVALENT YIELD

TAX-DEFERRED YIELDS	8.0%	8.5%	9.0%	9.5%	10.0%
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TAX BRACKET	<i>TAXABLE YIELDS</i>				
15%	9.4%	10.0%	10.58%	11.18%	11.75%
28%	11.11%	11.8%	12.5%	13.19%	13.89%
33%	11.94%	12.69%	13.43%	14.18%	14.93%
39%	13.12%	13.93%	14.75%	15.57%	16.39%

**THE TAXABLE YIELD WOULD NEED TO *ACCUMULATE*  
THE SAME AMOUNT OF MONEY AS AN ANNUITY**

**\*LEARN HOW TO CALCULATE “TAX-DEFERRED YIELD”  
(100%-the tax bracket) X the taxable yield = the tax-deferred yield  
FOR EXAMPLE**

$(100\% - 15\%) \times 9.4\% = \text{the tax-deferred yield}$   
 $(1.0 - .15) \times .094 = \text{the tax-deferred yield}$   
 $(.85) \times .094 = .08 = 8\%$

**\*LEARN HOW TO CALCULATE “TAXABLE YIELD”  
The tax-deferred yield / (100%-the tax bracket) = the taxable yield  
FOR EXAMPLE**

$8.0\% / (100\% - 15\%) = \text{the taxable yield}$   
 $.08 / (100\% - 15\%) = \text{the taxable yield}$   
 $.08 / (.85) = .0941 = 9.41\%$

# **INTRODUCTION TO THE BALDWIN UNITED STORY**

As you will soon see, the insolvency of one large annuity insurer provides an interesting and positive story on the insurance industry. However, this story is more than just interesting and positive. The story proved that the insurance industry can protect the policy owner. Learn what happened, why it happened, and which questions could have been asked.

## **WHO WAS BALDWIN UNITED? WHAT HAPPENED? HOW DID IT HAPPEN?**

Baldwin United was a corporation in the financial service industry that owned 6 insurance companies. Baldwin wanted more dollars to fuel their acquisition needs and they felt that the annuity could provide those dollars. Therefore, in 1979, the subsidiary insurance companies of Baldwin entered the annuity market with an extremely competitive annuity.

Annuity sales, primarily through the efforts of stockbrokerage firms, grew from 8 million in 1979 to 1.5 BILLION in 1981. In fact, annuity sales during the first two quarters of 1982 seemed to indicate that 1982 was going to be Baldwin's best year ever, but problems began to surface. Baldwin had purchased Sperry Hutchinson in 1981 for over 350 million and MGIC in October, 1982, for 1.2 billion. However, Baldwin had borrowed 600 million on a short term basis in order to purchase MGIC. Short term basis? With annuity sales going the way they were, Baldwin thought that it would only be a short period of time before the loan could be repaid.

In 1982, insurance regulators requested that Baldwin increase the reserves of several of its insurance subsidiaries. This incident created adverse press releases. These press releases coupled with stockbrokerage firms selling less annuities in general (bull market and a 1982 tax act) dramatically slowed annuity sales for Baldwin. (Sales that Baldwin was counting on to fund prior commitments.) When Baldwin's difficulty to repay debt surfaced, more adverse publicity followed. An unscheduled exam by insurance regulators generated more adverse publicity since Baldwin was being asked to inject more cash. As more and more firms stopped selling Baldwin annuities, surrender requests soared. Fortunately, insurance regulators stepped in during the summer of 1983 when the ratio of surrenders to new sales were 3 to 1.

## **WE SHOULD BE PROUD OF OUR INDUSTRY BECAUSE OF WHAT THEY DID**

Why have annuity sales continued to climb even after the Baldwin United event? Customers still need a safe way to accumulate more money. However, the customer must assume some responsibility for selecting the insurance company. Often, Baldwin's annuities were paying appreciably higher interest rates than other annuities. Perhaps, the customer could have asked Baldwin "How?" "How are you doing it?" "What are you doing that other insurance companies are not?" Yes, part of the responsibility shifts back to the customer. The other part of the responsibility remains with us.

Let's examine how our industry's reputation was enhanced because of Baldwin. Enhanced? Yes, when the insurance regulators sensed trouble, they quickly walked in and seized the assets of Baldwin's insurance companies. This insulted the policyowners' dollars from the creditors of Baldwin. What other industry can seize the assets of a subsidiary of a corporation as easily as the insurance industry did? Shortly thereafter, the insurance regulators went to court where a Rehabilitation Plan was approved. A plan designed to protect each policy owner was in full effect. In fact, the insurance regulators continued to work hard during this 3 ½ year plan in an effort to help policy owners even more. They succeeded by introducing an Enhancement Plan when the Rehabilitation Plan ended.

Did policy owners only have partial access to their dollars during the 3 ½ year plan? Yes! Did they get total access to their money at the end of 3 ½ years? Yes! Compare that to other worse case scenarios that you have read about including the municipal bond default where people lost 92% of their money. People are buying the annuity today because of our industry. We should be proud of being part of it.



## INTRODUCTION TO GUARANTEE ASSOCIATION MODEL ACT

The Guarantee Association Model Act is legislation designed to protect policyowners of insolvent insurance companies. On the next page, we have identified which states have this protection and the “kind” of protection. Kind of protection? Some states protect “all” policy owners of insurance companies domiciled in their state (regardless of where the policy owner lives). Other states protect just “their residents” (regardless of where the insurance company is domiciled).

It is our opinion that this information should never be used in the solicitation of annuities to the public for several reasons:

- 1) It is strictly prohibited by each state department of insurance.**
- 2) It is possible for certain annuities to be excluded now or later.**
- 3) This coverage will be interpreted by some as all insurance companies being Equal and that is not the case.**

What, then, will this chart do for you? It gives you information that few of your contemporaries know. It gives you the ability, *when asked*, to speak intelligently. You are a professional and you want to know your profession.

# **GUARANTEE ASSOCIATION MODEL ACT**

## **STATE LIFE & HEALTH GUARANTY LAWS**

### ***“ASSOCIATION MODEL ACT”***

#### **27 States have “Residents Only” COVERAGE**

(\*Not in conformity to revised model.)

Arkansas  
Connecticut  
\*Delaware  
Florida  
Georgia  
Hawaii  
\*Idaho  
\*Illinois  
\*Indiana  
Iowa  
Kansas  
Kentucky  
\*Maryland  
Massachusetts  
Michigan  
Missouri  
Montana  
\*Nebraska  
\*New York  
North Dakota  
Ohio  
Oklahoma  
\*Rhode Island  
South Dakota  
Tennessee  
\*Texas  
\*Utah

#### **18 States WITHOUT “Residents Only” COVERAGE**

(In other words, coverage applies just to  
Insurance companies domiciled in their state.)

Alabama  
Arizona  
Maine  
Minnesota  
Mississippi  
Nevada  
New Hampshire  
New Mexico  
North Carolina  
Oregon  
Pennsylvania  
Puerto Rico  
South Carolina  
Vermont  
Virginia  
Washington  
West Virginia  
Wisconsin

#### **7 STATES WITHOUT COVERAGE**

Alaska  
California  
Colorado  
District of Columbia  
Louisiana  
New Jersey  
Wyoming

This is our current interpretation as of 2-2-90. Since the above is subject to change without notice, you should contact your state insurance department for exact terms and conditions.

#### **IMPORTANT NOTE**

No person, including insurer, agent or affiliate of an insurer shall make, publish, disseminate, circulate, or place *before the public* this information. Bottom line: You can't speak to a client about this information, prior to a sale, period.

## POWER PHRASES AND BUZZ WORDS

1. *“No sales charges, like where your money is now.”*
2. *“No fees, like where your money is now.”*
3. *“You again receive a choice of interest rate guarantee periods.”*
4. *“You again get partial access to your money prior to maturity.”*
5. *“And again there are penalties for early surrender.”*
6. *“And again there is no market risk.”*
7. *“With your current taxable accounts, you are paying taxes whether you leave the interest in or take the interest Out.”*
8. *“Like your IRA, you again pay no taxes as interest accumulates.”*
9. *“Like your IRA, you again pay taxes only when dollars are withdrawn.”*
10. *“Like your IRA, there is a 10% excise tax penalty.”*
11. *“Unlike your IRA, contributions are never tax deductible and unlike your IRA, there is no ceiling on how Much you can put into the annuity.”*
12. *“You can only appreciate the tax-deferred annuity after you compare it to what you now own.”*

## TEST CLOSES

1. *"I have one remaining question. Which will you enjoy most? The competitive interest Rate, the easy ways you can withdraw your money, or that you only pay taxes when Interest is withdrawn?"*
2. *"If I am reading you correctly, you like the annuity because of safety and liquidity. I am Reading you correctly, aren't I?"*
3. *"One last question. Would you agree with me that the more money you have, the more Purchasing power you will have?"*
4. *"You do agree with me that the more money you'll have later, the more spendable income You will have later?"*
5. *"Would you like to pay taxes now or later?"*
6. *"Would you rather have \$14,000 a year or \$17,000 a year income?"*
7. *"Would you rather have your monies double every 12 years or every 8 years?"*
8. *"Do you agree with me that there is not a bank in the United States offering 12%?"*
9. *"Would you rather have \$800 earning interest for you for \$550 earning interest for you?"*
10. *"When would you like to stop paying income taxes?"*
11. *"I'm going to print your name and address here on this annuity application which Acknowledges that you do want to reduce income taxes. You do want to reduce taxes, Don't you?"*
12. *"Do you want a 1 year or 5 year interest rate?"*
13. *"Do you want to own the annuity or do you want to own it jointly with your wife?"*
14. *"Do you want statements mailed to your house or business address?"*
15. *"Aren't you glad the government is giving you a safe way to reduce taxes?"*
16. *"What didn't you like about the annuity?"*

## BUTTON-DOWN QUESTIONS

1. *“You do want the freedom of deciding when to pay taxes on your interest, Don’t you?”*
2. *“The annuity picks up where your IRA left off. You agree, don’t you?”*
3. *“More money later means more spendable income later, doesn’t it?”*
4. *“What do you like most about annuities? It’s safety, isn’t it?”*
5. *“If I’m reading you correctly, and I think I am, you want safety, liquidity, Choice of interest rates, a higher return, and less current income taxes, Don’t you?”*
6. *“If I could show you a way to receive \$3,000 extra every year, you would be Interested, wouldn’t you?”*
7. *“You do want your dollars to work harder and smarter, don’t you?”*
8. *“If I could guarantee that no fees or up front sales charges would ever Be deducted from your purchases, you would be interested, wouldn’t You?”*
9. *“If you could decide when to pay income taxes, you would be interested, Wouldn’t you?”*
10. *“If I could show you a safe way to accumulate more money each year, You would be interested, wouldn’t you?”*
11. *“If the government could give you a temporary loan at 0% interest, you Would be interested, wouldn’t you?”*