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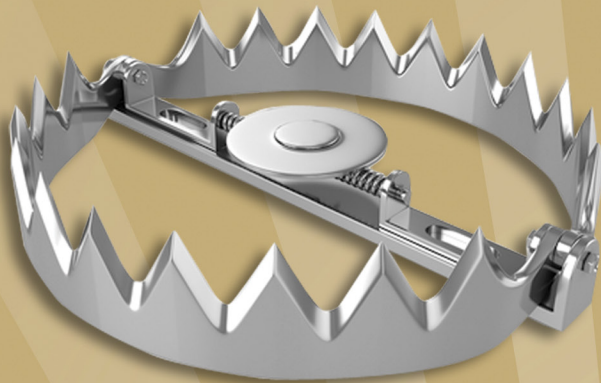
# *How To Avoid* ANNUITY TRAPS

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★ E-BOOK ★

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*For Pre-Retirees and Retirees Who Are  
Planning To Purchase An Annuity,  
Or Who May Already Own An Annuity*



AVOID ANNUITY  
TRAPS

**A Special Report By:**  
**Christopher A. Hammond**



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# Thinking About Purchasing An Annuity?

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**Are you thinking about purchasing an annuity?**

**Or maybe you already own one and are considering surrendering it?**

If so, then before you do anything else I want you to be educated on some of the common annuity traps so that you don't fall into them.

The information in this e-book could save you a lot of heart ache. And potentially a lot of money.

### **How Do Annuities Work**

When you buy an annuity, you can do it in a single lump sum or a series of payments. Your money can grow tax deferred inside the annuity. You also have the option to turn your money into a stream of income that you can never outlive. Annuities can help you to plan for income in retirement, as well as give you another option for growing your money.

### **What's So Appealing About Annuities?**

Annuities can provide guaranteed\*, steady income for the rest of your life. This reduces your risk of running out of income in retirement. Some annuities even guarantee that you won't lose any of your money, regardless of how the markets perform.

\*All guarantees are subject to the claims-paying ability of the issuing company and do not apply to the underlying investment options.





The 3 Most  
Popular Types of Annuities



Let's first look at the 3 most popular annuities available today. Then we'll break down some of the "Traps" that people fall into with these types of annuities and how to avoid the pitfalls.

### Annuity Comparison Chart

	Fixed Rate	Fixed Index	Variable
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Tax-Deferred Growth</li> <li>• Guaranteed Min. Interest Rate</li> <li>• Guaranteed interest rate</li> <li>• Safety</li> </ul>	<ul style="list-style-type: none"> <li>• Tax-Deferred Growth</li> <li>• Guaranteed Min. Interest Rate</li> <li>• Some market growth, with no downside risk</li> </ul>	<ul style="list-style-type: none"> <li>• Tax-Deferred Growth</li> <li>• Highest growth potential of all annuities</li> <li>• Able to diversify your investments</li> </ul>
<b>Who Is It For</b>	<ul style="list-style-type: none"> <li>• Conservative investors</li> <li>• Age 50+</li> <li>• Retirees and Pre-Retirees</li> </ul>	<ul style="list-style-type: none"> <li>• Conservative investors</li> <li>• Wants portfolio diversification</li> <li>• Retirees and Pre-Retirees</li> </ul>	<ul style="list-style-type: none"> <li>• More aggressive investors</li> <li>• Pre-Retirees in 40's and 50's</li> <li>• Can handle market volatility</li> </ul>
<b>Potential Growth</b>	<ul style="list-style-type: none"> <li>• Conservative Growth</li> </ul>	<ul style="list-style-type: none"> <li>• Conservative Growth, with potential to perform stronger</li> </ul>	<ul style="list-style-type: none"> <li>• Highest potential growth</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>• Safest annuity</li> <li>• Secure and Stable</li> <li>• Principal guaranteed</li> </ul>	<ul style="list-style-type: none"> <li>• Principal guaranteed</li> <li>• Potential higher returns with safety of principal</li> </ul>	<ul style="list-style-type: none"> <li>• Can go down in value</li> <li>• For investors that can tolerate market volatility</li> </ul>

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## Fixed Rate Annuity

This type of annuity is also called a Multi-Year Guaranteed Annuity (MYGA). The insurance company guarantees an interest rate for a set period. These annuities are very similar to bank CD's - they guarantee an interest rate for a period of time. Typically, the interest rate will be higher than a bank CD interest rate.

If you're over 50, this type of annuity is a good option to safely grow your money at a potentially higher rate than a bank would offer. It also allows your interest to grow tax deferred inside the annuity. You can also turn it into an income stream when you retire.

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*“Every investment in your portfolio  
should have a specific purpose”*

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## Fixed Rate Annuity Traps

1. Surrender charges. To get the most out of fixed rate annuities, let them work and grow for the duration of the contract. Don't purchase one if you don't intend to hold it for the entirety of the surrender charge period. Also, make sure you have enough cash in the bank you can access in an emergency. You don't want to liquidate an annuity during a surrender charge period under most circumstances.
2. Interest Rate Risk – If you lock in an interest rate for 5 years and rates in the economy start to go up, you could miss out on the higher rates. To overcome this, don't put all your funds in a 5-year fixed rate annuity, for example. Split it up between a 3, 4, and 5-year annuity. If rates go up, some of your funds will mature in the meantime and you can invest them at the new higher rates.



## Fixed Index Annuity

These are sometimes called “hybrid annuities.” An indexed annuity gives you the security of a fixed annuity, but with the potential to earn more interest. This is for investors that want principal protection while capturing some (not all) of the market’s growth.

Indexed annuities are good at safely growing money. They can also deliver good contractual guarantees of income you can never outlive. They are not aggressive growth products (although some agents may sell the “dream” of high returns with absolutely no risk). Don’t buy the “dream.”

Indexed annuities will typically have more conservative growth since your principal is protected. That’s what they do well.

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**“Don’t buy annuity dreams.  
Buy annuity realities”**

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## Fixed Index Annuity Traps

1. Not understanding their purpose – You won’t get all the market’s growth with an indexed annuity. But you also won’t lose value if the market goes down. Understand this. The index annuity is not an aggressive growth investment. It gives you the potential to outperform other conservative investment vehicles. Avoid this trap by understanding the benefits and limitations of index annuities.
2. Surrender charges – Most annuities have surrender charges. Before you purchase an index annuity make sure you plan to hold it for the duration of the contract. Keep enough liquidity on hand for emergencies to avoid having to liquidate your annuity and pay a surrender charge.



## Variable Annuity

Variable annuities are long-term investments. They have the potential for the most growth of all the annuities. Since the earnings grow tax deferred, they are often used after an investor has maxed out their IRA / 401(k) contributions.

They can decrease in value if the investments inside the variable annuity go down in value. Some variable annuities will provide a death benefit that will pay out at least the amount of the original deposit, regardless if the variable annuity has declined in value.

When you hear experts on the internet say, “We hate annuities,” they are often talking about variable annuities.

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**“Count the cost of variable annuity fees. Are the benefits worth it to you? ”**

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## Variable Annuity Traps

1. Fees – Variable annuities are known for having high fees. These fees can sometimes exceed 4% of your annuity’s value each year. To avoid this trap, make sure the benefits that you get from your variable annuity are worth the fees. And make sure your advisor tells you all the fees you will be paying BEFORE you purchase the annuity.
2. Surrender Charges – Most variable annuities have surrender charges. Before you purchase one make sure you want to hold it for the duration of the contract. And always keep enough liquidity on hand for emergencies to avoid having to liquidate your annuity and pay a surrender charge.
3. Complexity – Variable annuities can be very complex. They can have riders attached to them that are confusing. And the contract (called a prospectus) can be big and difficult to understand. To avoid this trap make sure you are working with a trusted advisor that will take the time to educate you on how the variable annuity works.







Why Should You  
Consider An Annuity?





In spite of what you may hear many agents say, the truth is not everyone should buy an annuity. However, there are some scenarios where an annuity makes sense as part of a financial plan.

Fixed annuities can be used for retirees that want to take some risk out of their portfolio. Since fixed annuities are guaranteed\* to not lose money, this helps a retiree protect a portion of their portfolio from market losses.

Fixed index annuities can be used for more conservative growth without risk to your principal. For many people planning for retirement, the benefit of not losing their principal is well worth the lower potential growth from this type of account.

Annuities are also used most effectively to guarantee lifetime income. They can even be structured so that if you die prematurely the remainder of your original deposit will be paid to your beneficiaries. This way the insurance company doesn't keep all of your remaining funds.

If you don't have a pension in retirement, then an annuity may make sense for you to supplement your Social Security income.

In my experience some of the most stress-free clients I've worked with are ones that have a strong lifetime income (from a combination of Social Security and

\*All guarantees are subject to the claims-paying ability of the issuing company and do not apply to the underlying investment options.





annuities). The strong income takes pressure off their need for a portfolio to consistently perform strong in a volatile market.

Variable annuities tend to work well when you need additional tax deferral on your investments. If you have maxed out your IRA and 401(k) contributions, then you can get additional tax deferral inside a variable annuity.

The only downside is that many variable annuities come with high fees, and the benefits you get from the high fees are typically not worth the cost.

That's why if you need additional tax deferral on your non-qualified funds, a no-load variable annuity may be a good option. It will typically have lower fees than traditional variable annuities, and it gives you the benefit of tax deferral on your earnings.

These are some common scenarios where an annuity may make sense as a part of your portfolio. In order to be sure if an annuity is right for you, make sure to have it tested in a proper financial plan to see if it will meet your retirement goals.

With a proper financial plan it is easier to see the results in advance. That way you can be more confident about whether or not an annuity would make sense for you.

And if you decide that an annuity makes sense for you, it is smart to compare it against other annuities to see if you are getting the best deal. Not all annuities are created equal. And it is wise to work with an advisor that will compare different annuities across different insurance companies.



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Where Can You  
Get Quality Annuity Advice?

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Before you purchase an annuity, make sure you know what its strengths and weaknesses are. Know what purpose it serves in your portfolio. And make sure you get a second opinion before making a decision.

I have personally seen people make irreversible decisions by purchasing an annuity that didn't make sense for them. It is my opinion that a lot of the annuity advice in the market today is flawed.

I have seen variable annuities used inappropriately. Oftentimes the annuity owner didn't even know what he/she was paying in fees.

And I have seen fixed index annuities used inappropriately. Oftentimes the annuity owner is sold a "dream" about impossibly high market-like returns, with no risk taken to achieve those returns.

This is a disservice to retirees. And this book (as well as my educational videos/articles on my website) is designed to stop that.

The fact is annuities can make a lot of sense when they are used properly in a financial plan.





At **RetirementPlanningMadeEasy.com** we help investors all over the country build a financial plan that will help you protect your assets and reach your goals, in the lowest risk, lowest cost way possible.

**Perhaps this service could help you?**

If you have questions and would like to talk to someone that is in the trenches everyday keeping up to date on “all things annuity” then I’d be happy to chat.

Phone calls are always free, 100% confidential, and I promise you won’t receive an annoying annuity sales pitch. You’ll just get good quality advice to help point you in the right direction.

I also can help you stress test your current financial plan to see if an annuity even makes sense for you.

Do you still have some questions about whether you should purchase an annuity or not? Put the questions on me, and put your mind at rest. Just click the link below to use our secure, confidential question form.

Click the link below, and I’d be happy to help point you in the right direction.

**Get Your Financial Plan Reviewed & Stress Tested!**





# Closing



I hope this e-book has been educational for you and will help you make a better decision about any annuity purchase you are considering.

I would love to hear your thoughts on this e-book. If you have any suggestions or kind words, then you can reach out to me at [chammond@retirementwealthadvisors.com](mailto:chammond@retirementwealthadvisors.com)

If you know anyone that is struggling with an annuity decision, then feel free to send them a copy of this e-book. Or, send them to my website at [www.RetirementPlanningMadeEasy.com](http://www.RetirementPlanningMadeEasy.com) so they can request their own.

I know that together we can reach more people with this educational message than I could ever reach alone.

It is my goal to help retirees make better decisions so they can have a more stress-free retirement and know that they are doing the best they can with the resources they have.

Thanks for being a part of this movement to help retirees be educated and empowered.

Best of luck!



Chris Hammond





## About The Author:



Christopher Hammond founded **RetirementPlanningMadeEasy.com** in 2014 to educate people on the important issues surrounding retirement. He specializes in low cost, high quality financial advice for retirees.

Chris is married to his wife, Julia. He and his wife have four kids. When Chris is not working he enjoys spending time with his family, reading financial books (yes, that's a bit nerdy), working out, and kayaking.



## Disclosures:

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Fixed annuities may be useful retirement tools for some people. However, fixed annuities may not be suitable for all. Please consult a licensed insurance agent regarding your age, financial objectives, short and long term financial goals, liquidity needs, risk tolerance and overall financial situation to determine if a fixed annuity is right for you. You should thoroughly review all brochures, specimen contracts, buyer's guides and disclosure forms before purchasing any fixed annuity.

Fixed annuity earnings are tax deferred until withdrawn. Use of annuities with qualified type plans (401K, IRA, 403(b)) may not provide any additional tax benefits above those you already receive in such a plan. Withdrawals may be subject to income tax and a 10% federal income tax penalty if taken before age 59 ½. Annuity guarantees rely on the financial strength and claims-paying ability of the issuing insurer.

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