

Did you watch "Dateline: NBC Tricks of the Trade" April 13th?



By: Roger Shumaker - Retirement and Tax Solutions

I hope you saw Sunday's episode focusing on inappropriate tactics used to sell Equity Indexed Annuities (EIAs). It was worth watching.

If you missed it, "Dateline" reporter Chris Hansen and his crew conducted a sting operation of sorts. He had his aunt and a volunteer pose as potential annuity investors. Some insurance agents came to their "home" and talked to them about the features and potential benefits of an Equity Indexed Annuity. Some of them were less than forthcoming about surrender charges and the time frame of the annuity investment.

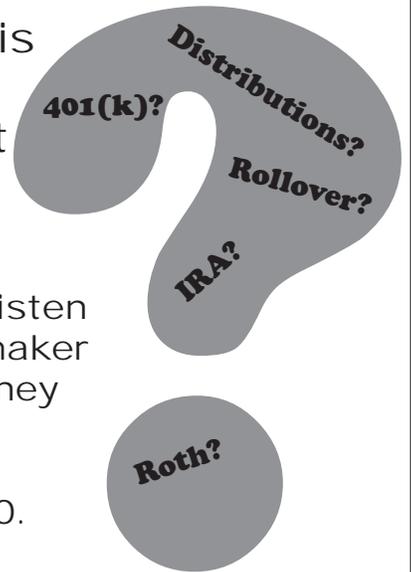
So having watched this episode of "Dateline" (I bet you did too), I just wanted to remind you of some basics when it comes to Equity Indexed Annuities, and annuities in general.

1) There's nothing evil about annuities. Or Equity Indexed Annuities. They have the potential to bring retirees and pre-retirees periodic income, and compared to many other forms of investment, many annuities (particularly fixed annuities) are notably low-risk. While not risk-free, annuities are popular investments for powerful reasons. You have an opportunity for tax-deferred growth, you can contribute much more annually to an annuity than you can to an IRA or 401(k), and some are uncorrelated (or indirectly correlated) to the behavior of the stock market. If the volatility of the stock market isn't for you, annuities can be a very appealing alternative.

2) Equity Indexed Annuities (EIAs) are annuities that are linked to the performance of a stock

So many financial questions..

How will this affect my retirement plans?



For answers, listen to Roger Shumaker on "Senior Money Talks," 9 am Saturdays on KMAJ AM-1440.

Retirement & Tax Solutions
5909 SW 28th St. Suite #100
228-0222

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market index. This is almost always a major U.S. stock market index, such as the S&P 500. During the accumulation phase of an Equity Indexed Annuity (when you're putting money into it), the return of that annuity is based on changes in that linked stock market index. When the distribution phase starts, you get either periodic payments or a lump sum from the insurance company under the terms of your contract. EIAs usually have a guaranteed minimum return. But keep in mind, that guarantee might be based on an amount below the total amount of your purchase payments. So under certain circumstances, it is possible to lose money with an EIA, especially if you only end up holding it for a couple of years.

3) Here's what I want to make really clear to you: if you invest in an annuity, you must understand that an annuity is a long-term investment. It is not the most "liquid" investment. If you need to pull your principal out of an annuity, there are very often sizable surrender charges (sometimes in the vicinity of 15-20% of the invested principal) and tax penalties.

Here's what I want to leave you with: before you make any kind of investment, you should have a clear understanding of its features and its risks. Someone should make them clear to you. The problem evident on "Dateline" was that these agents were not making things clear. As a result, their behavior veered toward the unscrupulous.

If you are unclear about an investment being offered to you, and if you wonder what qualifications the person offering it to you has, ask. Ask me. Run it by a third party before you invest. Get a second opinion.

A big part of my job is to inform and educate you - that's why this article is coming your way today, and why we host a weekly radio show. If you saw "Dateline" this weekend and you have questions about EIAs or other forms of annuities or investments, call or email me and we can talk about it.

Roger Shumaker is can be contacted at 785-228-0222. His office is located at 5909 SW 28th Street Ste #100, Topeka, KS. He hosts Money Talk heard on KMAJ 1440 AM (now live on the web @ www.kmaj1440.com) on Saturday's @ 9:00 am. Initial consultations are complementary.

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