

## FIXED INDEX ANNUITY FUNDAMENTALS

--SAFER, DEPENDABLE, RELIABLE--

Many are drawn to CD's as conservative savings vehicles because of simplicity and the FDIC insurance provided. The returns, however, often leave much to be desired—especially when these returns are being used to supplement retirement income. On the other end of the spectrum, more aggressive investors may look to the market's unlimited upside potential. But, participation in the stock market as well as mutual funds and most variable annuities places vital retirement assets at a risk of 100% loss. A fixed index annuity provides the best of both worlds: the absolute safety of a CD combined with the upside potential of the market.

If you want to protect your assets and savings throughout retirement, there are a number of immediate payout annuity advantages to consider. A savvy investor realizes that the monthly checks from an annuity can help him or her plus a spouse or heirs for the rest of the investor's lifetime.



**Fixed Rate and Fixed Index Annuities offer a safe alternative to CD's with higher current rates and the historic potential to out perform CD's. When consumers understand the realities of risk they often choose the annuity.**

**Are you considering an annuity for your retirement budget strategy? Annuities have gained in popularity over the last few years thanks to their conservative, low risk approach to financial budgeting for retirees. The average one-year annuity is paying around 1.25% per year and the average five-year annuity pays around 3.25%.**

**Today's retirees often find themselves in a predicament of uncomfortable living on lower returns from a conservative investment like CD's out of fear of putting hard-earned principal at risk in the current market environment.**

## SAFETY AND GUARANTEE OF PRINCIPAL

A Fixed Index Annuity (also referred to as an Equity Indexed Annuity) provides you with the best features of a traditional fixed annuity—namely, a guarantee of principal. Unlike most securities or mutual funds, where account balances can fluctuate with the market's performance, premium deposited into a Fixed Index Annuity is guaranteed to never go down with market downturns. A contract owner of a Fixed Index Annuity participates in market-indexed interest without market-type loss.

# SAFE MONEY REPORT

## BANKS KEEP FAILING, NO END IN SIGHT

A record number of bank failures in the last 20 years has eliminated jobs, accelerated a drought in lending, and left the industry's survivors with more power to squeeze customers. Although bank failure rates have recently dipped to their lowest levels since the financial crisis began, these rates and their accompanying effects upon the nation, its investors, and all taxpayers are still way too high.

Some 400 banks have collapsed since 2007. As of October 24, 2011, the FDIC has authorized suits in connection with 34 failed institutions and 308 officers and directors for liabilities of at least \$7.3 billion. The failures of the past two years shattered the pace of the prior six-year period, when only three dozen banks died, and has cost the fund taxpayers an estimated \$88 billion.

One bank in particular was told at least 1,400 times by federal examiners last year to fix a problem that could imperil its health, according to data from the three agencies that regulate banks. The agencies didn't reveal the names of the troubled banks or the nature and severity of their concerns. That information is kept from investors,

## FDIC BANK FAILURES

YEAR	NO. of Failed Banks	Total Assets of Failed Banks	Loss to FDIC's DIF
2007	3	\$2,602,500,000	\$113,000,000
2008	25	\$373,588,780,000	\$15,708,200,000
2009	140	\$170,867,000,000	\$36,432,500,000
2010	157	\$96,514,000,000	\$22,355,300,000
2011	90	\$35,723,300,000	\$7,106,400,000
<b>Total</b>	<b>415</b>	<b>\$679,295,580,000</b>	<b>\$81,715,400,000</b>

customers and the public unless securities laws force the bank itself to disclose.

Imagine how differently the economic recovery would be playing out if the federal government had taken over failing Wall Street banks and restructured them as locally-owned, independent community banks and credit unions. Imagine further that it had taken over the Federal Reserve and issued itself interest-free credit, not to fund Wall Street bank bailouts, but rather to fund ade-

quate stimulus programs that create living wage jobs in the Main Street economy—jobs doing work that meets real needs. That money could now be flowing back into local banks as deposits and savings, which these banks would then lend back into their communities. Main Street would be thriving, and Wall Street speculators would be the ones receiving foreclosure notices and hoping their unemployment benefits don't run out before they find a new job.



**Protesters outside of Goldman Sachs' Washington D.C. office, where they delivered a letter urging CEO Lloyd Blankfein to help struggling homeowners avoid foreclosure rather than pay large bonuses to the firm's executives. Photo© 2009 Kate Thomas/SEIU**

## MARKET-LINKED CERTIFICATES OF DEPOSIT (“MLCDs”)

Issuing banks do not deal directly with depositors unless they have at least \$5 million, rather retail MLCDs are purchased through “Deposit Brokers: (Broker-Dealers, Trust Companies, etc.):

According to FINRA in Notice to Members 02-69: “Brokered CDs and CDs are issued by banks via a “master CD” to deposit brokers which in turn sell interests in the master certificate to individual retail investors. FDIC Insurance attaches to the individual CD’s, represented in the master CD. The master CDs are held by a deposit broker as a custodian.”

Since 1987, over \$25 billion of MLCDs were purchased by retail clients. They offer the same protection and safety of traditional “fixed” CDs with the potential to earn above market interest. Current Annual Caps range from 6% - 10.5%. In addition, MLCDs can be linked to Commodities as well as Stocks, thus providing a great diversification tool.

### BENEFITS OF MARKET-LINKED CD’S

- **100% Principal Protection:** The issuing bank promises to return principal at maturity, regardless of equity market performance, provided the CD is held to maturity.
- **Annual Income Potential:** Market-Linked CDs payments may be significantly higher than current traditional CD rates and other comparable low-risk investments.
- **FDIC Insurance:** Market-linked CD principal is protected by federal deposit insurance for up to a maximum amount of \$250,000.
- **Estate Feature:** Also known as “survivor’s option” or “death put”, this feature generally allows for redemption of full principal amount (at par), without interest, upon death or adjudication of incompetence of the beneficial owner--under certain circumstances.
- **Flexibility:** Can be customized to fit an investor’s market view, risk tolerance, need for minimum return, and investment timeline. Minimum investment requirement may vary by issuer.



## HIGHER GAINS & FEWER STRINGS

The FDIC’s “Problem List” of troubled banks includes 252 institutions with assets of \$159 billion. However, based on our analysis, a total of 1,568 banks and thrifts are at risk of failure with assets of \$2.32 trillion due to weak capital, asset quality earnings, and other mitigating factors.

**Some key points every prospective CD holder should consider:**

#### **CD’S (Certificates of Deposit)**

- low return on investment: for the end of 2011, the national average for 1 year CD’s is .38% and for 5 year CD’s is 1.28%
- taxed earnings on interest
- predictable return
- insured by the FDIC
- subject to penalties for early withdrawal

#### **Money Market Accounts**

- a type of savings account
- offered by banks and credit unions
- insured by FDIC for up to \$250,000

#### **Annuities**

- higher return than CD’s
- tax-deferred earning
- predictable return
- access to up to 15% of the deposit amount annually
- guaranteed by the largest insurance companies in the world
- insured by the State



Guaranty Fund for up to \$250,000 or more in some states

- **Inflation:** Yields on CD’s have been lower than the rate of inflation in three out of the last five years.

- **Returns:** In 2011, real returns on CD’s (net of taxes and inflation) fell into negative numbers, according to the Federal Reserve Board

- **Taxes:** The interest earned from a CD is subject to federal and state income taxes whether you use the income or let it accumulate. Annuities, on the other hand, accumulate returns tax deferred. Money that would have gone to taxes, instead keeps working for you in an annuity.

- **State Guaranty Funds:** Most insurance companies in the U.S. are members of the State Guaranty Associations. In Florida, the state guarantees the assets for up to \$250,000 per annuity contract. In North Carolina, the assets are guaranteed up to \$300,000.

- **Liquidity:** Insurance companies’ annuity contracts usually allow for access of up to 15% of principal and interest of the deposit amount on an annual basis. Additionally, an income rider may be added to an annuity contract allowing the owner to receive income for a certain period and even for a lifetime. Most annuity

contracts allow the owner to access all or some of their funds in the event of: a) terminal illness, b) nursing home stay, or c) any life-changing events that affect the annuitant (owner) economically.

- **Risk:** Although CD’s are FDIC insured, in the event of a bank failure, you may encounter delays with the FDIC returning your CD principal. But, annuities, on the other hand, are insurance products, underwritten by some of the largest insurance companies in the world and guaranteed by the state guaranty fund.