

Annuities – The Pros and Cons

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Senior Executives Association

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SEA Member Benefits

- Free Hour of Consulting / Analysis
 - \$250 Vantage Discount
- Email Questions to me at mmiles@variplan.com



Portfolio Review and Commentary

\$49 for SEA Members (\$249 Retail)

- I. Asset Allocation
- II. Cost
- III. Risk Efficiency
- IV. Organization
- V. Tax Efficiency
- VI. Recommendations

Stocks



Stocks



Interest Rates

CBOInterestRate10-YearT-Note

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Insurance Contract

Premium Payment



Guaranteed Income

Types of Annuity Contracts

	Immediate	Deferred
Fixed		
Variable		

Should be the Benchmark Against Which
the Alternatives are Compared

Income Guarantees

Single Life

Joint Life

Options

Payment Amount

Age

Sex

Health

Income Guarantees

Interest Rate Index

Example

Age = 60

Sex = Male

Health = Average

Income Guarantees = Single Life

Interest Rate Index = 2.00%



\$454 / Month

Payout Rate or Ratio

Guaranteed Annual Payment

Premium Amount

Payout Rate or Ratio

$$\frac{\$454 \times 12 = \$5,448 / \text{Year}}{\$100,000} = 5.448\%$$

Payout Rate or Ratio

5.448%



Rate of Return!

Annuity Rate of Return

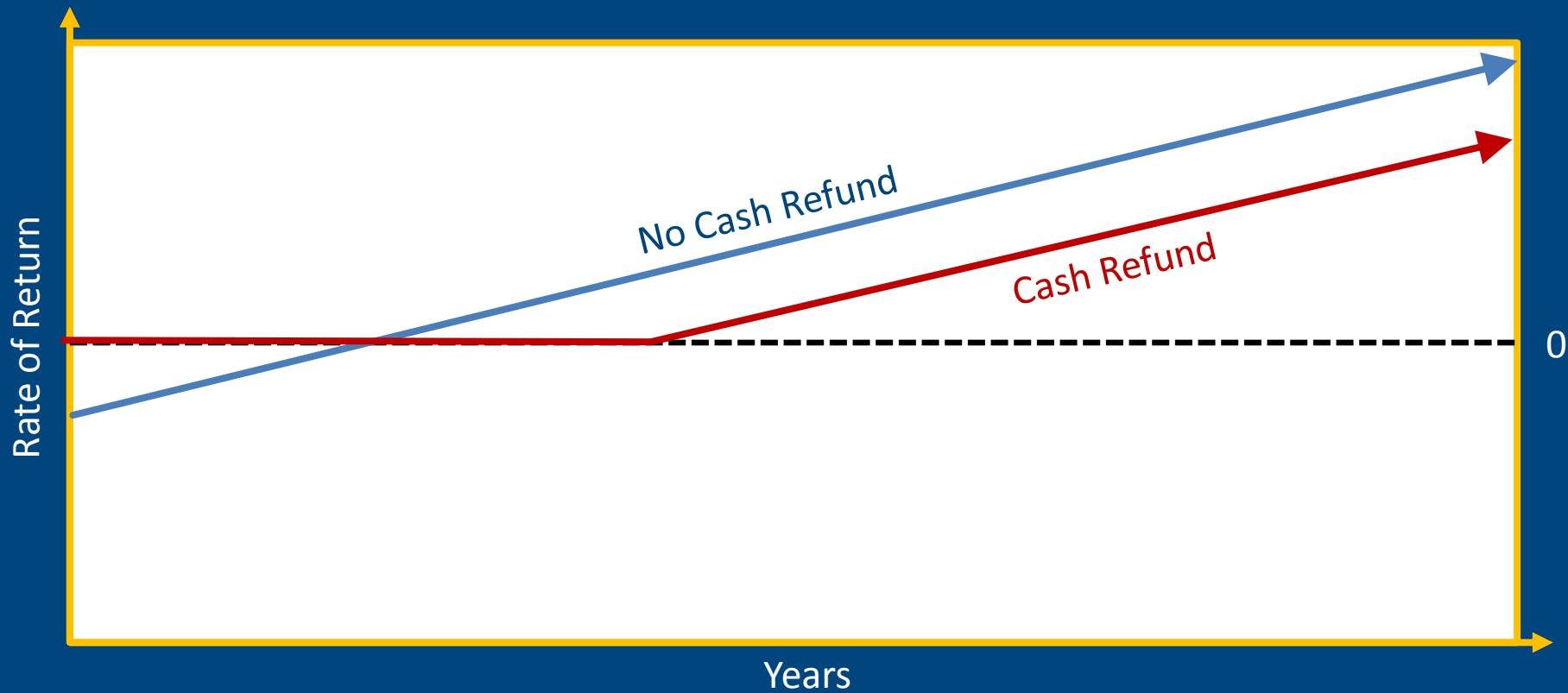
Payout Period	Age at Death	Recovered	Rate of Return
10 Years	70	\$54,480	-11.45%
20 Years	80	\$108,960	0.92%
30 Years	90	\$163,440	3.82%
40 Years	100	\$217,920	4.85%

Annuity Rate of Return w/ Cash Refund

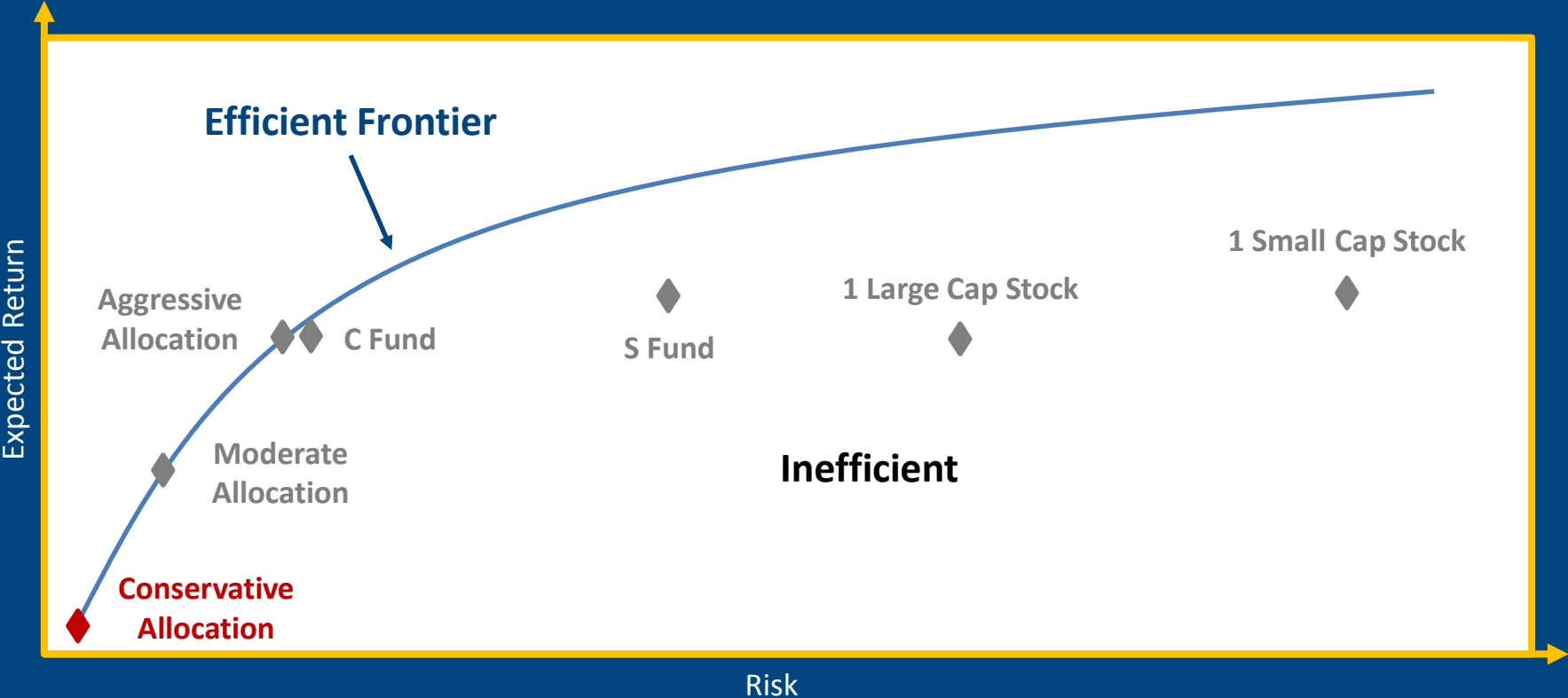
Payment amount falls to \$426 / Month

Payout Period	Age at Death	Recovered	Rate of Return
10 Years	70	\$100,000	0.00%
20 Years	80	\$108,960	0.23%
30 Years	90	\$163,440	3.27%
40 Years	100	\$217,920	4.37%

Cash Refund Option



Risk-Efficient Portfolios

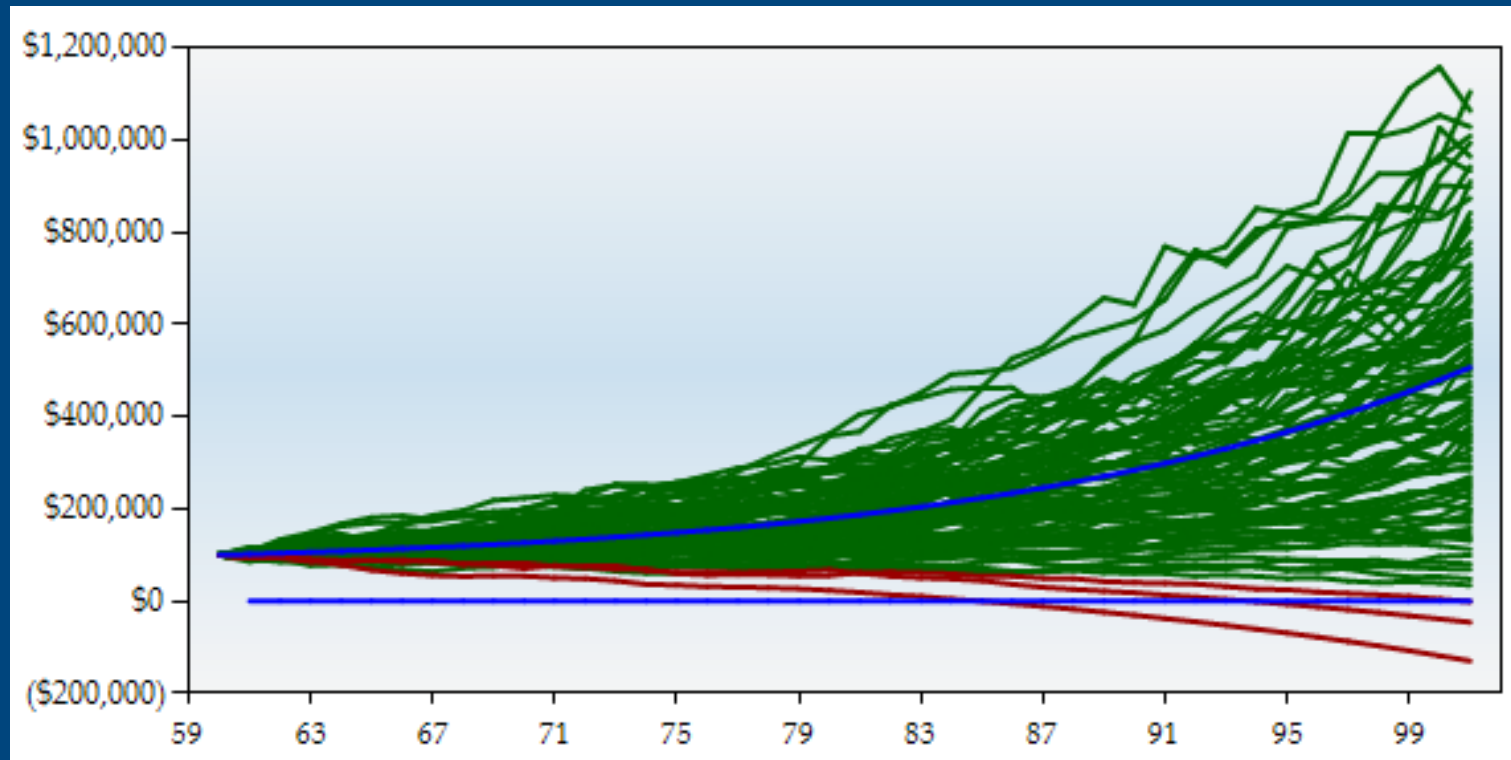


Invest and Withdraw

\$100,000, \$5,448 / year, BT, 30/60/10 Allocation

Payout Period	Age at Death	Confidence	EEV
10 Years	70	100%	\$129,000
20 Years	80	100%	\$187,000
30 Years	90	99%	\$299,000
40 Years	100	97%	\$507,000

Simulation Results – 40 Years



Probabilities – 40 Years

Percentile	Ending Value	ROR
0	\$3,015,983	10.26%
10	\$1,104,051	8.21%
20	\$873,334	8.35%
30	\$696,756	7.77%
40	\$584,777	7.14%
50	\$507,297	6.67%
60	\$408,990	7.07%
70	\$325,777	6.58%
80	\$232,605	6.67%
90	\$137,214	6.64%
100	-\$129,693	6.29%

Immediate Fixed Annuity Pros

- Income Security
- Professional Management

Immediate Fixed Annuity Cons

- Loss of Control of Principal
- Potentially Lower Income
- Inflation Risk
- Reduced Estate Value

Consider an Immediate Fixed Annuity When...

- You're Concerned About Control
- You're Concerned About Management
- Interest Rates Are High



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