

Answering Questions About Annuities Calls For Sound Judgment

BY DANNY FISHER

SOMEONE STOLE MY CRYSTAL BALL LAST WEEK. Now I can only guess at what will happen in the future. That's too bad because my clients ask me to predict the future several times a day.

They ask me what interest rates will be next week, next month, or next year. I tell them, "Rates will go up and down, up and down, and continue doing that until the end of time. However, rates have been trending (up or down) for the past month."

The best rate advice I give my clients is to ladder rates by spreading their money over 3-, 4-, and 5-year period annuities. If rates are higher 3 years

If multiple annuities are involved, we'll mix up the owner/annuitant designations.

Professional financial advisors use their training, experience, and wisdom to ask their clients questions in order to offer the best advice possible, but the bottom line is, we are all still guessing because none of us have a crystal ball.

Clients do ask some questions that can be answered clearly and simply. For example, "What happens if I die while owning this tax deferred annuity?"

The answer is, "If your wife is the primary beneficiary, she will have 3 options—cash out, pay out, or switch out."

Cash out means she can cash out for the surrender value, pay tax on the gain and do whatever she wants with the money.

Pay out means she can elect to have the money paid out to her over a period of time and she literally has hundreds of options. She cannot stump us on a payout option. She will pay tax on the money as she receives it.

Switch out means she can take your name off the contract, put her name on it and continue the contract as is. In other words she can simply pick up where you left off. Taxes remain deferred until she decides to take the money out.

Or, she can do any combination of the three options. In short, she can do whatever she wants with the annuities.

"What if my wife and I both die, what options do our children have?"

They also have 3 options: cash out, pay out, or distribute out.

The Internal Revenue Service says if they don't cash out or pay out, they must have the funds distributed to them within 5 years. (By the way, I've never had a child beneficiary, at any age, ever take a pay out option. A few children beneficiaries, over the age of 40, wait until the end of the 5 years to take the money. The only question most children beneficiaries ask is, "How fast can I get a check?" Therefore, I predict your children will cash out as soon as they can.)

When clients ask simple questions, they want clear, brief, simple answers.

When people call right after the death of their spouse, I explain their options to them, just as I have in this article, simply and briefly. Then I tell them, "Look, you have lots of options and my best advice is to take some time to think about what you want to do. There is no rush. The insurance companies will not push you to make a decision. So, think about it, pray about it and when you are ready, just call and let me know what you want to do."

Not only do I try to give clear, simple answers, but I also try to make it as easy as possible for them to do business with me by filling out forms for them. In today's world, insurance companies have increased the number and complexity of forms to a point that it is nearly impossible for most agents and/or clients to complete an application or service form without help.

So I also tell the client, "When you decide what to do, I'll fill out all the forms so all you have to do is sign them."

If only I had my crystal ball back, I could tell my clients exactly how to fill out forms the way insurance companies want them, which annuities to buy at what rate, who should own the annuities, etc. But now that my ball is gone I'll just have to rely on sound judgment. **NU**

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from now, we should have put all the money in 3-year annuities. On the other hand, if rates are down in 3 years, we should have put all the money in 5-year annuities. At the end of the period, I can tell my clients if we made the right decision, but not before then.

Another prediction I'm asked to make is, "Should we set this annuity up with my wife or me as the owner/annuitant?"

My answer is, "Tell me when you are going to die, under what circumstances, and I can tell you exactly what to do."

Since we don't know who will die first, we go with the odds and normally use the husband as the owner/annuitant and the wife as the primary beneficiary.