



Martin Northern
Branch Manager

RETIREMENT INVESTING

SPECIALIZING IN INVESTMENT MANAGEMENT AND ASSET PROTECTION

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Annuities

There are essentially two types of annuities – fixed annuities and variable annuities. They differ mainly according to how contributions are invested and when income payments begin. The choice you make will depend on your financial situation and the goals that you are trying to achieve.

Fixed Annuity

A fixed annuity is a contract whereby principal is invested in the insurance company's general account.

- ◆ The insurance company guarantees a preset rate of interest for an initial period, normally between one and three years.
- ◆ The company also guarantees the return of principal that is paid into the annuity.
- ◆ When the initial period ends, the insurance company designates a new interest rate for the succeeding period.
- ◆ Generally, income is paid out in equal installments over the course of the contract.

Many fixed annuities offer a great rate to start, but then you may see the interest rate drift down after the initial period. If you own a fixed annuity, you may have noticed that your interest rate has been declining in recent years.

Every week, I meet with people who own annuities that are only receiving 3% to 4% annually. They could be receiving more income in a couple of ways:

- 1.They could receive an increasing rate of interest.
- 2.They could receive a locked-in rate for a longer period so they would not see their interest rate decline after the first year.

One solution may be to exchange their annuity into a new annuity with better terms. Exchanging an annuity may or may not be beneficial since surrender charges may apply. We can check that for you and help you consider your alternatives.

Variable Annuity

A variable annuity is a contract whereby principal is invested into a family of professionally managed investment options, from conservative money market investments to more aggressive stock-based investments.

- ◆ The insurance company in many cases does not guarantee a minimum rate of return, and the value of your annuity may rise or fall according to market conditions, and the performance of the underlying investment options.
- ◆ Ultimately, the income paid out varies, and is based on the performance of the underlying investment options.

Index Annuities – Features Of Both

A few years ago, the insurance industry developed the index annuity, which offers features of both fixed and variable annuities. An investor's original investment is guaranteed, and most index annuities also guarantee a minimum rate of interest, which is currently 3%. However, any return over the guaranteed minimum rate is based on an increase in the stock market, usually measured by the S&P 500. Some investors like the combination of a principal guarantee plus the opportunity to participate in any potential gains in the stock market.

In return for the guarantee of their principal, an investor receives a set percentage of any gains in the stock market. So in return for safety of their investment, an investor would give up a portion of any increase in the stock market. However, if the market declined, since their principal is guaranteed, they would not suffer any loss. For many retirees and people approaching retirement, the opportunity to potentially earn attractive returns without principal risk is a very good tradeoff. For a brochure, please check off on the attached coupon.

Withdrawals From An Annuity

Many people purchase annuities for the benefit of tax deferral. But when it is time to begin withdrawals, which is the best way?

One option is to annuitize, and to take payments over a time frame that you select. When you annuitize, you receive a frequency of payments, usually monthly, quarterly or annually, for surrendering the balance in an annuity to the insurance company. Choice of payment options usually include:

- ◆ **Single Life** – provides guaranteed income for the rest of your life.
- ◆ **Joint Life** – provides guaranteed lifetime income for two persons, usually a husband and wife.
- ◆ **Life with a Period Certain** – provides guaranteed income for life or for a designated period of time, whichever is longer. If at death, you have not received the minimum number of guaranteed payments, your beneficiary receives the remaining balance.

The choice of payment types usually include:

A. Fixed:

- ◆ Guarantees a fixed dollar amount for each payment.
- ◆ However, the value of your payments may not keep pace with inflation.

B. Variable:

- ◆ Payments will vary according to the market value of the underlying investments, such as stocks and/or bonds.
- ◆ May provide a hedge against inflation during retirement years.

Systematic Withdrawals

You can also choose not to annuitize. Instead, you can arrange to receive preset income payments at regular intervals until your assets are depleted.

- ◆ This may help spread out your tax liability.
- ◆ However, the insurance company does not guarantee you income for life, and your assets may be depleted in your lifetime.

To determine which of the above would be best for

your individual circumstances, you need to be pretty good with a financial calculator or give us a call. When making these decisions, the following should be considered:

- ◆ **Current age, health, and family history of longevity.** Average life expectancy continues to rise, and according to the National Vital Statistics Report, Vol. 47, No. 13, June 19, 1999. On average, a healthy 65-year-old today may expect to reach age 83.
- ◆ **Sources of retirement income.** What sources of income can be counted on in retirement? Obviously, the more sources the better.
- ◆ **Inflation.** Even a low rate of inflation over time can reduce the value of one's savings.

For more flexibility, you could opt for systematic withdrawals. In that case, you elect to either receive a fixed percentage of the account value or a fixed periodic amount. Just remember that with a variable annuity, your account value can fluctuate from one month to the next. However, you can stop that arrangement at any time and simply withdraw the remaining balance.

Although systematic withdrawals in many cases can appear to be better than annuitization explained above, remember the primary two differences:

- ◆ With annuitization, you can lock in a guaranteed monthly amount of income regardless of the performance of your annuity, and
- ◆ Annuitization lengthens the tax deferral period.

Finally, you may want to keep the annuity growing and not take payments at all. Some annuities will not allow this and force withdrawals by a certain age. You can switch to another annuity which may have a more flexible withdrawal requirement using a tax-free exchange. However, surrender charges could be assessed when switching annuities.

You probably never thought that getting a check could be so complicated. To have your choices compared, we can review any type of annuity and calculate the most appropriate withdrawal option for you.

Remember that annuity withdrawals prior to age 59½ are subject to 10% penalty. Annuities may contain surrender charges which should be checked prior to making a withdrawal. Guarantees from annuities are based on the claims-paying ability of the insurance company.

Tax Deferral Can Work For You

Whether you purchase a fixed or variable annuity, both offer a number of important advantages:

- ◆ **No Tax Reporting.** There is no need to make an entry on Form 1040 until you actually begin to withdraw funds.
- ◆ **Tax-Free Exchanges.** Variable annuity owners can make tax-free exchanges among various investment options.
- ◆ **Simplified Asset Transfer To Heirs.** Name a beneficiary, and upon death the annuity assets can go directly to that person. By streamlining the planning process, you can eliminate hassles for your heirs.

Above and Beyond the Call of Duty

Annuities offer several distinct benefits beyond those found in a more traditional retirement plan:

- ◆ **Unlimited Contributions.** Unlike employer-sponsored retirement plans which have an annual limit on contributions, there is no corresponding annual limit for annuities. An investor can make their annuity contribution either as a lump-sum purchase or as a series of purchase payments.
- ◆ **No Earned Income Requirement.** An investor can fund an annuity purchase even if they do not have earned income. Therefore, one does not even have to be employed or generating income in order to contribute to an annuity.
- ◆ **Deferring Withdrawals.** With most annuities, an investor can defer income withdrawals until age 85 or later. With many retirement plans, one is required to begin taking minimum distributions by age 70-1/2. Annuities can give an investor as much as fifteen years of potential tax deferral.
- ◆ **Death Benefit Guarantee.** Should one die before receiving income from an annuity, a beneficiary will generally receive the greater of:

1. The current market value of the annuity, or
2. The sum of all payments, less any withdrawals made to the annuity.

It should also be noted that certain annuity contracts offer enhanced death benefits. Give us a call for more information.

How to Ruin an Annuity

A lady recently came to see me about her annuity. Her husband died 4½ years earlier and the annuity had been left to accumulate. I was surprised to find upon reading through the original annuity contract that the original agent had written the annuity so that the couple's children were the beneficiaries. The wife had no claim to this money.

Moreover, the entire interest in the annuity must be distributed within 5 years of the owner's death, IRC section (72)(s)(1). Therefore, since the end of the 5 years was near, the entire annuity must soon be distributed to the children, and a large tax bill had to be paid.

Had the original agent understood what he was doing, he would have made the wife the beneficiary or the husband and wife joint owners or joint annuitants. This lack of knowledge is causing this family a large premature tax bill.

Be sure to get an annuity from someone who understands the tax ramifications. If you are not certain that your annuity has been written correctly, bring it in for a review and we will determine if it is designed to pay off as you plan.

Upcoming Workshop

“Unlocking The Secrets To A Successful Retirement”

Mrs. Miller's Chicken and Steak House
4723 Central Avenue
Hot Springs, Arkansas

Monday, January 7, 2002 11:00 AM
Monday, January 7, 2002 6:00 PM
Tuesday, January 8, 2002 11:00 AM
Tuesday, January 8, 2002 6:00 PM
Wednesday, January 9, 2002 11:00 AM
Wednesday, January 9, 2002 6:00 PM
Monday, January 14, 2002 6:00 PM
Tuesday, January 15, 2002 6:00 PM
Wednesday, January 16, 2002 6:00 PM

Dinner will be served, but seating is limited.
Call 316-3100 or 800-468-3007 to make your reservation.

Fixed annuities, life insurance, and long-term care insurance are not offered by Great Nation Investment Corporation, but are offered through Martin Northern and Insurance Designers.

Note: Investments compared to CDs and Treasury Bonds are not insured while CDs are FDIC insured and the Federal Government guarantees Treasury Bonds. Nothing herein is intended to be legal or tax advice. Readers are encouraged to consult their accountant and/or attorney. Mention of a particular investment should not be considered a recommendation. Recommendations can only be made by determining investor suitability. Past performance is not a guarantee of future results and no investment strategy can guarantee positive returns. Annuities, Mutual Funds and Church Bonds are sold by prospectus only, subject to availability. Any rates quoted herein are subject to change. The S&P 500 and Dow Jones Industrial Average are weighted, unmanaged indexes.

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ON THE FOLLOWING TOPICS
RETURN THIS TO:
Martin Northern
Great Nation Investment Corporation
P.O. Box 1302
Benton, AR 72018-1302
E-mail: martin@martinnorthern.com**

Please send information on these topics mentioned in your newsletter:

- Please contact me for a *free* Comprehensive Financial Plan.**
- Please send information about the following annuities:**
 - Fixed Annuities**
 - Variable Annuities**
 - Index Annuities**
- Please contact me for a review of my current annuity.**
- Please contact me for an Income Planning Review.**
- Please contact me about a 529 College Savings Plan.**
- Please contact me about how the New 2001 Tax Laws will affect my individual investment circumstances.**
- I would like to know more about these topics not covered in your newsletter:**

- I think this person would like to receive your newsletter and invitation to your next workshop.
(Please provide their name and address with zip code):**

Name _____

Address _____

**Martin Northern
Great Nation Investment Corp.
P.O. Box 1302
Benton, AR 72018-1302**