

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



039 Should You Hate Annuities with Jason Parker & Erik Ramsey

Announcer: 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: I love this radio show. Seattle, Tacoma, Olympia, Gig Harbor ... all the good people here in Washington State and those of you tuning in from around the country via the podcast or the iTunes, saying thank you so much for being here. I am Jason Parker, and I like to say that it just reminds me of who I am. Every morning, I get to get on this radio show and say, "Remind myself."

I've got Erik Ramsey in the studio. Erik?

Erik Ramsey: Good morning.

Jason Parker: Who are you?

Erik Ramsey: I'm Erik.

Jason Parker: Erik who?

Erik Ramsey: Ramsey.

Jason Parker: Erik Ramsey. See, you got to say your own name. It's like we don't want to forget who we are, so just keep saying that over and over again.

Erik Ramsey: I thought you were going to ask me to define myself in a philosophical sense. I'm like, "Oh no. It's too early."

Jason Parker: We are here, Seattle. We are on episode 039. The episode title today is 'Should You Hate Annuities?' Boy, this is going to be a good one. Before we get in to our topic, Erik, I have ...

Erik Ramsey: I hope you have a joke.

Jason Parker: I do have a joke.

Erik Ramsey: Tell me you have a call.

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- Jason Parker: I know you love these jokes. I know it. This one comes from a friend of ours. Her name is Linda. She teaches second grade at our kid's school. I mean, how can you get any better than a joke that's appropriate for second graders, right? I mean, this is awesome.
- Here's my joke. What is Darth Vader's favorite food?
- Erik Ramsey: Darth Vader's ... I have no idea.
- Jason Parker: Cookies. Cookies.
- Erik Ramsey: Wow.
- Jason Parker: Is that awesome?
- Erik Ramsey: We're going to get sued now. That's awesome. You know, I've always wondered, "How did he eat through that mask?" Are there vertical slits so that he can have the cookies?
- Jason Parker: The Oreos. The Oreos right through this [dark mask 00:02:04].
- Erik Ramsey: Right. I understand now.
- Jason Parker: How does Darth Vader eat an Oreo? That's what I really want to know.
- Erik Ramsey: Yes.
- Jason Parker: That's the question of the morning.
- Erik Ramsey: Yes. We'll have to write I guess Disney now.
- Jason Parker: Yes.
- Erik Ramsey: George Lucas sold it, so somebody needs to know how Vader eats a cookie.
- Jason Parker: I can't move on until I know how Darth Vader eats an Oreo. Erik, what are we going to ... Before we get into this wonderful topic of annuities and should you hate them, what else ... How are we going to get into this?
- Erik Ramsey: You and I just the other day, we're talking about life and spirituality and politics and how all of those things kind of ... They need to work

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together, and we started talking about blanket statements. A blanket statement is a statement that just covers a very broad range of situations and people, and you and I were both getting quite frustrated.

I remember we said that blanket statements are just never acceptable. Blanket statements are never acceptable. They divide people and all that, but ...

Jason Parker: That's your blanket statement.

Erik Ramsey: There it is.

Jason Parker: It is never acceptable.

Erik Ramsey: As soon as we said that, there was a pause, and then just that moment of like, "Oh, wait a minute", that is self-contradictory. I mean, it's funny, but I taught philosophy for several years, and saying a self-contradictory statement just makes me itch. I'm like, "Oh, no. What do we do about this?", because we were so sure that all blanket statements are wrong, except that is a blanket statement, so it must be wrong. It's self-contradictory, so that leaves us with a much more difficult prospect of some blanket statements are always wrong or ... Where does that leave us?

I can't get around the fact that I think it leaves us with a responsibility to do homework and research and think through ideas, and that's a terrifying prospect.

Jason Parker: So many people don't want to have that ... They don't want to have the intellectual debate. They don't want to have to dig in. They don't want to have to form opinions and ideas. They just have somebody tell them what to do, and unfortunately, it's kind of a lazy way to go through life.

I went for a jog this morning. Not always do I go for a jog every morning, but this morning, I was feeling really good, and so I decided to go a little bit further. I was running pretty fast, but I was going up this uphill area. Erik, it was dragging me down. I tell you, I was really struggling, and I was listening to Christian music, and all of a sudden, in the song, this musician had borrowed this lyric that said, "You will run and not grow weary."

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Words are so powerful.

Erik Ramsey: They are.

Jason Parker: They are so powerful, and a word that's delivered at just the right time when you're running uphill and your breathing is ... you're straining, and your muscles are aching, and you just want to quit, and you hear some simple words like, "You will run and not grow weary", it just does something for you, and it kicks you into gear. As I was running and I was thinking about this and I was processing it, I thought to myself "There are so many words that people use. I don't know that they're always used as responsibly as they should be." I don't know if people are really thinking about the impact of what the words are that they're using.

When you hear somebody ... because you see these advertisements today, especially all over the internet there, and as we get into this topic of annuities, there's this phrase ... one person in particular keeps using. They say, "I hate annuities, and so should you." I'm always talking about my dad and the things he used to say to us as kids, and he'd say, "Jason, don't be one of these people that adds more confusion to the world."

Erik Ramsey: Yes. Words are incredibly powerful. I mean, you are encouraged. One word of encouragement ... I remember one word of encouragement from my pastor changed my life.

Jason Parker: Really?

Erik Ramsey: I was wondering about like, "Okay. Should I marry this girl or not? She has such strong opinions and she's smarter than me", and that's always dangerous ... somebody smarter than you. Just one word of encouragement, it just changed my path. It helps you run, but one word of discouragement or one word of hate can define a culture. They can change lives if it comes at just that moment of vulnerability.

This is why I think blanket statements are very dangerous. Very powerful. Don't get me wrong, but there isn't one powerful thing that I can think of that cannot be abused. It's hard to abuse cotton balls. They're just not very powerful, but chainsaws and atomic bombs and frankly words can be abused so easily.



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This begs a question, "What do we do with blanket statements?", or "What is our appropriate position to be on them?" I was looking at the Bible, and a lot of people have really bad opinions of the Pharisees and the Sadducees, especially the Pharisees in the Bible, and there's some reason for that. Jesus never yells at anybody as much as He does the Pharisees. He never yells at the political leaders like he does the Pharisees. He never yells at prostitutes or tax collectors the way He does at the Pharisees, but I feel bad for them.

They were the spiritual leaders of the time, and I believe we're trying to do the best they could ... to protect the people under their care, to be good rabbis, and they had very strong ideas of "This is what God wants, and this is who the Messiah will be." That was a pretty tough position because then all of a sudden, Jesus comes on the scene, and He is completely different than what anybody could have expected.

If you ever deal with somebody that's more intelligent than you ... I do it regularly.

Jason Parker: All the time, like you're surrounded by it.

Erik Ramsey: Yes.

Jason Parker: It's very frustrating.

Erik Ramsey: It is. You can never predict, like you logically cannot predict what an intelligent person will do, like somebody more intelligent than you will do because they're more intelligent than you. Nobody could predict what Jesus would be like. No matter how much they study the scriptures, I don't think they could predict Jesus the way He would not attack Rome, but rather allow Rome to destroy Him, like just kill Him and crucify Him, the way He would go and meet with tax collectors and prostitutes. Nobody could have expected that.

That's the problem when you're dealing with God. He does unexpected things, and so anytime we are talking about ... Let's just take spiritual issues for example. Anytime we make blanket statements about what God would do or what He is like, we need to do it with huge amounts of caution.

Jason Parker: Boy, I guess because then we're kind of putting God in a box that says, "We understand Him", and that's ...

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- Erik Ramsey: That's very problematic.
- Jason Parker: It's very problematic. Yes.
- Erik Ramsey: Unless He has categorically said "I am like this. I cannot lie", it's hard to ... We need to really make blanket statements with huge amounts of caution. This is where humility comes in. Unless we know a subject or an issue perfectly, we should probably need to be careful with blanket statements.
- Jason Parker: I think we need to be careful with our words in general.
- Erik Ramsey: Absolutely.
- Jason Parker: Like you said, I was thinking about this this morning as my cool down, as I was walking. By the way, I hit my fastest pace ever, so I'm running uphill and I get this little word of encouragement right at the right time. It was like 3.5 miles at seven minutes and 55 seconds. That's the first time I broke eight miles in a long time.
- Erik Ramsey: That's cool.
- Jason Parker: Yes. That felt really good. That's like when I was 20, I used to run that fast.
- Erik Ramsey: Wow. I perfectly cooked an egg this morning. That's almost as good. Right? I mean, this egg was very well cooked.
- Jason Parker: To have that word of encouragement right at the right time, we have all these words available to us, and if we're not cautious with how we use them, we either create something that builds people up and delivers love, encouragement and hope, or we create more confusion in the world and it delivers hate and discord and cynicism and sarcasm and all these other things that ...
- Erik Ramsey: Right.
- Jason Parker: Yes. We just want to be ... The last thing that I want to do too, and I mean, especially when we talk about our faith because I'm sure that Erik, there are people out there that just completely disagree with what you and I think, and I'm sure you could disagree with what I think most of the time.

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Erik Ramsey: Yes. At some points, I have.

Jason Parker: That's okay. I think that's a good, healthy place to be, is to find some common ground that we can disagree, that we can come together, have an intelligent conversation, discuss the advantages and disadvantages of different things.

Erik Ramsey: Right. Right.

Jason Parker: Without words, you can have ideas, and ideas are powerful.

Erik Ramsey: Yes.

Jason Parker: If you do not have the words to express the ideas, if you do not have the words to express the dreams, if you do not have the words to inspire people to take action, then the ideas and the dreams, they don't really move without words, and so the words are just so powerful.

Erik Ramsey: Right. Right. It seems to me that very often, people need to practice the words with each other. They have some idea of their idea. They have a sense of it, but they have to use these words and like ... I know my wife, like she has an idea, and then she'll talk around it. As she talks around it, she never gets the idea right away, but it's like she orbits it until at some point, she can land, and now it can be phrased.

We have to allow people to do this if they have a different political opinion or a different spiritual opinion. We need to extend the courtesy to say, "I don't understand things perfectly. I'm assuming you don't either, but we can both talk about it, and we can both learn even as we orbit the truth and come slightly closer and closer to it."

Jason Parker: As soon as you start throwing out bombs like the 'Hate' word, all of a sudden, all of that middle ground just goes away. I mean, you ...

Erik Ramsey: You can't have a conversation anymore.

Jason Parker: Yes. That's gone. With that, we're going to be right back on episode 039. This is Jason Parker, and I've got ...

Erik Ramsey: Erik Ramsey.

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- Jason Parker: We are going to go to break, and we'll be right back after this. Seattle, Tacoma, Olympia, Gig Harbor, I'm Jason Parker. This is 'Sound Retirement Radio', and ...
- Erik Ramsey: Erik Ramsey.
- Jason Parker: We are in the studio this morning talking about the power of words. We're talking about blanket statements, and this is episode 039, so if you'd like the transcript or if you want to listen online, maybe you're driving down the road, and you don't have enough time to listen to this whole program ... Erik, one of the other things ... I want to talk about annuities because this is a financial show that we want to talk about finances.
- Erik Ramsey: Yes.
- Jason Parker: One of the things I was thinking about this morning was the timing of words and how important when you hear that word at just the right time, and it's exactly what you needed to hear, like this morning I was on the run, and to think that everything ...
- Erik Ramsey: Right.
- Jason Parker: I mean, when you believe in God and that there's this divine purpose for your life, and that there are no accidents or mistakes, and that all the days of our lives have been written in His book, there are people driving down the street right now this morning that probably never listen to this radio show. They just happen to be flipping through it, and they flip the switch on, and now they're listening to you and I talk about well-timed words.
- In that context, if there was one thing or two things that you were hoping people would hear as they're having this first time experience, what do you want them to know about? What words would you want to speak into their lives?
- Erik Ramsey: I think I would deeply love to somehow give hope. Give hope ... the people we work with are moving into and through retirement. I want to give hope during the season of life that I believe that this season can be the best season of their lives. I want to give hope that ... there's rocky times ahead, but we have reason to believe that it's going to be okay. In fact, a certain hope that it can be okay, and just love and

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encouragement. I guess that's three, and so I just squish ... I snuck another one in there.

Jason Parker: All right.

Erik Ramsey: There's reason to believe that ... to know and be certain that you are loved, and all those things come together to make a pretty fantastic package.

Jason Parker: Awesome.

Erik Ramsey: The universe is good.

Jason Parker: We'll transition from love and encouragement and these wonderful things that you're talking about, and we'll get into ...

Erik Ramsey: Annuities.

Jason Parker: Annuities.

Erik Ramsey: Yes.

Jason Parker: Let's blanket statement this bad boy. Let's start with "Should you hate annuities?"

Erik Ramsey: Yes. No. Maybe. You should always sometimes maybe hate annuities. No. We see this statement on the internet quite regularly by one author ... "Why I Hate Annuities, and You Should Too". It's a blanket statement that has annoyed you and I. Frankly, we deal with annuities, and it's bothered us.

Jason Parker: It would bother me too if somebody said "I hate stocks, and so should you", because we deal with stocks also. Right?

Erik Ramsey: Right.

Jason Parker: "I hate mutual funds, and so should you. I hate ETFs, and so should you. I hate bonds, and so should you."

Erik Ramsey: I hate Labradors.

Jason Parker: "I hate Labradors, and so should you." I mean, it's just so frustrating that we throw everything out, and we just say "There's absolutely never a place."

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Erik Ramsey: Right.

Jason Parker: Erik, I was hoping you would help our listeners. The other day, actually my wife was listening to the radio show. We're on my way to my son's game, and she heard us talking, and we started getting into some of this technical financial advisor language. She said, "Jason, what you're saying right now sounds like Charlie Brown's teacher in the cartoons when he ..." Exactly.

Let's try not to get too technical with people, but go ahead and give our listeners an understanding "What is an annuity?"

Erik Ramsey: Right. Okay. If we're going to talk about annuities, let's first talk about ... Stock is basically if you own stock, you own a little piece of a business. We can say that Bill Gates owns Microsoft. In the same way, you could buy stock in Microsoft, and you can own a little sliver of it, and as that does better, you share in their prosperity.

Owning stock is to own a company. To own bonds is to own debt that you can have Microsoft owe you money. You loan the money, and then they owe you, and they pay it back over time. That's bonds.

Annuities are a very different thing. It's not really owning a company or owning debt in a company. An annuity is a contract. It's a contract usually with an insurance company, and it insures some financial risk. It's buying some financial risk protection, so we could buy health insurance and that protects our health. It covers the risk of a downturn in our health. We can buy life insurance, and that covers the risk of our death.

An annuity covers the risk a little bit of running out of money. It's a contract with an insurance company, so the way it works is you take some money, and you give it to the insurance company, and usually ... There's all types of contracts or types of annuities, just like there's all kinds of contracts. Some of them are marriage contracts which are very different than a lease contract for a car or a housing contract.

Contracts can be different wherever you go. Same with annuities. An annuity with one insurance company could be very different from annuity with another company. Usually, it's kind of along the lines of "I will give you money", and then it will sit for a while and grow at a

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pretty determined pace, and then at some point, you say "I want to activate my annuity."

It can be done different ways, like you could say "I want all this money back over five-year installments, and then I'll take the money that you've given and give it back with a little bit of interest over five years", or you can say "I want the lifetime annuity" which says, "All right. We will pay you a certain amount of money every month or every year, depending what your contract does. Every contract is different." You could say "All right. I'd like this money back a little bit for the rest of my life", and then they'll say, "All right. We'll give you a thousand dollars a month for as long as you care to live."

Some people, they might die early, and they get only maybe \$10,000 back, but a person with a similar contract might have the same thing ... annuitize it a thousand dollars a month, and then live for 30 more years, and then they've made a lot more money. This is what annuity is. It's hard to wrap it into a small box because they are very different, but annuity is basically a contract with an insurance company to have some kind of financial protection.

- Jason Parker: Okay. Let's help our listeners understand too because sometimes, when you use the phrase 'Annuity', people just lump all annuities together. Right?
- Erik Ramsey: Right.
- Jason Parker: The reality is, there's a lot of different types of annuities.
- Erik Ramsey: Yes.
- Jason Parker: The ones that I've seen in the media that get the most bad press tend to be the variable annuities.
- Erik Ramsey: Right.
- Jason Parker: Variable annuities, basically with that is, it's a bunch of mutual funds or 'sub-accounts' they call them inside of an annuity wrapper. The reason that they have a bad reputation is they tend to have very high fees and all of the volatility of the stock market, so most people would say, "Hey. Why not just go buy the mutual funds outside of the annuity contract, reduce your fees, and still have the volatility?"

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Erik Ramsey: Right, and there's a good case for that.

Jason Parker: There is a good case for it. I mean, I have to say, Erik, I've looked at ... One of the things we do, one of the things that we're committed to, we are not here to say, "Hey. We are pro-annuity" or "We are anti-annuity". Our job is to take these different financial tools that people have the access to and say, "Does this make sense for this person? Will it help them accomplish their goals?", and our job is to look at it and say "What is the good about this? What's bad about it? What's ugly about it?", and then educate the people that we work with, so if they're thinking about purchasing an annuity contract, they have somebody that deals with these things all the time and can shine a light in those dark places, because one of the other reasons I found annuities have a bad reputation is there are people out there that are insurance professionals, and it's the only financial product or tool that they have to work with, and so when they see a problem, the solution is always an annuity.

Erik Ramsey: Yes. Right.

Jason Parker: That's a bad place to be working from. If that's the only financial tool you have in your fix-it kit, if you're going out and you need to put screws into your deck, and all you have in your work box is a hammer ...

Erik Ramsey: it's going to be noisy.

Jason Parker: It's not going to work. It's going to be noisy.

Erik Ramsey: I wouldn't trust a builder that only has a hammer. That's a ...

Jason Parker: Goodness. You know, sometimes, we just need this comic relief because we get off on these tangents, and I know my wife, if she listens to this right now, she can be like "Jason ..." Let me just say something about annuities really quickly because there's a lot of different opinions out there. You've got the Government Accountability Office has put out articles that point to a use of annuities and people's retirement plans.

Robert Shiller won the 'Nobel Prize' last year in economics ... a 'Nobel Prize-winning' economist from Yale. In his book, he has ... He wrote the book called 'Irrational Exuberance'. In the second edition, I was

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reading that on page 222. Here's what he writes. He says ... Now, he's talking about ... The chapter is 'Retirement Plans Should Be Put On Sounder Footing'.

He writes, "Authorities who are responsible for pension plans, including agencies like the Pension Benefit Guarantee Corporation in the United States and the Pension Protection Fund in the United Kingdom should come out strongly against over-reliance on the stock market. They should instead recommend greater diversification and suggest that a substantial fraction of balances be put into safe investments such as inflation-indexed government bonds, they should promote inflation-indexed retirement annuities and urge retirees to take the retirement income in this form."

This is a 'Nobel Prize-winning' economist. He has no skin in the game. He has no financial product that he's trying to sell you. He has no portfolio that he's trying to manage for you which in some ways is also a conflict of interest, even though a lot of people would argue against that, but ...

Erik, there's a lot of different people talking about annuities. We're going to continue this conversation. Right now, we're at that point where we need to take our next break.

Speaker 1: 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 will 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 Parker 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: Seattle, Tacoma, Olympia, Gig Harbor ... all the good people right here in Kitsap County, Jason Parker and Erik Ramsey joining you back for another round of 'Sound Retirement Radio'. Golly, golly, golly.

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- Erik Ramsey: Every time you greet the good people in Kitsap County, I always wonder, "What about the rest of us?"
- Jason Parker: You remember that 'Good Golly Miss Molly'?
- Erik Ramsey: I love that. My gosh. I like that too. That's good stuff.
- Jason Parker: Erik, we're talking about annuities ...
- Erik Ramsey: Right.
- Jason Parker: Everybody's favorite subject.
- Erik Ramsey: We talk about it all the time around the dinner table.
- Jason Parker: The question is "Should you hate them?"
- Erik Ramsey: No. I think it's a terrible position to be in. I love to build stuff. I love to make shelves and carve things, and I've done a little bit of electrical work. I love it. What it keeps coming down to is I want every tool available.
- As you read from Robert Shiller, this is what I'm hearing. He says, "Use every tool available", because you're not going to find a situation where one tool fixes everything. I mean, there are some tools that are extremely broad and they do a lot of things, like your Swiss Army knife covers a lot, but there is just places where it will not work no matter what MacGyver says.
- Jason Parker: No. You got to have some duct tape as well.
- Erik Ramsey: You have to have duct tape.
- Jason Parker: Swiss Army knife can't do it all.
- Erik Ramsey: No. Yes, but to say "I hate annuities and they have no place", that just doesn't make sense. I want all the tools available because the job is important and it has so many facets.
- Jason Parker: We need to ... If our program is going to be educational in nature, and we are talking about this the other day in the faith walk sense. We are talking about how we can get hung up on words and how if people don't explain what words mean that ... In this particular instance, Erik,

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we were talking ... I said to you years ago, at church, people would use the word 'Covenant', and nobody had ever explained to me what a covenant was, and so people were talking in their church language, and I never took the time to research the word 'Covenant', so I didn't know what it meant, and I just was lost when they were using this terminology.

Erik Ramsey: Right.

Jason Parker: Same thing happens in the financial world. There's this jargon. There's this financial advisor lingo, and we need to be able to talk to people about these different tools, but to help them understand it in a world because they're not in this world all the time.

Erik Ramsey: Right.

Jason Parker: As I get into this, and we start trying to explain different types of annuities, different types of contracts with insurance companies, will you help just keep my feet to the fire here and make sure ...

Erik Ramsey: I will. I will.

Jason Parker: Thank you. I don't want to start ... The first type of an annuity that a lot of people are familiar with is in industry, we call it a 'SPIA'. It stands for a Single Premium Immediate Annuity.

In this type of an annuity, it is generally thought of as a pension. In other words, you go to an insurance company. You give them a lump sum of money and exchange. They guarantee to pay you income either for a set period of time or for the rest of your life.

Erik Ramsey: Right.

Jason Parker: That's a pension type of annuity.

Erik Ramsey: Right, and that has a place.

Jason Parker: It does, but also, when people think of annuity, oftentimes, that's the only type of contract they think about.

Erik Ramsey: Right.

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Jason Parker: Here's the disadvantage to that type of an annuity contract. If you take the lifetime only income option without any kind of survivor option or without a lump-sum payout or a period certain, and here I go with my ... I can already see your eyes starting to glaze over.

Erik Ramsey: I'm falling asleep. Oh, no.

Jason Parker: If you do, if you take this lifetime income option from an immediate annuity and say you start the income and you die two weeks later, you lose and the insurance company wins because they get to keep all the money they never paid out. That's the big concern that most people have when they hear annuity.

Erik Ramsey: Right.

Jason Parker: What I found is it's less than two percent of people that actually choose that type of an annuity option. While that's a legitimate concern, the reality is not very many people are actually electing that type of an annuity contract.

Erik Ramsey: Okay. Yes.

Jason Parker: Good to know.

Erik Ramsey: I think it has a place, but what you need to decide if it's a good place, you need a good retirement plan. How you use these annuities must be done in the context of a plan to say "All right. As I look at my financial situation, these are the things I'm going to need. What tool will fill this need the best?"

Jason Parker: I have to say, people that generally like something like an immediate annuity or a fixed annuity, and those are different than variable annuities, but the immediate annuity and the fixed annuity, these tend to be people that are really conservative that are saying "I worked really hard, and I don't want to be in a position ..." They tend to be just more safety-oriented. They don't want to take a lot of risk now that they're retired.

For an investment advisor to tell somebody that's that safety-oriented, that they should not use a tool, a financial tool that's going to help them safely accomplish their goals and instead, they say "Look. You shouldn't use the safe financial vehicle. You should use this

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very risky investment proposal because that's what we think is best". The problem I have with that is, then it's all about you dictating to people what's best for them instead of "I think a financial advisor's role is to listen to what people want and then help them achieve what they want with the financial tools they want to do with."

Erik Ramsey: Right.

Jason Parker: If somebody comes in to talk to us, and they say, "Jason, we don't like annuities", so be it. Then don't use an annuity. If they come in and they say, "Jason, we don't like the stock market", okay. Then don't use the stock market. Let's figure out what works for you. Right?

Erik Ramsey: Right.

Jason Parker: I mean, why isn't that the way that our entire industry works?

Erik Ramsey: Because some people only have a hammer, where they have stock in a hammer company.

Jason Parker: Thank you. We've got ...

Erik Ramsey: Then, let's ...

Jason Parker: I'm sorry.

Erik Ramsey: Let me ... Sorry. Let me just interject. You're talking about annuities as though they are very safe instruments. Do you want to explain that?

Jason Parker: One of the things ... When we talk about safety, safety means different things to different people. One of the things I would say is that when it comes to an annuity contract, you have to understand the financial strength of the company that is offering the annuity, because they are based ... the safety comes down to the claims-paying ability of an insurance company to make good on their financial promises.

If you're considering an annuity, one of the most important things you should consider is the financial strength of that company, and there's a lot of different resources. A.M. Best has been rating insurance companies the longest, but S&P and Moody's and Weiss, these are all different rating companies. One of the things we can do for people actually is if they're thinking about buying an annuity, get a second

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opinion on that. Make sure ... because, sometimes what I find is there are people out there, all they have is a hammer. They're going to try to sell you a hammer. Even if it's a poorly rated hammer from a poorly rated insurance company, it's the only thing they have available to them, so that's what they're going to recommend.

Erik Ramsey: If you're saying that maybe if [Greece 00:32:30] decided to start selling annuities, you would say "I'm going to look at your financial situation."

Jason Parker: I kind of like to know. Yes. Yes. I don't know that they are, but yes. That would make me a little bit unsteady ... uneasy.

Erik Ramsey: Yes. Okay.

Jason Parker: The next type of an annuity that I want to share with our listeners is what we call just a 'Fixed Deferred Annuity'. This is so boring. How do we make something like a fixed deferred annuity sound exciting and ...?

Erik Ramsey: I think it comes down to the voice. Are you ready? Let's try this. Let's ...

Jason Parker: Yes. Go do it.

Erik Ramsey: "Fixed deferred annuity". Was that any better?

Jason Parker: That's a nice movie man voice.

Erik Ramsey: Thank you. "In a world of fixed deferred annuities. One man."

Jason Parker: Have you ever considered a career in radio, Erik?

Erik Ramsey: No. No. I never did. You invited me, and it's like, "Oh, I'm terrified." After that first radio show, let me tell you, I was sweaty and exhausted, but I'm enjoying it.

Jason Parker: Is it getting easier?

Erik Ramsey: It is. It is.

Jason Parker: It is good to be mindful of our words as we think about how we're going to describe these different things. We don't want to mislead

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people and say, "This is the panacea. This is a magic bullet, and everybody should have one of these things", and we don't want to be on the other side of the equation and say "You should hate them", "You should never use them", and "They are the worst thing that ever appeared on the face of the earth". I mean, it's all ridiculous either side of that equation.

Erik Ramsey: Right. Right.

Jason Parker: Let's talk about the fixed deferred annuity.

Erik Ramsey: Okay. You told us about a SPIA or a Single Premium Immediate Annuity.

Jason Parker: The pension type of annuity.

Erik Ramsey: Right. Immediate annuity, you put money in and you start drawing bits out immediately ... right away. Then, a deferred annuity, it's different. You put money in. Maybe all at once. Maybe a little bit over time, but then you wait a little bit, and then this grows at some amount and a very safe rate. The money is very safe. It's not going to jump up and down and drop around like the stock market.

It's going to grow at a fairly ... either a very determined rate or it's going to be linked with something else, and so it's very safe money and at some point, you can draw it out or you can annuitize it and say "I want my money back in over five years or over my lifetime, or I'm just going to draw it all out at once", but it becomes a very safe savings vehicle.

Jason Parker: Yes. It is a savings vehicle. Saving vehicles are usually, they have similar characteristics. Number one, your principal is not at risk. You can't lose your principal based on stock market fluctuations, interest rates move in around or the stock market falling apart, so you're not ... As a result, because it's safe, your rate of return is typically going to reflect rates of return and other safe vehicles.

Erik, one of the problems ... We talk about being a rational investor and that we make decision logically and not on emotion. Here's an example of decisions people are having to make right now when it comes to something like a fixed deferred. I mean, when I'm painting a picture in somebody's mind of what a fixed deferred annuity is, I think

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probably another financial vehicle that closely resembles it is a CD offered by a bank ... a certificate of deposit.

Erik Ramsey: Right.

Jason Parker: I mean, the banks have CDs. The insurance companies have a fixed deferred annuity contracts. One of the big differences there is the deferred annuity contracts are not FDIC insured like a bank CD. Potentially, it could be.

With fixed deferred annuities, right now, we know one of the challenges we have is that as you're transitioning into retirement, you want income, and generally, people that are drawn towards fixed annuities, they like safety and they want income. Those are the two components, and that's why fixed annuities have been very popular with a lot of retirees transitioning into retirement for a portion of their retirement assets.

Right now, the 10-year treasury bond is paying less than two percent.

Erik Ramsey: That's not huge.

Jason Parker: No. It's not, but what you have to understand there is when you buy a 10-year treasury bond, what you are agreeing to is that you are going to hold that bond for 10 years, and you're going to be happy with a two percent yield ... a two percent coupon. Right? Less than two percent actually.

Erik Ramsey: Yes.

Jason Parker: Now, oftentimes, what we see too is people have bonds in their portfolio, and they don't oftentimes own individual bonds, but they own bond mutual funds, so they have a basket of these different bonds. Right? The question becomes "If you can earn two percent in exchange for tying up your money for ten years and you're a rational investor ..."

Now, with that two percent 10-year investment, if a money manager is managing it for you, you're paying fees on it every year. Right?

Erik Ramsey: Right. You got to pay that guy.

Jason Parker: If it's producing income for you, you're having to pay taxes on the income it's producing every year.

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- Erik Ramsey: Yes you do.
- Jason Parker: If interest rates go up, and you have to sell your bond before maturity, you could lose, and you don't know what your worst case scenario is.
- Erik Ramsey: Right.
- Jason Parker: Yes, it's safe if you hold it to maturity, but if all of a sudden, emergency comes up and you got to get out of that thing, you don't know what the worst case scenario is to get out beforehand. Right?
- Erik Ramsey: Right.
- Jason Parker: We got to keep talking about this, Eric, but I just realized we're at that point where we need to take our next break, so we are going to be right back after this.
- Alright-y, folks. Jason Parker here. I've got Erik Ramsey in the studio. This morning's topic is ...
- Erik Ramsey: 'Should We Hate Annuities?'
- Jason Parker: 'Should We Hate Annuities?' This is episode 039. If you're listening online or you're driving down the street here in sunny Seattle, and you're wanting to go home and listen to the rest of the program, you can find it online. It's commercial-free online actually too, so it's nice.
- Erik Ramsey: I feel like we should do some product placement though. I'll just be honest. I'm enjoying my coffee ... Throwing a word for coffee.
- Jason Parker: Mostly commercial-free I should say. We do have a couple of plugs for some of the free reports and stuff that we hand out.
- Erik Ramsey: That's true.
- Jason Parker: Hey, you know? While we're on the topic of annuities, social security is an annuity.
- Erik Ramsey: It really is.
- Jason Parker: Yes. I mean, you basically have paid into the government, and they're promising you an income stream for the rest of your life. That's an annuity.

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- Erik Ramsey: Yes.
- Jason Parker: Yes. While everybody wants to be a critique of these things, 40% of people's income is coming from annuity contracts basically.
- Erik Ramsey: Yes. It worked. You were explaining the difference between these different financial vehicles ... annuities and CDs and bonds.
- Jason Parker: Yes. Okay. You've got a 10-year treasury, you've got fees, you've got risk, you've got a two percent rate of return, you've got taxes that you have to pay every year on that bond, and now, on the other side of the equation, you have another financial product that's paying let's say 2.6%, so your 10-year treasury pays two percent. The other contract pays 2.6. This new contract that I'm telling you about only has a five-year term that you have to hold it instead of ten.
- Erik Ramsey: Okay.
- Jason Parker: You have no risk if interest rates go up, so your principal is protected regardless of where interest rates go.
- Erik Ramsey: Okay. Okay.
- Jason Parker: You don't have a money manager charging you an additional fee to have your money in this new place, and you are in more control of your taxes.
- Erik Ramsey: Okay.
- Jason Parker: You get to decide if you want to pay taxes every year on the income that's being produced or if you want to defer the taxes out into the future. You're a rational person now. You can have ten years, two percent risk fees and no control over taxes, or you can have 2.6% five years, no risk to your principal based on market fluctuations and more control over your taxes. Which one are you going to choose?
- Erik Ramsey: It almost sounds like a trick question.
- Jason Parker: I know, it's because it's such an ease ... In my mind, I just can't wrap my mind around how people can justify one over the other, but that is looking at ... I mean, we're taking a 10-year treasury bond which is a security, and we're comparing it to a fixed deferred annuity

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contract which is not a security, so a lot of people would say "You shouldn't be arguing these two points."

My point is, most people are just trying to get their money to work for them. They don't understand security versus insurance contract. All they know is that they want some safety, they want some income, and they don't want to lose their money, and a fixed annuity contract can be a tool that works for some people that are looking for those kind of guarantees.

Erik Ramsey: Right.

Jason Parker: The other thing I'll say there, Erik ... I just used the word 'Guarantee'. Do you know in the financial world that an annuity contract is the only place where it can use the word 'Guarantee'?

Erik Ramsey: Yes.

Jason Parker: You can't use that for mutual funds.

Erik Ramsey: Right.

Jason Parker: You can't use it for stocks. You can't use it for bonds. You can't use it for ETFs. Not for everybody, but for some people, the word 'Guarantee' ... I mean, that helps people sleep better at night.

Erik Ramsey: That's our goal ... you have confidence, clarity and freedom in retirement. That word, the 'Guarantee' word can really go a long way, especially when it's part of a plan. Sorry. I just keep harping on that because I don't think I would ever recommend it. Somebody only have annuities.

It probably wouldn't make sense for their plan. Maybe someday we'll find somebody like that. I don't think I would usually recommend somebody to only have stocks, but in the midst of a plan, annuities regularly make sense.

Jason Parker: They make sense for people that are conservative, that don't want to gamble, that are risk averse, and they're looking for that sleep assurance. That's what an annuity contract brings in, is it brings a certain level of certainty to your financial situation.

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I was working with some folks recently, and they were in this position ... they're getting ready to retire, and they're one of these folks that still have a pension, and they're trying to decide, "Do we take the pension or do we take the lump sum?"

Erik Ramsey: Right.

Jason Parker: I have to tell you, for some people, the better solution is to take the lump sum, and they feel better about that and more confident with that decision. For some people, taking the guaranteed income, the pension is the more comfortable way to go, so they say different strokes for different folks. There's not a one size fits all solution where we can just cookie-cutter say "Hey. Everybody should use an annuity." That would be irresponsible, or "Nobody should ever use an annuity." That would be irresponsible.

We just want people that are like ... Here again, getting back to the core point, yes. If you're going to use a financial product, it should solve for a problem, so you always have to start with a financial plan. I think that point that you're making is so important. We have to understand what the purpose of the money is, what are we trying to accomplish, and given what your priorities are, what's going to be the best financial tool to help you get there.

Erik Ramsey: This personality coming to this, like when we say that two people with radically different personalities and temperaments would really benefit from very different financial vehicles?

Jason Parker: I think so. Yes. I think so.

Erik Ramsey: It's not just down to numbers. It's actually personality comes into it too.

Jason Parker: Yes. Absolutely. Comfort with risk comes into it. Yes. You know how.

Now, in one of the things I've learned about risk, and that's kind of a tricky [widget 00:44:18], and an upward trend in market like we've had for the last five years, everybody is comfortable with risk ... "Yes. Sure. I don't care about the downside. We'll ride it out. No big deal", until the downside hits because I've been through that too. Right?

Erik Ramsey: Yes.

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- Jason Parker: All of a sudden, everybody's risk tolerance changes when numbers start showing up red instead of black.
- Erik Ramsey: Right. Right.
- Jason Parker: That's where getting back to a plan, you want some money safe, some money in this middle moderate term, and then some money, longer term, and that's I think the ... One of the things you and I have been working on, I'm really excited to roll this out, and hopefully we'll have it up soon, but we're creating the 'Sound Retirement Planning Blueprint', so for people that are thinking about wanting to transition into retirement, and they want to see ... because I found that a lot of us are visual learners.
- Erik Ramsey: Yes.
- Jason Parker: They actually want to see what should a good retirement plan look like.
- Erik Ramsey: Right.
- Jason Parker: We're creating a video series called 'The Sound Retirement Planning Blueprint' where we're going to teach people exactly step-by-step what they should be doing. I'm really excited about that, Erik. You've been doing great work on it.
- Erik Ramsey: Thank you. I'm excited too. I'm a visual person. I want to watch YouTube videos for everything. If I don't know how to wash a dog or cook a pancake, I always go to YouTube, because then I can see some visuals of, "This is what it looks like". With the retirement plan, retirement plan is kind of an abstract concept, but through YouTube and computer videos, we can actually give some strong visuals to it and say, "This is what you ought to expect when you put together retirement plan." It makes sense.
- Jason Parker: If people go to 'soundretirementplanning.com' on the right hand column of the page there that you will see this bright blue square that says "Sound Retirement Planning Blueprint. Click here to learn more", if you're out there and you're thinking about retirement, you're within a couple of years or maybe just retired but you're realizing maybe you don't have the best plan built, and you would just like to see a plan

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built from scratch from ... We broke this down into four basic steps. You can go and you can start to educate yourself.

Education is a power when applied, so it's not just educate yourself for the sake of filling your brain with knowledge, but eventually, ultimately, the purpose of education is to take action.

Erik Ramsey: Yes. Yes. Right. Right. I've noticed when I was working on my house, I felt so much more comfortable dealing with contractors if I knew something about the topic. When somebody started making recommendations on how to deal with the roof and I knew nothing about roofs, I didn't know if I was being taken for a ride or if I was being given good advice. If I knew even a little bit, if I had some context to put ideas into, I was so much more prepared to say, "That's a bad idea. I'm not going to go that way", or "That's a good deal. I'm going to hire you." Just a little bit of education goes quite a long ways.

Jason Parker: I'm glad you brought that up because I talked to a gentleman recently. You know what he did for living his entire life?

Erik Ramsey: He played dice. I don't know.

Jason Parker: He built homes.

Erik Ramsey: Oh.

Jason Parker: He built homes his entire life. You know what? He's an expert at that, because that's all he did every day for his entire life. Now, if I was going to go try and build a house ...

Erik Ramsey: Sorry. I didn't laugh at you.

Jason Parker: Compared to this guy, I could probably get it done, but it's not going to be probably as efficient, as fast, as cost-effective as him because he spent his whole life doing this. Right?

Erik Ramsey: Yes. Right.

Jason Parker: This is all we do every day is help people build retirement plans, so I'm not saying that you have to take our recommendations, but wouldn't it be nice to have a starting point to say "Here's what this could look like"?

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Erik Ramsey: Right. Right.

Jason Parker: Yes. Anyways, you're listening to episode 039. My name is Jason Parker. The topic is 'Should You Hate Annuities?' The emphasis is on 'Should', and we really want to downplay hate. You know, Erik, I guess ultimately the bottom line is words are very powerful.

Erik Ramsey: Yes.

Jason Parker: Our words can create or destroy.

Erik Ramsey: They can. If you find somebody at just that moment of vulnerability, an encouraging word can make all the difference.

Jason Parker: They're driving down the street right now, and the most important thing that we want them to know ... Really, great fun to talk about these financial tools and financial products and financial planning and retirement plans and how that all works, but in the big picture of life, the most important thing getting back to what you're hoping people take away from this because I can tell you this. If they're driving down the road and they listen to the program this long, there's a reason, there's a purpose behind that.

Erik Ramsey: Yes.

Jason Parker: Tell them what you want them to know.

Erik Ramsey: I want you to have hope. I believe that there is a reason that we can look at this universe and not say, "Wow. This is a cool, dark place", but there is. There is reason to hope. There is a creator behind it, and there are people surrounding you that can give you advise and pointers and help ... yes, to just make everything better, to make retirement the best season of your life.

Jason Parker: "You will run and not grow weary." Man, I just needed to hear that. Folks, thanks so much for being here on 'Sound Retirement Radio'. Until next week. This is Jason Parker and ...

Erik Ramsey: Erik Ramsey.

Jason Parker: Signing out.

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