

BEWARE OF ANNUITY SALES

Most banks in Columbus offer annuity products as part of their services, and some of those banks regularly “market” these products to senior citizens. **For most senior citizens, deferred annuities are not an appropriate investment vehicle.** These annuities contain provisions that provide a severe penalty for early withdrawal. The usual period for withdrawal penalties is seven (7) years, and the penalties may be as high as 10% of the balance.

Most deferred annuities are not FDIC protected and are actually invested in stocks, bonds or mutual funds. Many deferred annuities during calendar year 2008 lost significant value. Thus if you purchased such an annuity in 2007 for \$100,000, it may now only have a “cash value” of \$70,000. If you wanted to withdraw from that investment at this time, you would likely pay approximately five thousand dollars (\$5,000) as a penalty for “early withdrawal” and you would only be returned \$65,000.

Immediate annuities are offered by insurance companies and generally cannot be liquidated. Thus, if the same elderly person had \$100,000 in an IRA and wished to annuitize that fund in January of 2007, he or she would have received a monthly distribution either over a certain period of years or over his or her life expectancy. The actual rate of return on these annuities (assuming that this person lives to their expected life expectancy under the Actuarial Tables) is approximately 2.0% to 2.5%. Those who purchased these immediate annuities prior to October 2008 are likely very satisfied with their decision as they did not take losses in the stock market; however, there are some immediate annuities that are “variable,” which are affected by the stock market. Once you “annuitize” and start receiving monthly checks, you cannot change your mind and withdraw your money.

Brokers, insurance agents and banks sell annuity products. Even some lawyers participate in the sales of annuity products. Our firm does not participate in the sale of annuity products as we believe it creates a conflict of interest. A commission on an annuity ranges from approximately 2% to 10%, and the salesman receives a commission upon the sale of the product. The more stable and reputable insurance companies have the highest possible rating by the rating services and tend to pay lower commissions. Those who have a lower rating tend to offer higher commissions. Thus, if you have never heard of the insurance company offering the annuity, you should be very cautious.

Annuities are complicated. Before you purchase an annuity from a bank, an insurance agent, or a broker, you should consult with your children, your siblings, your attorney and your accountant. The person that advises you on these matters should not be paid a commission.

The alternative to being pushed into an annuity product is an old fashioned instrument known as a Certificate of Deposit, which generally has FDIC protection up to

\$250,000.00. Certificates of Deposit are safer investments for elderly and middle class Americans. Under certain circumstances, such as where retirement savings are threatened by potential health care costs, annuity products are appropriate. We would recommend the purchase of those instruments, and we prefer to use the family's insurance or investment advisor. We do not receive a commission or a share of the commission for such a purchase. Clients pay us for advice, and it is very important that our advice not be tainted by commissions.

At Browning, Meyer & Ball Co., LPA, we pride ourselves in being lawyers and offering thoughtful advice that is beneficial to our clients.