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CFP®, CLU®, ChFC®, is the owner of CG Financial Group, one of the fastest growing annuity, life, and long term care IMOs in the industry. Gipple's passion is to fill the educational void left by the reduction of available training and prospecting programs that exist for agents today. Gipple is personally involved with guiding and mentoring CG Financial Group agents in areas such as conducting seminars, advanced sales concepts, case design, or even joint sales meetings. Gipple believes that agents don't need "product pitching," they need mentorship, technology, and somebody to pick up the phone…

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My "Three Bucket" Approach To Explaining Fixed Annuities

As many of you financial professionals can attest to, annuities have become more "mainstream" in the minds of consumers. So much so that we financial professionals are often prompted for more information about annuities from our clients without us ever even mentioning annuities. The industry-wide sales numbers speak to the increasing popularity of annuities, as last year (2023) was the best year in the history of the annuity business with $380 billion (more than 1/3 of a trillion!) written industry wide. That is more than a 25 percent increase from the year prior—which was also a record.

With that, if you get a phone call from a client and he/she says, *"Can you teach me really quick about your fixed annuity offerings?"* what would your response be? This conversation can be tricky because if you are like me, your natural tendency is to get in the weeds about all the options, bells, and whistles. However, you obviously have to be succinct and jargon free because clients are busy... As somebody once said, *"The best presentations have a good beginning, a good ending, and both of those items as close together as possible."*

So, here is my "bucket approach" that I explain to consumers that gives plenty of information but is not a 30-minute dissertation. Furthermore, the below points are not something I just spout out uninterrupted, as there are **always** questions along the way that make this a dialogue rather than a monologue. From here, imagine I am speaking with one of my clients.

The three different types of fixed annuities that I offer I will call bucket number one, bucket number two, and bucket number three.

Bucket 1: Guaranteed Rate Annuities

The first bucket is what I call the guaranteed rate annuities. If you are familiar with certificates of deposit, with these annuities the interest is credited just like how it is credited with certificates of deposit. Guaranteed and for the number of years you choose. Also, like CDs, you choose how long you want to have your money in the annuity, which can be anywhere from two years to 10 years. Usually, the interest rate is higher the longer out that you go. Again, the main characteristic here is that the interest rate is guaranteed for the length of the term that you choose.

What If you want your money back by the end of the term? There are generally liquidity provisions, such as interest only withdrawals or 10 percent withdrawals, where you can take money out if the need arises, even during your term. However, if you cash it all out prior to the end of the term, a lot like how you will lose interest with a CD, you will be subject to surrender charges with the annuity. What happens if you die prior to the end of the term? Most of these annuities will pass on to a named beneficiary whatever you put in plus whatever it grew to. Today I can give you a guaranteed interest rate of anywhere from 4.5 up to six percent, depending on the annuity term you choose.

Also, this is very cool about any annuity. Whatever interest you earn over a year you don't have to pay taxes on, at least until you take your money out! Annuities are tax deferred. So, if you are getting five percent over a year on $100,000, you may get a 1099 for $5,000 from the bank on that CD. Conversely, with an annuity, that 1099 does not come until you cash it out. *(Note: this last point is irrelevant if you are discussing IRA money.)*

Bucket 2: Accumulation Indexed Annuities

The second bucket is a bucket that gives you more upside potential than bucket #1, and it also does not have the downside risk of the stock market. Over "the long run" the stock market has done quite well relative to fixed interest alternatives. However, many consumers don't have "the long run" to wait out any market downturns that can arise if they have their money in the stock market! You may have heard of "The Retirement Red Zone." When folks get close to retirement (The Red Zone), losing money is obviously more dangerous than if you were otherwise only 25 years old. You don't want to lose your money right before you retire!

So, with this product, you can actually harness some of the upside potential that the stock market is known for. But, you don't participate in the downside. This is bucket #2, which is what I call "accumulation indexed annuities."

Quite simply, the interest rate that you get in a given year is linked to a stock market index, such as the S&P 500 index in a product example I will use. However, if the market drops 20 percent in a given year, for example, how much money do you lose? You do not lose a penny of your money. You get a zero percent interest in that year. Now, what happens if that market index goes up? You get everything the index does to the upside, up to what is called a cap. For example, one product that exists will give you a cap of 11 percent on the S&P 500. So, in short, in a given year you have the ability to get between zero and 11 percent. No loss if the market drops, but higher **potential** than fixed rates when the market increases.

These products are not designed to beat the stock market, they are designed to beat the bank and also bucket number one that I talked about. The "surrender charge terms" of these annuities are generally five years to 10 years.

Bucket 3: Income Focused Indexed Annuities

Then you have bucket number three. Bucket #3 is what I call income focused index annuities. Many folks nearing retirement don't necessarily care so much about accumulating money, but rather having their money turned into an income stream—like Social Security—once they hit retirement. In my experience, folks love their Social Security, they just want more of it! This is where this product really shines. Per dollar that you allocate to an annuity, you will find that the level of income it can generate over your lifetime can **potentially** be superior to many other products that you are used to. By the way, that income stream is guaranteed and, again, for lifetime!

So how does it work? Your money will grow a lot like how I just explained in bucket #2, the accumulation indexed annuity. You will get somewhere between zero percent and whatever the "cap" is on this product. Now, the cap is generally less on these types of products, for instance six percent instead of 11 percent. However, with these products, regardless of how your money grows or does not grow, today we can point at a guaranteed income amount that the carrier will guarantee you when you want to activate guaranteed lifetime withdrawals. So, for example, a 63-year-old today with $100,000, I can point to a guaranteed level of income of somewhere between $8,000 and $9,000 that he/she can activate at age 65 for example. And that income goes forever and ever and ever, even if you run out of your own money because you have lived too long. Just keep in mind that the guaranteed lifetime income component does have a "fee" of anywhere from .9 percent to 1.2 percent. *(Note: Many consumers have no clue what "basis points" are, so don't use that terminology!)*

In Closing

Eight out of 10 times most of the questions that arise are in Bucket #3. Questions such as *"What happens if I die? Does the balance go to my spouse or beneficiary?"* The answer is yes! Notice that in my conversation about bucket #3, I did not mention roll up rates, the calculations, the payout factors, etc. I usually don't have to…

GLWBs on an index annuity are quite simply a guaranteed level of income that you can point to today, just like a Social Security statement, and assure the client that when he/she retires this is the income that they are guaranteed for life regardless of how their "index" does. And unlike the myths thrown out there by the media talking heads that are living 30 years in the past, the client does not lose control of their money once they start taking income. There is a difference between annuitization and guaranteed lifetime withdrawals!