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HOSTED BY JASON PARKER

025 Annuities with Stan the Annuity Man

Speaker 1: Welcome back, America, to Sound Retirement Radio where we bring you concepts, ideas, and strategies designed to help you achieve clarity, confidence and freedom as you prepare for and transition through retirement. Now, here is your host, Jason Parker.

Jason Parker: Seattle, Tacoma, Olympia, Gig Harbor, all the good people right here in Kitsap County, welcome back to another round of Sound Retirement Radio. For those of you tuning in from around the country, thank you for making our little program a hit on iTunes.

I know how much you all enjoy our jokes Saturday morning, so I've got one here for you. I've actually got a couple of them for you. Here's the first one. How can you double your money? By folding it in half, of course.

The second one is, Dad would you like to save some money. Well, of course I would, son. Any suggestions? Sure, why not buy me a bike? Then I won't wear out my shoes so fast.

Anyways, I sure appreciate you tuning in. We've got a great program lined up for you. Annuities have been in the headlines recently. I have Stan, The Annuity Man here to talk about them. Stan, The Annuity Man, welcome to Sound Retirement Radio.

Stan: Jason, I'm glad to be here, looking forward to the conversation and clarifying some of the mis-sellings of annuities out there.

Jason Parker: Appreciate it. I want to start out talking about this treasury ruling, the IRS ruling maybe, on annuities. Would you take a minute and talk about that?

Stan: Absolutely. On July the 1st, the Treasury Department and the IRS surprised all of us. What they did, well, they allowed the use of longevity annuities inside of 401(k)s and IRAs. What's a longevity annuity? In fact, they call it a QLAC, which is a qualified longevity annuity contract.

What it is, is a deferred income annuity that you can use for target date income planning. There's no fees. There's no moving parts. There's no market attachments. What you can do is defer up to 45 years and it will pay a pension-type payment to you for the rest of your life.

There's some interesting angles to this ruling. Number one, if you're on a 401 (k) currently and they start offering this, then you can take a portion of that 401 (k) amount and plan for future income. Let's say you're 45. I'm going to work 15 more years and retire when I'm 60. You can buy one of these longevity annuities and guarantee a pension-type payment for, not only you, but also your spouse, so that's a good thing.

The ruling actually affected people that already have IRAs. They can put a qualified longevity annuity contract instead of the IRA and actually they can defer some of their RMDs. The limitations on the product is 25% of your total IRA assets or $125,000, whichever is less. That's the current ruling. It's pretty interesting.

There's a lot more to that. That's a brief elevator speech that people can have in their minds. The takeaway is, if you're young, you can plan for future income. If you're one of those people that have IRAs that you really don't want to pay the requirements on distributions, you can lessen that requirement and push out that payment for that 25% or $125,000 up until age 85. It's a very interesting ruling in my opinion.

Jason Parker: What I want to understand … I want you to help our listeners to understand, Stan, is why is this groundbreaking? Why is this such big news in the annuity industry? Why should people even consider annuities? Annuities have come under a lot of criticism over the years.

Stan: Let's take the first question then we'll get to the history of annuities. The reason this is somewhat groundbreaking is, in the 401 (k) world, which is a defined contribution plan, up until this point, there really hasn't been a vehicle in there for you to plan for future income.

What you had to do with the end of the time you worked at the company that was offering the 401 (k), you had to transfer that amount to a personal IRA and create whatever type of income planning, meet with a person like Jason, and they put things together to create income.

What this allows within the 401 (k) is you to do that right now. It's a flexible product. You can add money every year to it. The other thing too is I think it's a shot across the bow to the 50-somethings that are out there, kind of my age group.

I think you're a little bit younger than that to say, listen, I think just getting ready means to have some social security. You'd better start your own income planning for the future. I think this is the government subtly showing their cards a little bit, in my opinion. I think that the limitations, the $125,000 or the 25% of your IRA, I think those will be increased over time. Now, getting to the annuity history part, people probably don't know this, but …

Jason Parker: Before we get into the annuity history, one of the things I find fascinating is, when my grandfather was working for a large corporation before he retired, he retired with a traditional pension. We've seen most traditional pensions go away for the average Joe and more of the responsibility has shifted to the defined contribution type of plan of 401 (k) where you stock away money and it's … For the most part, people are relying very heavily on the stock markets, stocks, bonds, mutual funds, ETFs.

Now, what we're seeing is that pendulum shifting back away from the overreliance on the stock market. They're saying, "Hey, wait a second. Maybe we should have some more options for future cash flow or future income."

Now, they're bringing it back to this traditional pension-style program, but they're just telling individuals, "Hey, you, we're going to give you this traditional-type of pension option, but you just have to fund it yourself." I just find that fascinating, how the pendulum seems to swing from one extreme to the next and ultimately swings back to the middle.

Stan: I totally agree with you. I think that this is just a start. I think the government understands that people, at the end of the time they work, it's not about growth. It's about income. It's about lifestyle. It's about maintaining that lifestyle and putting products and choices in place that can pay you for the rest of your life.

I mean the true value proposition of an annuity that sets it apart from anything else is the fact that it will pay you for the rest of your life regardless of how long you live. The unfortunate part about the annuity industry is it's unregulated.

The message is that out there are garbled and you can say anything you want. Most of the annuity sold or sold on the dreams market returns being variable annuities and index annuities, whereas, in my world, I think you should own annuities for what they will do, not what they might do.

You own them for the contractual guarantees. These are old products. They were developed in the Roman times to actually pay pension payments to the Roman soldiers and their families. They've been in this country for over 202 years where, originally, in Pennsylvania, annuities were offered to retiring Presbyterian ministers.

Then TIAA-CREF started offering it to teachers in Pennsylvania. It's been around for a long time, but the original structure, up until 1952, were this income annuities. In 1952, TIAA-CREF, which is still around, introduced the first variable annuity. Then, in 1995, the first index annuity came aboard. But up until 1952, there were used solely for income. In my perfect world, I think they still should be used for income.

Jason Parker: From a cash flow standpoint, one of the things we are always advocating for our listeners is that retirement is all about cash flow. It is your income that will allow you the lifestyle that you want in retirement. I was reading through Robert Shiller's book, *Irrational Exuberance*, the second edition. He has a component in there. I think it was page 222.

He says government should encourage people to have less of a reliance on the stock market for providing their future cash flow and should instead consider things like inflation index, government bonds, and inflation index annuities.

When you have some of the Nobel Prize winning economists advocating the use of annuities, it really does make you question all of the bad press annuities seem to get. That's really where I want to take the conversation because, obviously, there are a lot of different of annuities out there. There's probably some that are good. There's some that are bad. Can you help our listeners understand that a little bit better?

Stan: Absolutely. There's 15 different types of annuities. Over 75% of all annuities sold in this country, there's 200 billion plus per year, by the way. About 75% of the 200 billion are index annuities and variable annuities.

Now, you can be a conspiracy theorist and say, "Well, Stan, the only reason that's happening is because the agents get paid the highest commission with those two products." That is true. But I think the real reason is people want to buy growth. They always have to dream of growth. With those two products, you're selling dreams.

Now, the other 25% of those products would be the longevity annuities, single-premium immediate annuities, which are immediate income annuities, fixed rate annuities. At the end of the day, they only represent about 25% of the sales. My hope and dream is that that flips. I think it should be 75% in the contractual guarantee products and maybe 25% in the other products that have non-guaranteed type returns.

The problem in the annuity world right now is that annuities are regulated at the state level. What have the annuity promoters done, and the gunslingers, they've gone to the Internet. They've gone to the radio. They've gone to television, which does not get any type of regulatory authority over them.

They say anything. They can say anything. They can have a video that says anything on the Internet. What we're seeing is a lot of people find bullet points and misinformation and too-good-to-be-true promises when they need to be looking at the contractual realities of the product.

I have a background in securities industry before I became Stan The Annuity Man. I believe annuities are non-correlated products within your portfolio. What that means, as you know, Jason, is that's not a market product. They're not growth products.

In my world, annuities really sell for four things and the acronym is PILL. This stands for P stands for principal protection. I stands for income for life. L stands for legacy, and the other L stands for long-term care. If you don't need to fall for one or more of those issues, then you do not need an annuity, period.

Jason Parker: I like that. Principal protection, income, legacy, or long-term care. I want our listeners to get a better feel for why you think an annuity can solve those four components. Will you take a minute and start out with principal protection?

Stan: Sure. Principal protection … and let's go backwards a little bit. Annuities are transfer of risk products. What you're doing is you're transferring the risk to the carrier. Let's stop there for a second. Annuity guarantees are always good with the carrier backing them up. You need to choose quality.

You're transferring the risk to the carrier to solve for that specific issue. In principal protection, what we're talking about … You don't the money to go down in value, right? There's not that many things that can do that contractually. There's treasuries. There's CDs. There's money markets. Then, there's fixed annuities.

Really, there might be one or two more but that's really the main ones. You can buy a fixed rate annuity which functions like a CD. There's no fees. There's no specific deal for a specific period of time. There are surrender charges if you want to get out early in the contract.

It's a very basic form of buying an annuity. You can buy them as short term as three years. We're not letting anybody go past five years right now on the fixed rate annuities. The difference between a fixed rate annuity and a CD is that, with CDs, you have to pay taxes on the interest annually outside of an IRA. With a fixed rate annuity, it will compound and grow until you take the money out.

The other way to protect your principal with fixed annuities is with an index annuity which is a fixed annuity. The downside to index annuities is they're sold as market products. They were designed in 1995 to compete with CD returns. Historically, that's exactly what they do.

Jason Parker: Stan, I want to cover these index annuities in more detail. We need to take our first break and we'll be right back.

Seattle, Tacoma, Olympia, Big Harbor, all the good people right here in Kitsap County, Jason Parker right back here with you. I've got Stan, The Annuity Man on the program.

This is an important program because annuities can be very complicated. You want to find somebody that really knows what they're talking about. We want to bring experts onto this program that can help educate you and inform you so that you can make better decisions, have a greater sense of clarity and confidence as you prepare for and transition through retirement.

Before we get back into our conversation with Stan, The Annuity Man … Stan, let's … a clever little slogan you got there. Stan, Annuity Man, pretty easy to remember.

Stan: I have to credit my parents. I was named after Stan Musial. People out there who are baseball fans will know who that is. That's the one good thing they did for me, truly.

Jason Parker: Before we continue our conversation, I want to say thank you to all of our listeners. My book came out earlier this year, *Sound Retirement Planning*. It made it all the way to the Amazon bestselling list. We were number five, right next to Suze Orman, during the week of the launch under the category of retirement planning on Amazon. That was an honor.

Then the fact that we can continue to see just so many people going out and picking up the book and writing reviews and letting us know what they think, I just want our listeners know that I appreciate that support and I appreciate all the kind reviews that people have written so far.

Stan, The Annuity Man, you're just about … you just shared with us fixed rate annuities and you compared those to CDs. From an interest rate standpoint, I mean if we're just looking at something, let's say principal protected, are they competitive? Interest rate environment is pretty dismal these days. Can you get a decent interest rate on a fixed rate product as compared to a CD?

Stan: Yes, you can. Historically, fixed rate annuities will pay 50 basis points to 100 basis points. In English, that's half a percent to one percent more than a CD at the same level. A five-year CD might pay 2% or a five-year fixed rate annuity might pay 3%.

Normally, that's what happens in a fixed rate annuity. I tell people this all the time. If you're time horizon is three years and in, you need CDs and money market. If it's three years and out, you might want to shop for annuities that are fixed rates just because you're going to get a better yield.

Jason Parker: Okay. Before we transition into talking about some of these other types of products out there, I was speaking the other day and a gentleman came up to me. He said, "Jason, I really appreciate the stories you share because you said I can relate to those stories." Maybe we can take a break from talking about products and let's hear a story about how, in your world, annuity has helped somebody solve a problem.

Stan: That's a good one. I just had a recent one where an 80-year-old grandfather wanted to leave money to his grandson. The grandson was 10 years old. He didn't want to leave a lump sum. He wanted to leave a legacy income stream.

I have developed something called a Legacy Income Monster, which I call legacy streaming. What we did was we bought an immediate annuity with joint life payment and a 3% annual increase which is called a cost of living adjustment rider.

What happened was the income stream was primarily based upon the 10-year-old's life, but he's going to get income for the rest of his life every year, and it's going to increase by 3% annually. The grandfather, when he passes, every year, when that son gets the check throughout his lifetime … He's 10 now, so he's got 74 to 75 more years of life expectancy.

For 75 years, every time he gets that check, that's going to increase by 3% every year. He's going to thank his grandfather. I thought that was a very good thing for the grandfather to do. A lot of people right now, Jason, are worried about actually hurting their heirs by giving them lump sums.

One thing annuities do, because they pass by probate, is that they can contractually handcuff beneficiaries. In this situation, I don't think the grandfather wanted to handcuff the 10-year-old grandson, but he wanted to provide an income stream to help him throughout his life.

I thought that was a really unique thing for him to do. He's actually the youngest joint annuity I've ever done, meaning the 10-year-old was the youngest one I've ever seen.

Jason Parker: Is that right? That's interesting. It reminds me of a gal who did something similar. She told me that … Now, she's in her mid-80s today, but her dad, when he passed away, he set things up so that she would receive a check for $20 a month. She continues to receive that $20.

Back in the 1980s, she jokes that that $20 … she called that her shoe money. She could go out and buy a new pair of shoes. She said she always thought about her dad. She said today she could only buy one shoe for that $20. It is a neat way to think about legacy.

I like that the idea. Thank you for sharing that. You talked about the regular fixed annuity. You were going to share with us the fixed index annuity. Go ahead and educate our listeners about that contract.

Stan: Yeah. The index annuity is what they're called. They're going to go down in history of financial products as the most overhyped and unregulated product in the history of mankind of financial products because, right now, they're high commission. The story sounds great. You get no downside and you get market upside.

Only half of that is true. There are no downsides, true, but you're not going to get market upside. You're going to get CD type of returns which is okay. With an indexed annuity, the growth component of an indexed annuity is a call option on an index, like in S&P.

But you're only going to get to lock that gain in one time per year. The issuing carrier can change the rules on the limitations of the upside. That doesn't make it a bad thing. It just means that you're not going to get market return with it historically.

Now, indexed annuity worked for a principal protection standpoint, because I do protect your principal. We do use them in short-term ladders when we're laddering annuities, just like when you ladder CDs and bonds.

Now, the other thing that you're going to see with index annuities is people calling them hybrids. Hybrid is a plant. Hybrid is a car. Hybrid is not an annuity. Hybrid is a made up word in the annuity world to sell more annuities. It's a feel-good word. It means absolutely nothing.

I said, let's just call them unicorns. People like unicorns better. It means nothing. Hybrid, when you see that on the Internet videos, you just laugh at that because that's the reflection of the industry not being regulated at all from a sales message standpoint.

The other thing you have to be careful with too is, with index annuity, they will have upfront bonuses. Hopefully, your listeners know that there's no free lunch. If they're giving you bonus upfront, they're taking something away in the policy.

Then, we only use index annuities in a ladder situation also as a delivery system for income riders. Income riders are a way to target date income plan because there's a guaranteed growth amount attached that you can only use for income.

Now, the problem in the index annuity world, you might see this on popup ads and TV ads, is I can get you a percent of annuity. I can get you some percent annuity. Those are income riders. They're Monopoly Money unless you can use them for income.

Just think logically. If the 10-year treasury is less than 2.6, there's not some genius at an insurance company that can give you an 8% yield. This isn't Jimmy Carter years. Understand that there is no too-good-to-be-true product and understand how it works before you buy it.

Jason Parker: One of the things you said I think is important because the fixed index annuity, I agree with you. I think those can be a good tool for people's portfolio for their safe money to help them earn a rate of return that's maybe better than what they can get out there at the CD at the bank, maybe the equivalent.

It isn't really bad expectations. If people go in and they think, geez, this contract is designed maybe I'll earn three, four, if I'm lucky, maybe 5%. The problem is really not the contracts. The problem is how people are positioning them and getting people to think that's going to perform like the stock market or like a mutual fund, because it's really not. It's not designed to do that, is it?

Stan: It is not. The problem that we're having in the index annuity world is the requirements to sell it. Literally, in one week, you can go from not selling an index annuity to passing a life insurance exam for the state and selling an index annuity, which is pretty scary.

I think that there needs to be a higher bar from a requirements standpoint, education for people that sell index annuities and the ongoing CE requirements. Continuing education should be higher. That's not happening.

There's a big fight in the industry not to have that happen because the carriers in the industry do not want to interrupt the premium. You have a lot of people that are uneducated in financial portfolio management. They have no clue what they're talking about.

They're selling index annuities which is a little scary. It reminds me a little bit about the mortgage industry a few years back where everyone started selling mortgages. That's where all those guys went. Now, they're selling index annuities.

Be careful. Do your research on who's selling these products. See how long they've been in the business. I mean do they have Jason's category? Have they written a book? Do they do research? How do they do business? Are they just selling one product, which is index annuity?

Jason Parker: I think that's a great point. For our listeners out there, if they are considering using a tool like that as a piece of their overall diversification strategy, how can they do their due diligence?

What kind of steps would you encourage people to take to make sure that they're working with somebody that knows what they're talking about and that they're getting a fair and balanced approach, somebody's who's going to look at everything that's available for them and not just be a one-trick pony?

Stan: The first starting point is the Department of Insurance for your state. You can just Google it. If you're in the state of Washington, Washington Department of Insurance. If you're in California, California Department of Insurance. Remember, annuities are regulated at the state level. That's the first thing. They're going to have the agent's name in there if they're licensed to do business in that state.

The other things is our friend, Google. If you just Google that person's name, all kinds of things are going to pop up. I'm amazed that some of the big Internet annuity sellers out there, if you Google their name, you'd never buy from them, ever, because there's some things that pop up that you just shake your head.

We're talking about retirement planning. I think people need to go slow. There's never any urgency to buy an annuity, period, because it's a transfer of risk product. There's never an urgency. Someone's calling you to say, "Hey, you need to buy this because the bonus is going down, blah, blah, blah."

Just say no. Slow. Stop. I'm transferring risk and when I transfer risk, I'm going to take my time and make sure that carrier's solid, that they're going to be there for the transfer of risk time period which is typically life. You need to do your homework and compare multiple carriers.

Don't let an agent or an adviser just show you one company. Have them show you four or five companies that solve for that product. I tell people all the time. With annuities, you start at the finish line. You figure out exactly what you want to sell for dollar-wise from the standpoint of legacy or long-term. What you want to do then go backwards to see if the annuity will contractually solve for that. It's really that basic.

Jason Parker: Boy, I think it's such a wise approach to base the decisions of annuities on their contractual guarantees instead of the what-ifs or the maybes because there's a lot of moving parts out there. There's a lot of different contracts. You really have to do your homework, do your due diligence, make sure that you're working with somebody that has the ability to look at this entire financial world that you have available to you and let you keep in the driver's seat.

Make sure you're aware of the good, the bad, and ugly are. We've got Stan, The Annuity Man, on the program today to help our listeners understand and get a better feel for what's available and maybe also some tips on things you should avoid. Stan, we're at that point where we need to take our next break, and I'll be right back in just a minute. We'll talk some more about annuities.

Male: Are you 50 years or older and have at least $500,000 of investable assets? If so, this message may be beneficial for you. Are you confident that you'll be able to retire and not run out of money? Are you concerned about higher inflation, higher taxes, and what market volatility will do to your portfolio? If you answered yes to any of these questions then I encourage you to take advantage of this offer. Jason Parker, the author of Sound Retirement Planning and president of Barker Financial is offering a free report titled 10 Things to Know about Planning Your Retirement Income that may provide you answers to the above questions and much more. Call his office at 1-800-514-5046 to receive your report free of charge. Again, call now at 1-800-514-5046.

Jason Parker: Welcome back to another round of Sound Retirement Radio. I'm your host, Jason Parker. I sure appreciate you tuning in. Just for a reminder for those of you listening online, of course, you get to hear this program almost commercial free. We have a couple of spots in there.

If you're listening live on the radio, 1300 AM KKOL, right here in the Seattle area, thank you for tuning in. Of course, you're probably listening to the commercials. I just wanted to say thank you to our listeners. I do appreciate the feedback that we receive from the folks right here in our community and remind you that every week I'm writing a blog at Sound Retirement Planning.

All of these past programs are available for download both on iTunes. If you just go directly to SoundRetirementRadio.com or Sound Retirement Planning, you can listen to the past programs. We've got a lot, five years of information now there for you to make your financial life better.

Today, I have Stan, The Annuity Man, on the program. I want to share with you a little bit more about Stan. Stan, The Annuity Man, is an annuity specialist and nationally recognized annuity critic. He is the author of the highly acclaimed book, *The Annuity Stanifesto*.

With over 25 years of experience in the financial services industry, he has developed unique, proprietary annuity strategies that have been adopted throughout the annuity industry. Stan, The Annuity Man specializes in providing clarity and best fit annuity options customized to deliver the guaranteed portion of your portfolio.

As an independent, non-captive annuity resource, he focuses on asset protection and solutions for lifetime income, legacy, and full control long-term care, which we're going to talk about here in a minute. Stan, The Annuity Man, has been called the national consumer advocate for annuities. He speaks across the country about how annuities should properly work within a portfolio.

He lives in Florida and has clients nationwide. You can learn more about Stan at StanTheAnnuityMan.com. Stan, we're just about to talk about income riders. This is probably a good time to transition into that conversation.

Stan: Sure. Income riders are the hottest thing going on. They've been around for 10 years, pretty much. What an income rider is, is an attached benefit to a deferred annuity, typically a variable or an index annuity, that will solve for future income. It's a separate calculation.

The way I tell people to realize how an income rider works is you draw a line down the middle of a blank sheet of paper, the left hand side being the accumulation value, which is the investment side. The right side is the income rider side which is a guaranteed percentage growth during the deferral years until you turn the income stream on.

In other words, an income rider could say, I'm just going to grow at 6% per year for as long you want to. When you turn the income stream on, then that 6% goes away.

Now, you get to choose between the higher of the two amounts, the left hand side being the investment side and the right hand side being the income rider side. Insurance companies designed these products so that the income rider side is always highest. Why do they do that?

They want to keep your money, because you can't transfer an income rider. That total, you can't transfer. You can't peel off the interest. It's literally Monopoly money unless you use it for income. That's okay if you understand that. Don't go into a policy thinking that you're getting 8% yield. You're not. You're getting 8% growth that can be used to calculate a lifetime income stream.

By the way, annuity income streams are based upon your life expectancy at the time you make the payment. The older you are, the less your life expectancy, which means the payment's going to be higher. The good news about income riders is you can defer them up to 20 years.

You're going to have this compounding growth over 20 years that you can pinpoint exactly to the penny what your income stream's going to be. There's two ways to do target date income. One's an income rider, and one's a longevity annuity.

We talked about longevity annuities at the first part of the program. Income rider, the difference is it's very flexible. You don't have to start the income when you're thinking you're going to live.

If you say, "Stan, buy this income rider. I'm going to turn on the income stream in 10 years," if you get to year 10 and say, "You know what? I'm just going to let it grow a couple of years." You can or the reverse, if things happen and you need the income sooner, you can turn it on sooner. It's a flexible way to do target date income planning.

Jason Parker: Where do these types of contracts fit best in somebody's portfolio from your perspective?

Stan: To me, annuities should be looked upon as just like your social security payment. You can't hate annuities and love your social security, because that's the same thing. By the way, social security is the best inflation annuity on the planet. You already own it.

What you're looking to do is you're looking to stack income. When I say stack income, you're already going to get a social security payment. If you are so fortunate to have a pension payment, that's another layer of the stacking of the income. Annuities should be gap fillers.

In other words, you should look at your budget and say we need $2,422 or $5,000 whatever and the figure out the premium need to solve for that whether it's your life or you and your spouse's life. It's really a gap filler. Part of the income stacking that you're going to do so that you can retire and maintain the lifestyle you want to maintain.

Jason Parker: They sound pretty good. They sound attractive that you've got this potential to have this income base that's going at 6% or 7% per year. I agree with you. I think they can be a good way to solve for future income. Obviously, there's going to be advantages and disadvantages to everything.

Take a minute and help our listeners understand … it sounds … I think you explained the advantage side pretty well. What are the disadvantages to these?

Stan: The disadvantages to an income rider is … You need to understand this clearly as an annuity consumer. You cannot get to the principal. You cannot call the agent up and say, that part has been growing at 7% or 8% or 6%, send me that. I want to buy a boat or peel off the interest and keep it there. You cannot do that.

The other downside to income riders and most income riders, I'm saying 98% of them, when you turn on the income stream, that payment is going to be static. It's not going to increase, which brings in the gorilla in the room which is inflation. The real value of your money 20 years from now. If you turn on the income rider, the income that you're going to receive day one will not change in most cases with income riders.

The other thing too is with income riders, the taxation is under last in, first out. Why so? Which means that all of those gains, you're going to be tax at 100% when you pull the money out, whereas with an annuitized product, like a longevity annuity or single premium immediate annuity outside of an IRA, there are some tax benefits to that income stream.

You really have to look at the real value of the money that you're getting. Those would be the downside of the income riders. The taxation of the income stream outside of an IRA, the fact that the income is going to be static in most cases, and also the fact that you can't get to the lump sum or peel off the interest. It literally can only be used for income.

Jason Parker: What are your thoughts about using IRA assets, 401 (k), TSP, 403 (b) where these tax deferred places where people have been stashing money their whole lives and using money that's already tax-deferred to fund an annuity contract with one of these income riders. What are your thoughts about that?

Stan: My thoughts about that is it really comes down to … I always tell people, with annuities, you've got to figure out what you want the money to do. Forget annuities. Just what do you want the money to do and when do you want to do it? When do you want it to happen?

Annuities inside of an IRA, you're not going to get double tax deferral. The IRA tax rules are going to supersede any annuity tax rule. Then if you're going to put in annuity inside of an IRA, you're going to look at what the product is going to do contractually. If it's a fixed rate, does that fixed rate fit to what you want to do?

If it's an index annuity does that do what you want it to do from a guarantee standpoint. Also, too, some people use annuities for required minimum distribution strategies. When it turns 70 and a half, when you annuitize an asset within your IRA, that part of the asset is covered from the requirement and distribution standpoint, and also, too, for people that don't want to take their own RMDs but have to, but want to leave the money as a legacy.

You can use an annuity with a guaranteed death benefit growth to offset those requirement and distribution so you can leave the vast portion of that asset to your list of beneficiaries. They do fit, but they have to fit contractually and you have to look at them for what they do contractually, forgetting any of the tax benefits, because once it's inside of an IRA, the IRA tax rules apply.

Jason Parker: There's a lot of fee only investment professionals out there that believe 100% that most of people's money should be invested in stocks, bonds, mutual funds, and cash in various proportions. Most of the time, fee-only investment advisers are going to say that annuities are no good. Why do you suppose that is?

Stan: I don't think they're up to speed on all the types. I'm always shocked with people that are managing money. I came from that world with some of the large warehouses where they're just not up to speed with how they work and really with the transfer of risk aspect to this.

I really think education. I not only talk about advisers but financial journalists as well really don't understand how they work, how they apply, and how they can fit, and how they can solve specific problems like the PILL acronym that I just gave to you. I really think it's an education.

Also, too, they're getting paid a fee and they want to manage the money. The other thing I think is the key point is advisers and financial journalists make a mistake when they compare annuities to investments. Investments are always going to win. Annuities aren't investments in my opinion. They're transfer of risk products.

In other words, when people say, "Stan, what's my return on this lifetime income stream?" the answer is I don't know until you die. When you die, I can give it to you to the percentage point, but up until then, it's a transfer of risk. You really can't run return on investment numbers and compare the S&P index fund to an annuity because annuities should be looked at as a transfer of risk, non-correlated asset within your portfolio. I think that's the main thing.

Jason Parker: The transfer of risk that we're looking at, there's really a couple of them. Number one, we're looking at longevity. Are you going to live too long? Number two, we don't want you to be over-reliant on stock market returns in a time when the market has been very volatile and may not perform at the level expected. You're transferring the stock market risk.

The other big one there is inflation. I know that we can't necessarily guarantee. There are some contracts out there, I believe, that have some inflation components in it, but an important piece. Right at that point, we need to take our next break. Stan will be right back after this.

Jason Parker: All right, folks. Welcome back to another round of Sound Retirement Radio. I'm Jason Parker, host. I've got Stan, The Annuity Man, with me. Just a quick reminder, retirement is all about cash flow. It is your income that will determine your lifestyle in retirement.

If you're getting ready to retire, you want to have a good plan in place that's solves for cash flow on an inflation adjusted basis. The more secure you can make that income, the better you sleep at night and the less you worry about the stock market.

A core component of a good income plan is understanding how to maximize your social security benefits. If you visit my blog at SoundRetirementPlanning.com, we have a free educational video. You can request to learn how some strategies on how to maximize your social security benefit.

This is a critical component if you have not started your social security yet in your … especially if you're a married couple. I encourage you to visit the website SoundRetirementPlanning.com. I've got Stan, The Annuity Man, on the program. Stan you have your acronym, PILL, principal protection, income, the first L stands for legacy. Talk about how you think an annuity can help with a legacy planning.

Stan: Legacy planning is obviously leaving money to your heirs and beneficiaries. The best legacy product on the planet, I don't sell, but that's life insurance. Why? It passes tax free to your beneficiaries, but if you can't qualify for life insurance, annuities do provide contractual death benefit riders.

We talked about income riders. Death benefit riders are the same but you use them for death. It's the best return you'll never see. In other words, you can put a death benefit rider on an annuity that will grow at a specific percentage that will be left to your beneficiaries.

Even though annuities are a life insurance products, annuity benefits are not passed to the beneficiaries tax free, but it is way to pass assets to your beneficiaries guaranteed. If you have an asset, you really don't want to touch, you want to protect the principal, you can buy fixed annuity that's going to protect the principal, that's going to grow by say 5% death benefit amount per year for a specific period of time.

Then that amount will be passed to the beneficiaries and you can actually restrict the payout. You can even say, "I want to pay out every five or 10 years," or "I trust them. They can have it lump sum."

Jason Parker: Okay. Death benefit riders. Let's talk about fees because we talked about the income riders. We talked about death benefit riders. Like you said, there's no such thing as a free lunch. What should people expect from a fee standpoint on annuities?

Stan: First things first. Let's talk about the semantics of some of the sales pitches you hear. A lot of people say, "We never charge a fee," or "You never pay us." Let's get something straight. All annuities pay a commission, all annuities.

They're built into the product, but the agent is getting paid. Don't let them get away with saying, "We don't charge you a fee." Now, in saying that, there are a lot of annuities that don't charge an annual fee, immediate annuities, longevity annuities, fixed rate annuities. Index annuities, if you don't have a rider, but once you start adding riders, every rider has a fee, and that fee is taken out of the investment value, which is … in the industry, it's called the accumulation value.

The highest fee product on the planet is a variable annuity. That's the reason you see a bunch of them. It's the highest commission product. I'm not saying they're bad. The average pay on a variable annuity is 3% for the life of the policy, which is a lot, which eats into any type of return scenarios.

What the variable annuity situation, once you add riders to that policy, most of those policies then limit your investment choices which really kills the whole growth dream. I tell people this all the time. Variable annuities were put on the planet in 1952 in a no-load format. There's still no load variable annuities out there that have full, 100% liquidity and no fees.

You can still buy those products for tax deferred growth which is what they were put on the planet for. The problem with a lot of these variable and index annuities is they are the too-good-to-be-true, all-encompassing product that tries to solve for everything. I tell people all the time, they don't. If you're going to solve for a specific situation like principal protection, go do that.

If you want to solve for long-term care, go do that. One product is not going to do that efficiently even though the annuity industry tried to create this one-size-fits-all product. When you go to the bad chicken dinner seminar, you can just put all your money right there. It doesn't work like that.

Jason Parker: Go ahead and talk for a minute about the rider fees for whether it's death benefits or a guaranteed lifetime income. Give our listeners some idea of what they could expect a range of fees they might expect to pay.

Stan: Range of fees on the riders are going to range anywhere from a half of 1% up to 1.5% on average. Now, that fee is not taken out of the rider calculation. That fee is taken out of the investment. Again, going down to the draw on the line down the middle of the page, with the rider on the right hand of the page, that's going to be a net growth amount. They're going to take the fee out of the investment side.

Jason Parker: I think it's important that people understand there are going to be fees. You need to be able to find somebody that's willing to spell all of those out for you so that as a consumer that's looking to solve as specific issue or problem, you're just going into it with your eyes wide open. You understand what they are, how they work. There's no surprises after the fact.

Stan, I think one of the things that's frustrated me, and I'm sure it sounds like it's frustrated you, is that there are people out there in our industry that … they don't believe in full disclosure. They're sales oriented. They're all about selling the highest product commission product and getting the high fee. It's not about doing the right thing for people. They tend to skim or gloss over all of the specifics. That is incredibly frustrating.

Stan: You just described the index annuity sales industry in a nut shell. It's the unregulated wild, wild west. It's unfortunate because I think the products …

Jason Parker: You say unregulated. There is some regulation. We've got state regulation, so it's not completely unregulated.

Stan: They're not doing anything. They're allowing some of the worst sales practices to go on the Internet. I'm now seeing ads on TV, on cable. I hear them on radio and Sirius Radio and those types of places that sound too-good-to-be-true. A lot of the annuity ads you hear, they never mention the word "annuity."

In the securities industry, that would never go on. You'd lose your license immediately. In the end, that's the annuity world. You can get away with anything, and I do mean anything.

Jason Parker: Give us an example for our listeners that are maybe searching the Internet. They're watching TV. What is an example of that sounds too-good-to-be-true that they need to be listening for?

Stan: They're going to see popup ads that see 8% or 14%, things like that, that's going to get your attention. When you go to the site, you're going to see the word "hybrid." Hybrid is what I call fill-in-the-blank word where the person fills in the blank what they think hybrid means. They think they're getting more for their money. Hybrid means absolutely nothing. It means index annuity.

Also, you're going to see 10% bonus and 12% bonus. Heck, there's index annuity promising to have 30% bonuses, but you and I both know if they're giving something like that away, they're taking something away in the contract. There's only a hundred pennies in a dollar.

The sound too-good-to-be-true pitch is in full fashion with index annuities. If you go to one of these bad chicken dinners seminars or watching an internet video, you'll leave going why wouldn't I buy that? That sounds perfect.

I always tell people if it was that good, I would put everyone on hold. I would call Janet Yellen and we would solve the problem. It doesn't work like that. You're buying a contract. These are good products if placed properly and understood and you're going to get CD type returns but you're not going to get the too-good-to-be-true product, period.

Jason Parker: I think that's such a critical thing. I want our listeners to go away understanding we're not throwing an index annuity under the us and say this is a contract you shouldn't use. You just want to be very cautious about how it's being presented and what all the moving parts are and what the fees are.

On your acronym, PILL, principal protection, income, legacy, and then the last one was long term care. Help our listeners understand how an annuity can help with long term care.

Stan: Let's start with long term care. The product out there, I don't sell it, but the best product out there for long term care coverage is traditional long term care. Can't be beat. I really believe that long term care annuities should be used as supplemental coverage to that.

If you can't get that type of coverage and some people can't qualify because you have to go to an underwriting process, there are two types of long term care annuities. There's what's called simplified issue which means you have to go through a telephone interview to get approved or not approved.

How that works is let's just say you put a $100,000 in a simplified issue annuity. Based upon your answers to the questions, they're going to give you a multiple of that premium for long term care coverage. Typically, it's around two to four. Let's say it's three. You put a $100,000. You get qualified for this long-term care annuity.

They will provide $300,000 worth of long term care. It's $100,000 and you can throw the $100,000. The good news about this type of annuities and I call it full control long term care is that you control the principal fully. If you never use the long term care benefit, that money is intact for either you or your beneficiaries.

I think that's important going forward with Affordable Care Act because we don't know what's going to happen with long term care. It could be government in the future single pair. It might not be, but I tell my clients this way we at least control the money. That's a simplified issue.

The other way to do it is with a guaranteed issue meaning that you just have to breathe or be able to fog a mirror to get it. What it does is it attaches a confinement care benefit to an income rider. We talked about income riders going out at specific percentage.

What they do is, if you can't do at least two of the six daily functions and if you don't know what those are, it's walking, going to the bathroom, feeding yourself, et cetera, when you can't do two of those six, they will double your income stream for a specific amount of time.

In other words, they're just going to give you money back quicker to cover for the long term care. People need to understand when you can't do two of the six daily functions, you're going to live an average of three years and a maximum of seven. Typically, those benefits pay five to seven year time period because that's your life expectancy. They are pretty good products.

The long term care guaranteed issue has been around about three years. The better of the two is the simplified issue product because it still has the tax benefits that long term care provides. Those are the two ways to solve for long term with an annuity and in a perfect world should be used as a supplemental coverage.

Jason Parker: One of the things we should point out to our listeners because I'm out here in Washington. You're out there in Florida. We've got people all over the country tuning in. Because annuities are state-regulated, the contracts that you have available to you depend on the state that you live in because not every contract is available necessarily in every place that you live.

That adds a layer of complexity for our listeners that are trying to make an educated decision about this. I want to make sure they can find somebody to trust. Stan, The Annuity Man, I sure appreciate your expertise. I appreciate the work you're doing out there. I sure appreciate having you as a guest here on Sound Retirement Radio. Thank you for being a guest. How can our listeners get in touch with you if they're interested in more information?

Stan: More information, StanTheAnnuityMan.com. It's pretty all-encompassing. There's videos, audios, et cetera. We will not contact you. It's a site that you can go and feel relaxed to look around. We're not going to bug you. That's the way to contact us, my contact information is located there as well. Again, StanTheAnnuityMan.com

Jason Parker: Thank you for being a guest on Sound Retirement Radio.

Stan: Thanks, Jason.

Jason Parker: Take care.

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Jason Parker is the president of Parker Financial, an independent fee-based wealth management firm located at 9057 Washington Avenue Northwest, Silverdale, Washington.

For additional information, call 1-800-514-5046 or visit us online at www.soundretirementplannning.com.