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Annuity Markets

Overview and Learning Objectives

This chapter examines both the nonqualified and qualified annuity markets and explores IRAs, Roth IRAs, tax-sheltered annuities, and other qualified annuity plans. The discussion includes business planning opportunities for annuities, as well as college funding and charitable planning. Methods for preapproaching and approaching prospects are also discussed, along with techniques for conducting successful seminars. By reading this chapter and answering the questions, you should be able to

- 2-1. Identify marketing opportunities for annuities in retirement planning.
- 2-2. Identify the three demographic generations into which most annuity prospects fall.
- 2-3. Explain the concept of a stretch IRA.
- 2-4. Identify marketing opportunities for annuities in charitable planning.
- 2-5. Describe a hypothetical situation in which an annuity can be a viable solution for college education funding.
- 2-6. Explain the most commonly used methods for preapproaching and approaching a prospect for annuities.
- 2-7. Identify the main benefits of and aspects involved in conducting a successful seminar.

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Marketing Concepts

This section examines the use of conventional marketing concepts in the sale of annuities. First, we will identify the age-based market segments most applicable to deferred and immediate annuities, respectively. We will discuss how to target market to prospects for annuities and explore the sales opportunities and concepts within the nonqualified and qualified annuity markets, as well as additional markets in which annuity products may be useful. A review of these concepts will help you to put together your plan for marketing annuities.

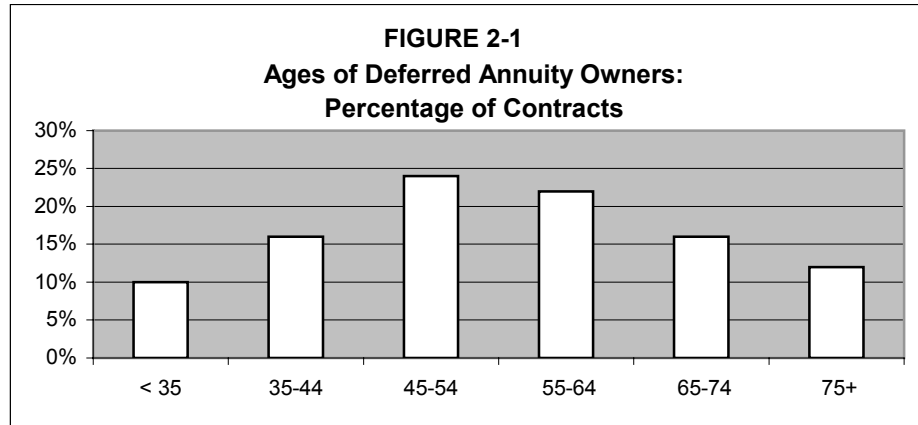
Identifying Market Segments

After determining the profile of a qualified prospect, the next step is to find groups of qualified prospects, or *market segments*. We will begin by reviewing the age-based market segments summarized in chapter 1. Age-based segments are an appropriate place to start because they currently play a more important role in marketing and selling annuities than any other demographic factor.

Once we have established the common characteristics and needs of the age-based market segments, we will then look at some other useful ways to segment the annuities marketplace.

Age-Based Market Segments

From the definition of a qualified prospect described in chapter 1, it is easy to conclude that an effective way to segment the annuities market is by age. It is only reasonable to assume that you will have greater success with prospects in the age ranges where they typically see the need for annuities in retirement planning, can afford to pay for them, are suited to buy them, and can be approached on a favorable basis. Fortunately, these age ranges can be easily identified: Statistics show that currently most deferred annuity sales fall into two categories: ages 45 to 64, and ages 65 and older.



Because of the general acceptance of age 65 as the traditional or normal retirement age (even though for Social Security purposes, this will eventually increase to age 67), we have slightly modified the age ranges used with the statistics. Under our methodology, the age groups are separated into three market segments:

- prospects who see retirement as a distant goal (those under age 45 years old)
- prospects who see retirement as a more immediate concern (those ages 45 to 64)
- prospects who are enjoying retirement or semiretirement (those age 65 and older)

(Throughout this discussion of market segments, you will see material and discussion on the various American generations, as commonly used by demographers. One word of caution: These generations do not exactly match up with our age-based market segments. For example, baby boomers can be found in both the under-age-45 and the ages-45-to-64 market segments.)

Under Age 45—As mentioned in chapter 1, traditionally, prospects in the under-age-45 market segment have been much less receptive than prospects from the other two market segments to purchasing deferred annuities. Probably the most universal reason for this reluctance to buy deferred annuities is that people in this market segment consider other needs and wants to be more important. Examples include saving for a house, buying a new car, saving for a child’s education, and securing life

and/or disability income and long-term care insurance. There is only so much income to spend.

Another reason for the lack of receptivity to buying deferred annuities is that prospects in the under-age-45 market segment perceive deferred annuities to be a need for people much closer to or actually in retirement. They may believe that they still have plenty of time to plan for retirement. In fact, many of these prospects feel that they will never need deferred annuities.

This is not to say that you should not approach prospects from this market segment. Obviously, people with the discretionary income to pay for deferred annuities may be good prospects. Their income notwithstanding, however, you should look for prospects who

- know a friend or family member who has purchased deferred annuities
- are in their 40s
- are single or divorced with no dependents
- have high liability limits on their property and casualty insurance
- own a personal liability umbrella policy

One of the major needs common to prospects in the under-age-45 market is asset protection in the context of retirement and/or estate planning. The primary goal of retirement planning is to build a nest egg that will last. One of the major risks we all face is outliving our resources. This risk dramatically increases when we factor in inflation and the possibility of needing long-term care. Prospects with whom you have actually done retirement planning make logical prospects for discussing deferred annuities. The same holds true for prospects with whom you have done estate planning to maximize the value of their estates. Large estates can suffer severe shrinkage from taxes and estate administration costs. This is especially true in situations where the bulk of the estate assets are tied up in illiquid assets such as real estate or closely held business interests. A deferred annuity with proceeds payable at the death of its owner to a named beneficiary can provide probate-free assets directly to the heirs of the estate owner. Therefore, deferred annuities should always be at least a part of any discussions about retirement and/or estate planning.

Affinity Marketing

One advisor's marketing advice:
"The best way to reach the under-age-45 market is through affinity marketing. Set up alliances with credit unions and other organizations that will allow you to market to their members."

Selling to the Under-Age-45 Market

The under-age-45 market may not be your target market, but you should take advantage of the opportunities for selling annuities to this market. Specifically, educate prospects about the risks of waiting too long to start planning for retirement and the associated high costs. Stress to them the power of compound interest, tax deferral, and within qualified plan products, tax deductibility. The information can result in a sale or plant the seed for a future sale.

EXAMPLE: “Mr. and Ms. Prospect, I understand that you feel that you cannot afford to save for retirement right now. However, I would like to give you some information about how annuities can help when you are ready. Would you have any objection to my staying in touch with you from time to time so that when you are ready to take action, you might consider doing it with me?” (No)

“Great, I will contact you periodically to see if your financial situation changes, and when you feel that you are ready to start planning for retirement, we can arrange to get together and discuss how tax-favored annuities can fit into such a strategy. Does that seem fair enough to you?” (Yes)

Then put them in your call-back file for future contacts.

Ages 45 to 64—Forty-six percent of all deferred annuity owners fall within this relatively short age range. This market segment will be the bread-and-butter market for deferred annuities for the next several years for a variety of reasons.

First, recall that the baby boomers represent a bulge in the population. Over the next several years, the baby boomer population bulge will dominate the ages-45-to-64 market segment, making it the segment with the most prospects by sheer numbers alone.

Second, people in this market segment typically are at their peak income levels. Thus, prospects in the ages-45-to-64 segment typically have the means to afford annuity premiums. Therefore, the chances of their qualifying to buy annuities and their willingness to act are much better than at the younger ages.

Third, the public generally views annuities as a retirement planning component, and ages-45-to-64 are when planning for retirement becomes a front-burner issue. Thus, prospects in this segment generally have a greater sense of urgency about planning for retirement than those in the under-age-45 market segment.

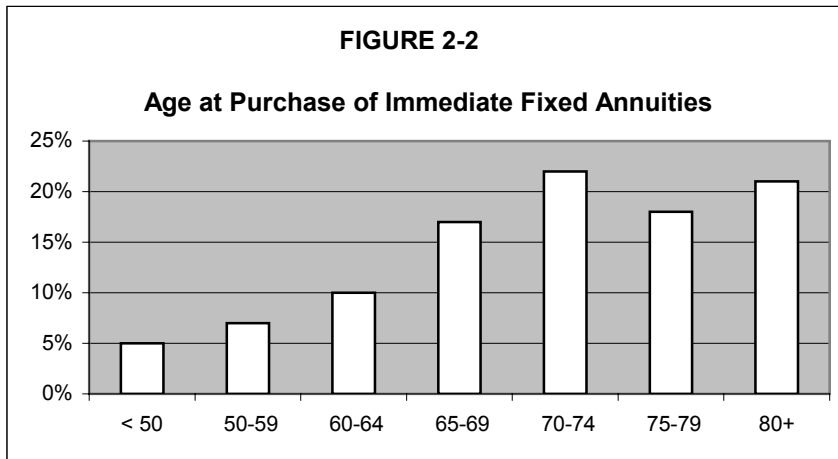
Another important need among this group is their desire to preserve independence during retirement. When people have self-reliant attitudes, they want to avoid having to depend on government welfare programs and/or their children. You will find this independent, self-reliant attitude among the middle class, especially those who have worked hard to accrue a nest egg for retirement. They are the people who have planned for their retirement and take great pride in having done so. Again, as previously indicated, the purchase of annuities should be a part of any retirement planning discussion.

Individuals in the ages-45-to-64 market who might make good prospects are those

- who are saving aggressively for retirement
- who are skeptical about the future solvency of Social Security
- with few or no dependent children in the household (so-called empty nesters)

Be aware that many people in this market segment are under pressure to save both for retirement and for their children's postsecondary education. In this regard, they face the same challenges as their under-age-45 counterparts. The difference is that they probably have a higher income and thus a greater ability to pay for annuities.

Age 65 and Older—As figure 2-2 shows, the age-65-and-older market segment has generated the vast majority of immediate-annuity sales. Also, immediate-annuity owners are generally over 70 years old, and they are usually retired; only 9 percent of immediate owners are under



the age of 60. Thus, 91 percent of immediate-annuity owners are over age 60, and 74 percent are age 70 or older.¹

Although studies show that the current trend is toward more deferred annuity sales for the age-45-to-64 market, there are still many prospects in the age-65-and-older market segment who purchase deferred annuities (28 percent of deferred annuity sales overall), especially for the transfer of assets from employer-sponsored qualified retirement plans that are distributable to employees when they terminate their employment.

Prospects in the age-65-and-older market segment generally have the same retirement planning needs as those in the age-45-to-64 market segment, except that prospects aged 65 and older are definitely more sensitive to healthcare issues, especially those related to Medicare and long-term care. In addition, because the majority of people in the age-65-and-older segment are no longer employed, they have a heightened fear that their monthly income and assets are not going to be sufficient to pay for everything they may want or even need. They fear that a lack of money will force them to depend on relatives, friends, or public assistance and will limit their access to quality long-term care.

One Advisor's Suggestions

Seek out and approach people aged 65 and older who have the wealth in this country. Ask them if they are happy with what they're earning on their money. Then show them what type of guarantees you can offer them with your deferred and immediate fixed-annuity products.

Because of their age and retirement status, prospects from the age-65-and-older market are much more concerned about protecting and conserving their assets than younger prospects are. As retirees, these prospects are generally not able to add to their retirement nest egg. Consequently, they readily relate to the risks involved in outliving their assets. Therefore, as consumers, they are more inclined to purchase fixed-interest deferred annuities than variable products, and they are also by far the largest segment of buyers (78 percent) of immediate annuities.

This market segment is largely composed of retirees, who have more spare time. Thus, they are more deliberate in their decision making and very receptive to seminars. One topic that makes a great seminar is long-term care. If you sell long-term care insurance, a seminar could serve a dual purpose: The topic of financing long-term care insurance could effectively also sell immediate annuities. This concept will be discussed further in chapter 6.

Demographers often divide the population into age-based segments known as generations. The process is not an exact science, so you will

find that dates for when a generation begins and ends vary slightly from source to source.

The basis for a demographic generation is the theory that the general population's psyche and behavior are shaped by significant life experiences, such as the way people are raised, national and world events, wars, the social and economic climate of the times, and so forth. While each prospect will need to be treated as an individual, generalizations allow you to be aware of the different types of attitudes you may encounter from members of each of these generations so that you can recognize them quickly and make adjustments. Virtually all prospects for annuities will fall into one of the three American Generations described below.

American Generations

The Silent Generation—There are over 60 million members of this population segment who were born prior to 1946. The Silent Generation is sometimes referred to as the GI, Swing, or Mature Generation. This generation falls into three groups: preretirees, new retirees, and long-time retirees.

Older members of this generation fought in and lived as adults during World War II. Many helped to shape the socioeconomic direction of America after the war, have been able to accumulate comfortable wealth, and may be remembered as the affluent senior generation. Younger members of this generation are called Depression era or war babies.

Generally, these people have discretionary income, and their children are grown. They often grew up as children in households with one wage earner, and they have retired or will retire as senior adults in households that have two wage earners. They tend to be

Hard-working—They equate success with hard work.

Frugal—The Great Depression and their parents instilled this value in them. This frugality has translated into the unprecedented wealth that they carry into their elderly years.

Cautious—As children of the Great Depression parents, they were taught not to take risks.

Self-reliant—They want to be independent and self-reliant and do not want to trust others for their security.

As a whole, they benefited from two decades of economic growth following World War II, large increases in Social Security benefit rates between 1968 and 1972, and the boom in real estate and the value of housing. Members of this generation have deep concerns regarding access to quality healthcare and asset preservation. These characteristics make them receptive to purchasing annuities.

American Generations (Continued)

Baby Boomer Generation—Over 78 million people born between 1946 and 1964 will reach age 65 from 2011 through 2029. Because its size is so large, this generation can be divided into two subgroups: Older Boomers (born from 1946 through 1954) and Younger Boomers (born from 1955 through 1964).

The members of the Baby Boom Generation often married later, divorced more often, and had fewer children than the generations before them. Baby Boomers have higher real incomes than their parents did, but as a group they are poor savers. Many are educating their children and taking care of aging parents. Because of this dual role, they are sometimes referred to as the sandwiched generation. They are

Spenders—Although Baby Boomers have more money than preceding generations in the middle years, they tend to spend it. It is not that they do not save at all, but they save less percentage-wise.

Inheritors—It is predicted that they will be collecting over \$9 trillion in inheritances between 1990 and 2030.

Image-conscious—Cosmetic surgery, designer clothing, and luxury cars exemplify their passion for image.

Youth-oriented—Health, fitness, and laser eye surgery exemplify their desire to remain young forever.

The Baby Boomers will enter retirement with money saved from their working years and inheritances. They will be able to afford premiums for annuities. Their preoccupation with image makes annuities an appealing product because they are designed to help them preserve their dignity and independence. Baby Boomers face increasing healthcare costs, uncertainties about the Social Security system, and fewer adequately funded pension or retirement plans to sufficiently meet their income needs.

Generation X—Born from 1965 through 1981, the Generation Xers are the children of Baby Boomers or the younger members of the Silent Generation. There are about 59 million of them. Sometimes referred to as the Baby Bust Generation, they are

Risk-takers—They are ambitious, and entrepreneurial opportunities appeal to them.

Self-oriented—They want to know what is in it for them.

Practical—They want something that works; they want a plan with specific steps and a well-defined result.

Because of their self-orientation and practical nature, expect them to encourage their Silent Generation and Baby Boomer parents to take individual responsibility for retirement, healthcare, and asset-preservation planning. Also, in the future, look for them to take action regarding their own retirement needs, making them excellent candidates for variable deferred annuities.

Targeting a Market

Market segmentation is a powerful marketing strategy that allows you to customize your approach and presentations based on the common needs and characteristics of the prospects in the segmented market. If you can find a market segment that has a communication or network system, then you have a target market. The communication system can be formal, such as a newsletter or regular meeting, or it can be informal, such as word-of-mouth within a tightly knit ethnic community. Either way, the communication system or network provides the means by which your reputation as a professional advisor can precede you. In other words, before you personally meet with any prospects in a target market, they will know about your abilities as a financial advisor.

Targeting Markets for Annuities

Because of the nature of retirement planning, annuities can be marketed successfully using age-based market segments as “makeshift” target markets (age-based market segments are very broad and lack a communication system and for that reason do not technically qualify as a target market). Many successful advisors do this by targeting narrow but specific age ranges. For example, one successful advisor targets prospects ages 55 to 65 because most of them are probably empty nesters who are focused on funding for retirement.

An extension of the age-based target market theme is when advisors target people in a specific, but narrow, age range who are also members of an association, service organization, or club. The ideal situation occurs when the majority of the membership is in the chosen age range. For example, if an advisor wants to target prospects ages 45 to 64, he or she may consider targeting a service organization (such as the Rotary, Jaycees, Kiwanis, and so forth) or club (such as a VFW, Elks, or a country club) in the community that has a large membership of people

Target Markets

One advisor found that his direct mail campaign discovered a target market about which he was unaware. As it turned out, a sizable number of the prospects who responded were professionals who work with retirees. These professionals make excellent prospects because they understand the financial and emotional plight of many of those who have inadequately planned for retirement. In similar fashion, the following professionals could make excellent target markets or centers of influence for you:

- Elder law attorneys
- Accountants (tax preparers and CPAs)
- Social workers

One Advisor's Cautions

Learn the annuity products as well as you can. If you know the products, you can find a market for them, but if you don't know the products, you will just make mistakes, hurt people financially, and never get repeat business.

in the desired age range. Besides age range and membership, other common characteristics of the prospect group, such as income range, could help in establishing a new target market. If you use this method for targeting a market, you will need to develop a list of desirable characteristics that you want the prospects to possess to guide you in the process of establishing the new target market.

For many advisors, annuities are just one of several insurance and financial products they sell, so they position annuities in a manner consistent with their current target market's view of them as advisors. For instance, if an advisor works as an estate planner for business owners making \$100,000–\$500,000 per year, he or she will want to position annuities as an estate liquidity and preservation tool.

Likewise, if an advisor's target market is teachers in a large city, he or she will want to position annuities, especially within a 403(b) plan, as part of a strategy for safeguarding the teachers' retirement nest eggs. Similarly, multiline advisors selling property and casualty insurance will want to position annuities as a piece of their prospect's overall financial plan.

Target markets enable you to focus on the unique needs of your prospects. This focusing will not only foster your reputation within the target market as an expert in annuities exclusively or in retirement planning products in general, but it will also allow you to better understand your prospect's needs. With this knowledge, you will soon discover the efficiencies of tailoring a marketing strategy for a large number of prospects with common characteristics and needs.

Nonqualified Retirement Planning

As individuals look to the three-legged retirement income stool, they see more and more that they have to take control of their retirement future. They realize the need to focus on the third leg of the stool, which is their own personal savings. With the uncertainty over the long-term existence of Social Security and with employers cutting back on their contributions to pension plans, it has become more apparent than ever that the third leg of the stool may be the only leg they can control and count on for long-term retirement security.

One technique that consumers can use to control their own personal retirement savings is a deferred annuity. Whether a flexible-premium or single-premium policy is desired, the market for nonqualified annuities in retirement planning is enormous.

In 2002, nonqualified annuities totaled \$111.8 billion—51 percent of the \$219.9 billion total annuity sales. Approximately 60 percent of those sales were fixed annuity products, while 40 percent were variable. Furthermore, 95 percent were deferred annuities, and only 5 percent were immediate. This brought the total amount of nonqualified annuity assets in force to \$581 billion in that year.²

Flexible-premium deferred annuities are ideal for consumers who want to systematically save for retirement with small contributions at frequent intervals. Single-premium deferred annuities can be used to fund a retirement plan when a person has a lump sum of money to invest such as from the sale of a business, an inheritance, a salary bonus, and so forth.

Deferred annuities are designed to allow consumers to save money for retirement. Because they offer tax-deferred growth, consumers can set aside dollars for retirement and watch the values grow year after year. Deferred annuities can help provide significant retirement nest eggs, and depending on which type of annuity the policyowner chooses—fixed, variable, or equity-indexed—the risk to those retirement funds can be little or nothing.

- **Flexible-premium deferred annuities** are ideal for the consumer who wants to save for retirement with small contributions at frequent intervals.
- **Single-premium deferred annuities** can be used to fund a retirement plan when a person has a lump sum of money to invest.

Deferred annuities are encouraged for use in saving for retirement because tax laws discourage annuity owners from taking money out early. The government imposes a 10 percent penalty tax on certain amounts withdrawn from annuities prior to age 59 1/2, and the insurance company imposes surrender charges. Thus, the annuity discourages needless depletion of annuity contracts.

Deferred annuities, as retirement planning tools, offer clients such important features as

- income tax deferral
- probate avoidance*
- guaranteed lifetime income at annuitization
- limited liquidity using free-corridor amounts
- the ability to take partial surrenders without having to surrender the entire annuity
- flexibility in making contributions as needed
- no limits on the amount of premiums that can be invested
- surrender charges that discourage clients from withdrawing funds prior to retirement age
- low cost (typically annuities do not charge an annual fee, but if they do, it is relatively modest)

* In order to avoid probate, the beneficiary must be a named beneficiary other than the estate of the deceased. If the estate is the beneficiary of the annuity, then the proceeds are deposited with the executor of the estate. The annuity becomes an asset of the probate estate and is subject to the claims of creditors. The annuity funds are also subject to lengthy red tape prior to distribution to beneficiaries.

Annuity Buyer Profiles

To succeed in today's competitive world, it takes a keen awareness and a thorough understanding of the underlying market forces. Transforming data into valuable insight helps you identify trends and understand annuity buyer and owner characteristics, which allows you to leverage the knowledge necessary to develop realistic marketing strategies.

Research organizations, such as LIMRA International, frequently conduct studies of nonqualified deferred annuity buyers to determine profiles of their demographic characteristics. LIMRA studies have compiled information on hundreds of thousands of annuity contracts

from numerous insurance companies. LIMRA collects demographic, attitudinal, and financial product ownership information from annuity buyers and owners; participating companies represent a mix of large, mid-size, and small annuity writers, with in-force contracts sold in both retail and employer-sponsored markets.

These reports investigate how owner characteristics (such as age, retirement status, household income, and investable financial assets) relate to attitudes, behaviors, and product features. Consider this information extracted from LIMRA's *Deferred Annuity Owner Study: Profiles, A 2003 Report*:

- Older owners are far more likely than younger owners to have nonqualified annuities.
- The average age of a nonqualified annuity purchaser is 66 (50 percent are age 70 or older).
- Sixty-three percent of owners are married, 20 percent are widowed, 10 percent never married, and 6 percent are divorced.
- According to product type, 67 percent of nonqualified annuity buyers bought fixed products, and 33 percent of them bought variable annuities.

“The most significant opportunity available in the financial services industry today is the retirement market—those people nearing retirement. They are increasingly burdened with financing a growing share of their retirement. Much of this burden relates to the many risks they will face in retirement. Financial services providers, especially life insurers, are uniquely positioned to capitalize on this because they can offer risk-transfer solutions through annuities, life insurance, long-term care insurance, and other products.”

Eric T. Sondergeld, Corporate Vice President and Director, Retirement Research, LIMRA International

These statistics are a jumble of useless numbers unless you interpret them to provide guidance in your annuity target marketing efforts. For example, if you want to purchase a list of prospects for nonqualified deferred annuities—or to describe to a center of influence the ideal profile of the type of prospect you seek for the sale of nonqualified deferred annuities—you can make the following conclusions from the information above to zero in on the prospect you seek: You would want prospects who are older, and it would be wise to start with those who are near or in retirement, and married. Also, you would improve your chances of receptivity if you gear your approach to these older prospects by discussing fixed annuity products. This will help you to improve your rate of success and maximize your prospecting effort in the nonqualified deferred-annuities market.

The Gallup Organization also conducts studies of nonqualified deferred annuity buyers to determine a profile of their demographic characteristics. The following excerpts are from Gallup's 2001 survey:

- The average age at which annuity owners purchased their first annuity was 50.
- Eighteen percent of annuity owners have household incomes of \$100,000 or more; 62 percent have household incomes under \$75,000.
- The higher the household income, the greater the tendency toward owning a variable annuity.
- Sixty-five percent of owners purchased variable annuities, and 35 percent purchased fixed annuities.
- Males are more likely to purchase variable annuities than females are.
- Those under the age of 64 are more likely to purchase variable annuities than those aged 64 or older.

(See www.Annuity-Insurer.org for the full report of each study.)

Based on these statistics, if you sought potential buyers of variable annuities, it would make sense for you to seek prospects in the higher income brackets (\$75,000 and over) and in the younger age brackets (perhaps between 40 and 60 years old) who are males. This will not guarantee your success in selling annuities, but it will increase your chances of marketing the right product to the most receptive prospects. This will enable you to more effectively allocate your time and financial resources into your prospecting and marketing strategies.

Qualified Retirement Planning

Because an annuity is already a tax-deferred investment vehicle, investing qualified plan dollars in an annuity may appear somewhat redundant. Nevertheless, annuities have consistently been a popular vehicle for qualified plan dollars.

Qualified annuities comprised \$102.2 billion, or 46 percent, of the \$219.9 billion total annuity sales in 2002. Of the \$102.2 billion in qualified plan annuity sales, \$71.1 billion (69.5 percent) went into variable products while only \$31.1 billion (30.5 percent) went into fixed annuities.

Within the qualified annuities category, there are three market subcategories—the IRA, 403(b), and “other plans” such as 401(k), profit-sharing, Keogh, deferred compensation (IRC Sec. 457 plans), and pension trusts. Of these markets, IRA sales were \$68.7 billion (67.2 percent) of all qualified plan annuities sold in 2002. Tax-sheltered annuities or 403(b) plans accounted for \$27 billion (nearly 26.4 percent) of all qualified plan sales. The remaining \$6.5 billion, or 6.3 percent, consisted of sales in the “other plans” category.

Each insurance company will have its own set of policies, or riders to nonqualified policies, for the various types of qualified annuities the insurer chooses to offer. Each type of qualified annuity requires a specialized endorsement or policy. For example, an IRA annuity will be different from a Roth IRA annuity, which will be different from a tax-sheltered annuity. The financial advisor must first determine which types of annuities are offered by the insurer because not all insurers offer all types of qualified annuities.

For Individuals

Individual Retirement Account (IRA)

Annuities have long been a solid retirement planning solution for people who want to save for retirement using tax-deductible contributions. The maximum *individual retirement account (IRA)* contribution per year is shown in table 2-1.

TABLE 2-1 Maximum Combined Contributions to All IRAs per Year		
Calendar Year	Taxpayer < Age 50	Taxpayer Age 50+
2004	\$3,000	\$3,500
2005	\$4,000	\$4,500
2006	\$4,000	\$5,000
2007	\$4,000	\$5,000
2008	\$5,000	\$6,000

An amount less than \$3,000 (or the larger amounts shown in table 2-1) may be contributed as long as the minimum premium is met, as determined by the insurance company, to issue the policy.

Whether or not the IRA contribution is *tax deductible* by the taxpayer depends on a number of items:

- The taxpayer must have earned income equal to the contribution.
- The taxpayer must be less than age 70 1/2.
- The taxpayer must not be an active participant in an employer's retirement plan for any part of the calendar year. (An active participant is an individual who makes voluntary contributions to or for whom employer contributions are made or accrued benefits exist within a qualified corporate, Keogh, pension, profit-sharing, stock bonus, or annuity plan, or in a simplified employee pension, 403(b) tax-sheltered annuity, SIMPLE IRA, or government plan.)

If the taxpayer is an active participant, then the taxpayer must have adjusted gross income (AGI) below a specified level to deduct the contribution. See the filing status tables (tables 2-2 and 2-3).

Note: Adjusted gross income as used for determining eligibility for an IRA deduction is calculated before the IRA deduction. That is, modified adjusted gross income (MAGI) is generally equal to the total income on the individual's Form 1040 tax return, minus adjustments to income other than for IRA deductions.

The deduction for contributions will be phased out for active participants whose MAGI or MAGIs exceed the applicable dollar limits described in tables 2-2 and 2-3.

Table 2-2 indicates the applicable dollar amount in the case of a taxpayer whose tax filing status is single or head of household.

TABLE 2-2 Filing Status: Single or Head of Household		
For taxable years beginning in	The "applicable dollar amount" is	The IRA deduction is totally phased out if MAGI exceeds
2004	\$45,000	\$55,000
2005 and thereafter	\$50,000	\$60,000

Table 2-3 indicates the applicable dollar amount for the spouse who is an active participant in the case of taxpayers whose filing status is married filing jointly when either both or only one spouse is an active participant.

TABLE 2-3 Filing Status: Married Filing Jointly		
For taxable years beginning in	The "applicable dollar amount" is	The IRA deduction is totally phased out if MAGI exceeds
2004	\$65,000	\$ 75,000
2005	\$70,000	\$ 80,000
2006	\$75,000	\$ 85,000
2007 and thereafter	\$80,000	\$100,000

- Those individuals who are not active participants in a qualified plan can contribute the maximum contribution to an IRA regardless of how much income they earned that year (that is, there is no ceiling on their income for deductibility).
- If the spouse of an active participant wishes to make an IRA contribution under the spousal IRA rules, then the total AGI for both taxpayers must be below a stated level for that calendar year.

The joint filer who is not an active participant in a qualified plan will not have his or her IRA deductibility phased out until combined AGI exceeds \$150,000.

- A taxpayer can make an IRA contribution that is not tax deductible as long as the first two bullet points on page 2-18 are met. However, the appeal to taxpayers in making nondeductible contributions has greatly faded because of the Roth IRA.

The trade-off for a traditional IRA owner's receiving a current income tax deduction for contributions that go to the IRA is that when

distributions are taken from it, all funds contained within it that are not rolled over or redeposited within 60 days are subject to income taxation. Thus, there is no tax-free recoverable cost basis in a traditional IRA.

If a client chooses to fund an IRA using a deferred annuity, the client will be listed as both the owner and annuitant of the IRA. Joint owners or joint annuitants are not available on any type of IRA plan. The IRA owner can name any person, trust, or entity as the beneficiary of the IRA.

Flexible-premium deferred annuities allow taxpayers to continually invest every year into the same IRA annuity. For contributions made during the months of January through April, it is important for the IRA owner to clearly mark on the check to which tax year the IRA contribution applies (that is, the current year or the prior year).

IRA owners are prohibited from borrowing against their IRAs. Therefore, regardless of what vehicle a client chooses to fund his or her IRA, the IRA will not allow the client to borrow against the fund values.

Chapter 7 will describe in detail the income taxation rules as they apply to qualified retirement plans and IRAs, including the 10 percent penalty tax for distributions prior to age 59 1/2 and the required minimum distribution (RMD) rules at age 70 1/2.

Spousal IRA—A person can make an IRA contribution on behalf of his or her spouse if that spouse does not have the required amount of earned income to fund his or her own IRA. The couple must file a joint income tax return, however. The IRA policy is set up in the name of the nonworking spouse with that spouse as the annuitant. There is no special rider for a spousal IRA. The traditional IRA endorsement is used. *Spousal IRA* just means, from a tax standpoint, that the IRA is funded by the working spouse.

Rollover IRA

Rollover IRAs are the largest market for qualified single-premium annuities. In terms of account balances, large IRA contracts (those with more than \$2,000 in initial premiums) represent 87 percent of all IRA contracts.³ A participant in a qualified retirement plan (a pension, profit-sharing, or 401(k) plan, or a tax-sheltered annuity) or in an IRA who receives a distribution can take those funds and deposit them into a rollover IRA to avoid taxes on the distribution. The following events will trigger the opportunity for the plan participant to roll over his or her distribution into an IRA:

- death of the plan participant (*spousal rollover*)
- termination of employment
- termination of the pension plan
- retirement from the employer

As more employees move from one job to another, the opportunity for financial advisors to help these employees invest in rollover IRAs is increasing. Financial advisors may consider building relationships with human resource managers in local companies to assist their terminating or retiring employees in rolling over their distributions.

Certain employer distributions cannot be rolled over into an IRA. Those distributions include

- any distribution made to avoid the penalty tax for people under 59 1/2 who are using the “substantially equal periodic payment” method (see chapter 7 for a complete description)
- any after-tax contribution
- any required minimum distribution made after the person is age 70 1/2

A rollover IRA is not a special type of policy but is the same as the traditional IRA. It is merely called a rollover IRA to designate what type of funds came into the policy. The distinction is made to differentiate a rollover IRA contribution from a traditional IRA contribution.

Stretch IRA

The *stretch IRA* has been a popular retirement planning concept in the last few years. A stretch IRA is not a specific type of IRA product or policy. It is a marketing concept that allows beneficiaries of IRAs to avoid taking a lump-sum death benefit by instead taking only the required minimum distribution and thus avoid a huge income tax liability. The beneficiary can stretch out the required distributions from the death benefit over a long period of time, usually over the life expectancy of the beneficiary.

Stretching out the proceeds simultaneously stretches out the income tax liability. It also allows the remaining balance to continue to grow on a tax-deferred basis. The end result is that over time the beneficiary ends up with a much larger inheritance than he or she would have had if the IRA were taken as a lump-sum distribution at the time of death. The following examples illustrate the concept.

EXAMPLE: Let us say you are owner of a retirement account in which your daughter is the primary beneficiary. When you reach 70 1/2, you elect to take only the required minimum distribution each year, in effect choosing to “stretch out” the retirement account. Your daughter, upon inheriting the account, would then be able to step in and resume taking the RMD. However, once the account passes on from one generation to the next, the life expectancy changes as well.

The distribution will then be made on your daughter’s life expectancy instead of yours. The significance is a substantially lower distribution, letting the account be spread out over a longer period of time. This allows the retirement account to continue to earn deferred interest while the distributions are taken. If your daughter had been forced into a lump-sum settlement, as much as one-third or more could possibly have been consumed in income taxes.

EXAMPLE: The following example shows how a payout might work under a multigenerational distribution option. In year one, we will assume Husband is 65 and has an IRA. Wife is age 55, Daughter is 22, and Grandson is 2. We will also assume that Husband will live to be 73 and that Wife will live to be 72. Let us also assume that over the entire period that the IRA is paying out, it will be earning a 6 percent interest rate. (The examples are hypothetical and all withdrawals shown are before taxes.)

Year	Husband's Age	Beginning of Year	RMD Life Expectancy	Interest	RMD Withdrawal	End-of-Year Accumulation
1	65	\$300,000	N/A	\$18,000	---	\$318,000
2	66	318,000	N/A	19,080	---	337,080
3	67	337,080	N/A	20,225	---	357,305
4	68	357,305	N/A	21,438	---	378,743
5	69	378,743	N/A	22,725	---	401,468
6	70	401,468	27.4	24,088	\$14,652	410,904
7	71	410,904	26.5	24,654	15,506	420,052
8	72	420,052	25.6	25,203	16,408	428,847
9	73	428,847	24.7	25,731	17,362	437,215

Husband leaves \$437,215 at his death to Wife. She inherits the IRA account, and she begins to take RMDs based on her life expectancy at age 70 1/2.

Year	Wife's Age	Beginning of Year	RMD Life Expectancy	Interest	RMD Withdrawal	End-of-Year Accumulation
10	64	\$437,215	N/A	\$26,233	0	\$463,448
11	65	463,448	N/A	27,807	0	491,255
12	66	491,255	N/A	29,475	0	520,731
13	67	520,731	N/A	31,244	0	551,974
14	68	551,974	N/A	33,118	0	585,093
15	69	585,093	N/A	35,106	0	620,199
16	70	620,199	27.4	37,212	22,635	634,775
17	71	634,775	26.5	38,087	23,954	648,908
18	72	648,908	25.6	38,934	25,348	662,495
					\$135,865	\$798,360

Wife leaves \$662,495 at her death to Daughter. She continues RMDs based on her life expectancy using the beneficiary life expectancy table following the year of her mother's death.

Year	Daughter's Age	Beginning of Year	RMD Life Expectancy	Interest	RMD Withdrawal	End-of-Year Accumulation
19	40	\$ 662,495	43.6	\$39,750	\$ 15,195	\$ 687,050
20	41	687,050	42.6	41,223	16,128	712,145
21	42	712,145	41.6	42,729	17,119	737,754
22	43	737,754	40.6	44,265	18,171	763,848
23	44	763,848	39.6	45,831	19,289	790,390
24	45	790,390	38.6	47,423	20,476	817,337
25	46	817,337	37.6	49,040	21,738	844,640
30	51	956,127	32.6	57,368	29,329	984,166
35	56	1,093,691	27.6	65,621	39,626	1,119,686
40	61	1,212,357	22.6	72,741	53,644	1,231,454
45	66	1,281,914	17.6	76,915	72,836	1,285,993
50	71	1,252,358	12.6	75,141	99,393	1,228,106
55	76	1,041,724	7.6	62,503	137,069	967,158
60	81	510,456	2.6	30,627	196,329	344,754
61	82	344,754	1.6	20,685	215,471	149,968
62	83	149,968	0.6	8,998	158,966	0
					\$3,401,188	

Payments will continue to Daughter for the remainder of her life or until the account balance is depleted. In summary, Husband's initial premium of \$300,000 totaled a payout of \$3,401,188 over Husband, Wife, and Daughter's lifetimes. This can be compared to Daughter's electing to take a lump-sum settlement at Wife's death, which would have resulted in a payout of \$798,360—the accumulation value at Wife's death (\$662,495) plus the total of all RMDs previously taken by both Husband and Wife (\$135,865).

Now let us take the scenario a step further and assume that Daughter, instead of inheriting the IRA, chooses to disclaim it. It would then pass to the next in line, which for this illustration is Grandson. At the time of inheritance, Grandson is age 20 and is the sole contingent beneficiary. Again, we assume that the IRA is paying 6 percent.

All the assumptions for the first 18 years until the death of the Wife occurs are identical to those above. Wife again leaves \$662,495 at her death to Daughter. However, Daughter now disclaims the retirement account in which it passes to Wife's contingent beneficiary, Grandson. Grandson then continues RMDs based on his life expectancy using the beneficiary life expectancy table following the year of his grandmother's death.

Year	Grandson's Age	Beginning of Year	RMD Life Expectancy	Interest	RMD Withdrawal	End-of-Year Accumulation
19	20	\$ 662,495	63	\$ 39,750	\$ 10,516	\$ 691.72
20	21	691,729	62	41,504	11,157	722,075
21	22	722,075	61	43,325	11,837	753,563
22	23	753,563	60	45,214	12,559	786,217
23	24	786,217	59	47,173	13,326	820,064
24	25	820,064	58	49,204	14,139	855,129
25	26	855,129	57	51,308	15,002	891,435
30	31	1,049,460	52	62,968	20,182	1,092,246
35	36	1,276,730	47	76,604	27,164	1,326,169
40	41	1,536,648	42	92,199	36,587	1,592,260
45	46	1,824,776	37	109,487	49,318	1,884,944
50	51	2,129,637	32	127,778	66,551	2,190,864
55	56	2,428,248	27	145,695	89,935	2,484,007
60	61	2,679,257	22	160,755	121,784	2,718,228
65	66	2,812,325	17	168,739	165,431	2,815,634
70	71	2,711,313	12	162,679	225,943	2,648,049
75	76	2,185,691	7	131,141	312,242	2,004,591
80	81	906,479	2	54,389	453,240	507,628
81	82	507,628	1	30,458	538,086	0
					\$7,650,240	

Payments will continue to Grandson. In this example, Husband's initial premium of \$300,000 totaled to a payout of \$7,650,240 "stretched" over multiple generations. This can be compared to Grandson's electing to take a lump-sum settlement at his grandmother's death, which would have resulted in a payout of \$798,360—the accumulation value at the grandmother's death (\$662,495) plus the total of all RMDs previously taken by both Husband and Wife (\$135,865).

It is critical for the financial advisor to discuss with the particular insurer if the insurer has the administrative capability to handle stretch IRAs. The insurer must be able to take multiple beneficiaries of an IRA and administer each beneficiary with his or her own account, tying the distributions to the particular life expectancy of that beneficiary. Because the administrative requirements are critical to the success of the stretch IRA plan, it is crucial to know the insurer's capability before recommending this type of plan

As a final note, a stretch IRA is normally suited for beneficiaries in the high net worth categories. Beneficiaries who are likely to request the full death benefit regardless of the income tax liability will not make use of the intended benefits of the stretch IRA. If the beneficiary feels he or she needs to withdraw the entire death benefit in a lump sum, the stretch IRA plan will be pointless.

Roth IRA

A *Roth IRA* is a special type of IRA plan with contributions that are made only on an after-tax basis. In other words, Roth IRA contributions are never tax deductible. The participant must have earned income equal to or greater than his or her contribution. Unlike the traditional IRA, an individual may still contribute to a Roth IRA after age 70 1/2 as long as he or she is still earning wages. The maximum contribution per year is illustrated in table 2-4 below.

TABLE 2-4 Maximum Contributions to a Roth IRAs		
Calendar Year	Taxpayer < Age 50	Taxpayer Age 50+
2004	\$3,000	\$3,500
2005	\$4,000	\$4,500
2006	\$4,000	\$5,000
2007	\$4,000	\$5,000
2008	\$5,000	\$6,000

A participant can contribute the maximum amount to either a traditional IRA or a Roth IRA or a portion into each. A person cannot contribute the maximum to both a Roth and a traditional IRA in the same calendar year. For example, if Lucy wants to contribute \$3,000 to a Roth IRA in 2004, she would be prevented from also depositing \$3,000 to a traditional IRA in the same tax year.

Even though Roth IRA contributions are not deductible, taxpayers still have to have modified adjusted gross incomes below certain levels to contribute to a Roth IRA. The IRS has established maximum income levels for single taxpayers, married taxpayers, and married filing separate taxpayers, as shown in table 2-5.

TABLE 2-5 Maximum Roth IRA Contribution		
If you have taxable compensation and your filing status is	You can contribute up to \$3,000 in 2004 (under age 50) and up to \$3,500 (over age 50) a Roth IRA if modified AGI* does not exceed	The \$3,000 contribution ceiling in 2004 for someone under age 50 and the \$3,500 contribution ceiling for someone over age 50 is phased out up to a modified AGI of
Married filing jointly	\$150,000	\$160,000
Married filing separately—and you lived with your spouse during the year	\$0	\$10,000
Single, head of household, or married filing separately—and you did not live with your spouse at any time during the year	\$95,000	\$110,000
*Modified AGI is adjusted gross income as shown on your tax return, minus any income resulting from a conversion of a traditional IRA to a Roth IRA, plus certain items such as any traditional IRA deduction and tax-free foreign earned income.		

The most beneficial aspect of the Roth IRA is that if certain conditions are met, all the funds withdrawn from the Roth IRA by the participant or the surviving spouse are completely income tax free. Unlike their traditional IRA counterpart for which distributions are almost always 100 percent taxable, Roth distributions can provide tax-free retirement income.

Furthermore, “qualified distributions” from Roth IRAs are not included in the recipient’s gross income for federal income tax purposes, regardless of whether or not the recipient is the participant or a beneficiary. A qualified distribution is one that is made after the 5-year holding period beginning with the first taxable year for which the contribution was made

to the Roth IRA. In addition to satisfying the 5-year period, the distribution must meet one of the four following criteria:

- It is made on or after the date the client reaches age 59 1/2.
- It is made after the owner's death.
- It is attributable to the owner's being totally disabled.
- Up to \$10,000 is used for certain purchases of a "first home."

Additionally, Roth IRAs do not have minimum distributions required at age 70 1/2. The owner and annuitant must be the same person for a Roth IRA. No joint ownership arrangements are allowed. The beneficiary of the Roth IRA does not have to be the spouse of policyowner.

For Businesses

SEP IRA

A *SEP IRA* is a simplified employee pension plan for business owners or self-employed persons. SEP IRAs can be funded with annuity contracts. Each participant is the owner and annuitant of his or her SEP policy. The employer must meet nondiscrimination requirements and therefore cover all eligible employees. No employee deferrals are allowed.

Although no longer available for newly issued policies, a SARSEP (salary reduction simplified employee pension) allowed participants of employers with fewer than 25 employees to defer some of their own income into the plan. The plans in existence before January 31, 1997, are grandfathered to allow continued employee deferrals.

SIMPLE IRA

A SIMPLE IRA (savings incentive match plan for employees) is a relatively new type of IRA account. The first SIMPLE IRAs were established in 1997. The SIMPLE IRA was designed to replace a specialized SEP plan called the SARSEP in which the employee was able to make contributions along with the employer. (New SARSEPs can no longer be established, although contributions can still be made to existing SARSEPs.)

Employers with 100 or fewer employees may establish a SIMPLE IRA. Table 2-6 shows the maximum employee contribution per year.

The employer must also make a matching contribution up to 3 percent of the employee's salary or a flat 2 percent for all eligible employees.

**TABLE 2-6
Maximum Contributions to a SIMPLE IRAs**

Calendar Year	Taxpayer < Age 50	Taxpayer Age 50+
2004	\$ 9,000	\$10,500
2005	\$10,000	\$12,000

The benefit of a SIMPLE IRA is that the employee can contribute up to the lesser of annually specified maximum dollar amounts or 100 percent of his or her income. For example, if an employee has \$8,000 of compensation in 2004, that employee will be able to contribute his or her entire salary to the SIMPLE plan.

If a client establishes a SIMPLE IRA, the owner of the IRA and the annuitant will be the employee. The employer will not be listed as the owner of the annuity.

To establish a SIMPLE IRA, the insurance company must first have a special policy or a special rider to specifically allow SIMPLE IRA contributions. Before recommending a SIMPLE IRA to an employer, the financial advisor should determine if the insurer offers this type of plan.

TSA/403(b) Plan

A *tax-sheltered annuity (TSA)* is also called a *403(b) plan*, derived from the Internal Revenue Code section from which it was enacted. TSAs are primarily for public school employees and those employees of 501(c)(3) organizations. Each employee will be the owner and annuitant of his or her annuity contract.

TSA plans vary from the traditional IRA in several aspects:

- TSAs have different rules with respect to accessing funds and determining when required minimum distributions must begin.
- TSAs may have loan provisions in the annuity agreement.
- Transfers of TSA accounts between insurers do not occur under the rollover IRA/transfer rules but are transferred in accordance with Revenue Ruling 90-24.

401(k)/Pension/Profit-Sharing Plan

If the financial advisor works with an employer to establish an annuity as a possible investment inside the pension plan, the owner and beneficiary of the annuity will be the trustee of the particular pension plan. Each individual employee will normally be the annuitant. Upon the employee's

death, the insurer will pay the death benefit to the trustee. The trustee will, in turn, look to the beneficiary designation the employee has on file with the qualified plan and pay the death benefit accordingly. Therefore, it is imperative that the employee have his or her beneficiary on file with the trustee of the pension plan. The employee will not have the beneficiary designation filed with the insurance company.

The beneficiary of the *401(k)* or *pension plan* must be the spouse of the employee. If the spouse signs a valid waiver, the employee can name someone other than the spouse as the beneficiary of the plan.

Normally, a deferred annuity might be just one of many options the employee has for investing his or her retirement funds. The annuity should not be the only option available to employees.

Additional Markets for Annuities

Structured Settlements

Frequently, the courts seek lifetime financial support for the injured party in a lawsuit or throughout the minority of dependent heirs. Consequently, it is usually acceptable to the court for the award to be paid as a *structured settlement*, in which there are periodic payments instead of, or in addition to, a single lump-sum payment. Insurance companies issue immediate annuity contracts that guarantee the payments over the required lifetime or over the mandated support period. Structured settlements, a category separate from either qualified or nonqualified annuity sales, comprised \$5.9 billion, or roughly 3 percent, of the \$219.9 billion in total annuity sales in 2002. These contracts are specifically tailored to the needs of the claimants, who are the injured or wronged parties.

Since the 1970s, the number of cases using structured settlement contracts to satisfy plaintiffs' claims has grown substantially. The most frequent cases in which structured settlements are applicable involve general liability, medical malpractice, defective products, automobile accidents, or workers' compensation injuries.

Personal injury claims adjusters and/or defense attorneys work together with a structured settlement specialist to arrange appropriate settlements. Suitable structured settlements provide an adequate amount of immediate cash for liquidity needs, as well as reimbursement for past expenses, legal fees, and other cash needs. If the recipient is unable to work, an income stream can be designed to fund his or her normal living expenses, custodial and medical services, rehabilitation costs, and, where appropriate, tuition for educational programs.

How Annuities Work in Structured Settlements

The customary structured settlement uses an annuity to provide periodic payments that meet the recipient's financial needs as much as possible. The periodic payments of income are received tax free by the claimant during his or her life and by the claimant's beneficiaries thereafter for the balance of any guarantee period. Two of the requirements for the

claimant's income-tax-free treatment are (1) the absence of any evidence of ownership by the annuitant of the annuity funding the structured settlement and (2) the absence of constructive receipt or economic benefit in the annuity itself. Therefore, all timing decisions, as well as the exact amount of money, are predetermined by the defendant, who is the legal owner of the annuity, and the insurer.

If the claimant has no reduction in life expectancy from the injuries that caused the claim, standard rates are applied for life annuities. Likewise, standard rates are used for fixed-period annuities because there is no life contingency. An example of a fixed-period annuity is payment of \$1,000 per month for 5 years and \$2,000 per month during years 6 through 10. This is also referred to as a *step-rate annuity*. Annuity benefit payments can generally be increased on a compound annual rate, ranging from 3 percent to 6 percent. In addition to life income guarantees, period-certain and joint-life guarantees can be used, depending on the circumstances involved. The insurer may issue a rated age or substandard life annuity if the claimant's life expectancy has been reduced.

In a catastrophic injury case, the structured settlement broker submits the medical data to different insurance companies for evaluation. Each company makes its own judgment as to the claimant's life expectancy and bases its annuity quotes on that opinion. Life expectancy estimates vary among companies, just as substandard life insurance varies among insurers. The lower the life expectancy, the lower the annuity cost. The broker then presents the bids to the defendant and his or her legal counsel to make an informed selection.

Generally, this kind of annuity can be purchased only by defendants or their insurers in personal injury and wrongful death cases, and the number of insurance companies that issue such contracts is rather small.

Advantages of Structured Settlements

The following are some of the advantages of structured settlements:

- *financial security*. The major advantage of a structured settlement for the injured party is financial security. A lifetime income is especially practical and desirable when a minor or incompetent is involved or whenever there is reason to be concerned about protecting the injured party's, or the surviving family's, future finances.
- *benefits that match needs*. An injured party needs regular income to meet living expenses and medical care costs. On occasion, when future medical costs are estimated to be substantial but the

timing of these costs is unknown, a medical trust, similar to an emergency fund, can be created with the defendant as grantor under the trust agreement.

- *management of benefits.* Claimants and their families or guardians are usually not trained to manage large sums of money. The risk of dissipation of funds through mismanagement, imprudent investment, unwise expenditures, misuse, or even neglect is significantly reduced through the use of periodic payments in a structured settlement.
- *guaranteed payment.* Because the income payments are guaranteed for life or for a fixed period, a structured settlement can never be prematurely exhausted.
- *income-tax-free payments.* Whether payments are in a lump sum or periodic, they represent personal injury damages, which are excluded from income tax.⁴

Disadvantages of Structured Settlements

There are also some disadvantages to structured settlements. If the life insurance company becomes insolvent, the annuitant may have a delay of benefit payments. Also, the annuitant will absorb all of the losses in excess of any state guaranty fund limitations. Furthermore, the benefit payments may be reduced with the new insurer. Therefore, structured settlement specialists should select only the most secure and well-managed insurance companies.

Moreover, because the periodic payment schedule cannot be changed, problems can occur if more immediate cash is needed than the stream of payments provides. This may be due to an unprecedented financial reversal, a medical necessity, an educational need, or greater than expected inflation. The original design of the structured settlement should therefore anticipate increasing payments annually (or at least periodically), build in periodic deferred lump sums, or include a medical trust for future medical and custodial needs.

Business Planning

Annuities can be useful tools in business planning. For example, a sole proprietor of a business may choose to sell the business in his or her retirement years. One way the buyer may choose to fund the purchase price is with an immediate annuity. The immediate annuity can be used to fund the buyer's payments to the seller.

The seller of the business might require as part of the negotiations that the buyer purchase this immediate annuity. The seller has a better guarantee that funds will be available each year in the future to make the installment payments.

If the buyer and seller agree to a 10-year installment plan, the buyer could purchase a 10-year fixed-period immediate annuity to cover the installment payments. The buyer of the business would be the owner and the annuitant of the immediate annuity. If the buyer dies before the end of the 10-year period, the seller could be named as the beneficiary of the remaining payments.

The buyer would receive the annuity payments, pay the necessary income taxes due on a portion of each payment, and take the remaining amount and use it to fund the installment obligation to the seller.

An installment payment may be more suitable to the seller of the business than receiving a lump-sum payment. With installment payments, the seller is able to spread out the income taxation on the sale over several years.

EXAMPLE: Fred owns the Dust Bunny Cleaning Corporation. Joe is the prospective buyer. The sale price is \$100,000. If Fred does not require a lump-sum payment but agrees to an installment sale of \$10,000 over 10 years, Joe can purchase an immediate annuity for a 10-year fixed period to help make the payments. (For ease of explanation we'll ignore any interest due Fred over the 10-year period.) This plan gives Fred the security of knowing that Joe will have the resources to make the payments long after the agreement is signed.

The arrangement benefits Fred because Fred will not have to declare \$100,000 of sale proceeds in the year of the sale. Instead, Fred will have to declare only \$10,000 per year over the 10-year period.

Joe likes the idea, too, because due to the interest the funds will earn from the insurance company, Joe will have to come up with less than \$100,000 in a lump sum today to fund \$10,000 for 10 years.

Charitable Planning

Annuities and the Charitable Plan

The key to successful marketing is to know when annuities are a solid financial planning tool in the charitable planning market and when they are inappropriate.

Annuities can be a solid financial tool in the charitable planning market. The key to successful marketing is to know in what situations annuities are strong tools and in what situations annuities may be inappropriate.

Bequest of Annuity Proceeds to Charity

As a client works with his or her professional advisors in the estate planning process, the client must make sure that the beneficiary designations on his or her annuities, life insurance, retirement plans, and so on match his or her intended estate plan. This means if the client wants to leave half of his or her assets to the spouse and the other half to charity, the client must align beneficiary designations with those wishes.

Sometimes when dealing with estate taxes, professional advisors will help determine how to distribute assets based on tax-efficiency considerations. In other words, they will ascertain how to distribute tax-heavy assets to charities while keeping the least taxable assets for the client.

In this context of planning, one of the best assets a donor can leave to his or her favorite charitable organization is a deferred annuity. Whether this is a nonqualified or qualified annuity, leaving the death proceeds to a tax-exempt charity is a win-win proposition for both the charity and the policyowner.

What makes this type of plan a win-win proposition is that normally the proceeds from the annuity will be taxable to the extent that they are larger than the policyowner's cost basis. Consequently, the beneficiary must pay the income tax on the gain in the annuity. If a charity inherits the annuity, because the charity is a tax-exempt organization, it will inherit the annuity and not have to pay a dime in income taxes. So, if the choice is between giving a taxable asset or a tax-free asset to charity, the planner will always suggest giving the potentially taxable asset.

Lifetime Charitable Gift

We have just explained how well charitable gifts of deferred annuities work upon death, but the opposite is true about lifetime gifts of annuities. As chapter 7 will explain in detail, a lifetime gift of a deferred annuity will result in a taxable event to the donor. This is true whether the gift is made to a person or to a charity. Therefore, making a lifetime charitable gift of an annuity will cause a taxable event to the donor and is therefore generally not a good idea.

Charitable Gift Annuity

A *charitable gift annuity* is a type of planned gift that is frequently confused with a commercial annuity product. A charitable gift annuity is a legal agreement between a charity and a donor. There is no insurance company involved. It is an agreement in which the donor gives the

charitable organization an asset, and in exchange, the charity pays the donor a lifetime income from the charity's assets.

The amount of the income the charity pays the donor is typically much higher than the rates on certificates of deposit or savings accounts. Whatever is left from the gifted asset when the donor dies is then available for the charity to spend on its operations. The income paid to the donor is normally based on the premise that at the donor's life expectancy, 50 percent of the amount contributed to the charity should be left in the gift annuity.

EXAMPLE: A donor makes a cash gift of \$100,000 to her favorite charity. The donor is aged 73 and will receive level income for the rest of her life. If invested properly, upon the donor's life expectancy, the amount left in the gift annuity should be \$50,000. If the donor lives longer, there will be less money in the account left over for charity. If the donor does not live to her life expectancy, there should be more than \$50,000 left over for charity.

Even though a charitable gift annuity is not an annuity available from an insurance company, there is a market for you to sell immediate annuities with charitable gift annuities. The sale potential comes into play with smaller charitable organizations. These small charities may not have the financial strength to stand behind their guarantee to pay a fixed amount of income for the donor's entire life, especially if the donor lives well beyond his or her life expectancy. In these cases, the charitable organization may "reinsure" its financial obligation to the donor by purchasing an immediate annuity.

The charitable organization purchases the immediate annuity on the life of the donor. The charitable organization is the owner and beneficiary. The insurance company pays the immediate annuity to the charity that, in turn, pays the donor. The benefit to the charity is that no matter how long the donor lives, there will be no financial hardship to the charity.

Charitable Remainder Trust (CRT)

A second type of charitable planning technique is the *charitable remainder trust*. An actual trust is constructed into which the donor contributes assets and out of which the trustee pays income to the donor (or someone else the donor names). When the trust ends, the balance of the money in the trust is paid to the donor's chosen charities.

Two types of charitable trusts are available: a charitable remainder annuity trust (CRAT) and a charitable remainder unitrust (CRUT). The CRAT will pay the donor a flat dollar amount; the CRUT will pay a varying dollar amount (a minimum of 5 percent is required to be paid annually), depending on the value of the trust assets each year.

Because the word “annuity” shows up in the charitable remainder annuity trust, sometimes confusion exists as to whether the payments are funded with the trust purchasing an immediate annuity. This is not the case and the word “annuity” does not mean what we in the financial services industry are used to its meaning. In fact, immediate annuities are not appropriate investments inside any type of charitable trust.

Deferred annuities are not proper assets to use to *initially fund* the charitable trust. In other words, the donor must use either cash or assets to fund the charitable trust at the inception. Then the trustee will often sell the assets inside the charitable trust and reinvest the proceeds into other investments. It is at the point of reinvesting that deferred annuities are often an ideal investment.

Deferred annuities are popular investments inside a CRT. The deferred annuity is sold to the trustee of the CRT. The trustee is the owner and beneficiary. The annuitant is the income beneficiary and is also usually the donor.

Net Income with Make-up Charitable Remainder Unitrust—A special type of charitable trust exists, called the net income with make-up charitable remainder unitrust, or NIMCRUT for short. This type of trust is an excellent retirement planning tool for young successful professionals, such as doctors, executives, and so forth. Because of the special nature of this type of charitable trust, it is the ideal charitable trust in which to use a deferred annuity.

A NIMCRUT works as follows: The grantor of the trust deposits property that has appreciated into a charitable remainder unitrust and the trust then sells the assets and reinvests the proceeds. Under the trust shelter, no capital gains tax is assessed at this point. In addition, the donor receives a current tax deduction on the full value of the charity’s remainder interest in the assets that have been placed in the trust. There is a higher deduction for a shorter-duration trust. If the trust is for life,

Two Types of Charitable Trusts

- Charitable remainder annuity trust (CRAT): pays a flat dollar amount each year
- Charitable remainder unitrust (CRUT): pays a fixed percentage (at least 5% of net fair market value) of trust assets each year, as revalued annually

the older the income beneficiary is and the lower the income payout, the greater the deduction.

The trust income beneficiary will receive either a set percentage of the trust assets (at least 5 percent under the unitrust rules of IRC. Sec. 664(d)) or the total income generated by the trust investments, whichever is less. This schedule protects the trust principal from being depleted. If there is a year with low yields, only the total income generated needs to be distributed, and principal does not need to be invaded. Shortages in one year can be made up in a following year. At the end of the trust's duration or the death of the beneficiary, the balance remaining in the trust goes to the designated charity.

The use of a variable annuity to fund such a trust can yield interesting results.

EXAMPLE: A married couple in their 50s decide to set up a NIMCRUT, which, in addition to a charitable donation, would provide retirement income and might also fund the purchase of a retirement home. They use a variable deferred annuity, which distributes no current income, to fund the NIMCRUT. Ten years later, at retirement time, the couple begins to receive income from the fund, and they decide to purchase a retirement home. The trustee distributes to them the funds for the home purchase and their regular income payment for that year. Because the annuity has been accumulating the funds for the previous 10 years, there is enough cash to meet the couple's needs. The key to this arrangement is the use of the annuity, because regulations mandate that charitable trust ordinary income must be paid out in the year that it is earned. The IRS has accepted the position adopted under some state trust laws that the buildup within an annuity is not distributable income until the trustee removes funds from the annuity. Thus, it allows the deferral of income from the charitable remainder trust until some later date.

Be sure to consult with your advanced underwriting and compliance departments and the appropriate legal and tax advisors for proper counsel and guidance before recommending a CRT to anyone.

College Funding

The cost to send a student to college for 4 years keeps escalating every year. However, the need to enter the work force with a college education has never been more critical. With the high cost of education and the equally high demand for children to attend college, more parents are

making funding their children's education a priority. Along with the time value of money, the earlier the funding process starts, the better.

Deferred annuities can be used to fund a student's college education. The significant advantage that deferred annuities offer is tax-deferred growth. This allows each year's growth to continue without having to surrender some of the annuity values to cover any tax due on the growth. From an accumulation standpoint, deferred annuities are excellent tools for college funding plans. The length of the time between the establishing of the annuity and the point at which the student will need the funds should be a long enough period to allow the annuity to realize significant growth.

Once the college student enters college, the owner withdraws enough from the annuity to cover education costs, including tuition, room and board, books, computers, and related expenses. It is important to make sure the particular annuity used for college funding will allow more than one withdrawal per year. Otherwise, the policyowner may take a withdrawal for the fall semester and then be prohibited from taking a second withdrawal to pay for the spring semester (most likely within the same policy year).

The owner will also want to begin funding the annuity early enough so that surrender charges are not a detriment. In other words, the plan should be funded so that the surrender charge period is over by the time the student enters college.

The downside of using a deferred annuity for college funding is the taxation of withdrawals. Chapter seven will cover taxes in detail, but as a quick overview, withdrawals out of most newly funded annuities are income taxable to the policyowner to the extent that there is any gain in the annuity. Therefore, it is most likely that the policyowner will have to pay ordinary income tax on part or all of the money withdrawn.

Furthermore, the Internal Revenue Service generally imposes a 10 percent penalty tax for withdrawals taken by policyowners who are under age 59 1/2. If the parents will be in their 40s or 50s when their children are in college, it may not make sense for them to own annuities for college funding, at least from a tax perspective.

An alternative approach, which may avoid the penalty tax, is to consider any grandparents of the college student as potential owners of the annuity. As long as the grandparent is over age 59 1/2, the 10 percent IRS penalty tax will not be an issue. It will not, however, change the income taxable nature of the withdrawals.

EXAMPLE: Fred and Nancy are both aged 55. Their son Danny, age 25, and his wife, Gail age 24, have twins who are 18 months old. Fred and Nancy would like to establish a college fund for the twins because they realize the extra financial strain the parents are under now. Fred understands the power of compounding; by starting a college fund now, it will have much more time to grow than if they wait until the parents have the extra cash flow to start the college fund themselves. Fred and Nancy look at several options for funding their grandchildren's college education, but they like the annuity as the best option.

The financial advisor explains to Fred and Nancy that if Danny and Gail are the owners of the annuity, by the time the twins are ready for college, Danny and Gail will be 42 and 41 years old, respectively. If they were to take distributions from the annuity, the distributions, to the extent that they are taxable, would be subject to the 10 percent IRS penalty tax in addition to income tax.

Fred and Nancy realize that by the time the twins enter college 17 years from now, Fred and Nancy will be 72 years old. Therefore, the 10 percent penalty tax for amounts withdrawn before age 59 1/2 will not be an issue for them. They know they will need to withdraw enough funds from the annuity to cover the college expenses, plus any income tax due on the withdrawals.

Fred and Nancy like the idea of owning the annuity instead of having Danny and Gail own it. By naming themselves as policyowners, they can tap into the annuity and gift the withdrawals to the twins when they enter college. They recognize, however, that if they fund the annuity with their own money but name Danny and Gail as policyowners, the annuity is a gift for gift tax purposes, which may limit Fred and Nancy's ability to make gifts to them for other purposes without incurring potential gift taxes.

Estate Planning

When a financial advisor conducts a fact-finding meeting with a prospective client, the financial advisor may notice that the client has already accumulated plenty of retirement funds and assume that a nonqualified annuity might not be a solution for that client. However, some clients purchase nonqualified annuities as a vehicle through which they leave assets to their heirs. Using nonqualified annuities in the estate planning process has both upsides and downsides.

The upside of using a nonqualified annuity to pass assets from one generation to the next is that the annuity generally bypasses the probate process. Bypassing probate is a benefit because the annuity values are not subject to the claims of the deceased's creditors. Also, the beneficiary will receive the proceeds much faster than if the death benefit goes through the probate process. Often, probate assets are not distributed for many months until the probate process is complete. Nonqualified annuities, on the other hand, are payable to the beneficiary as soon as the paperwork, including proof of death, is submitted to the insurer.

The downside of using a nonqualified annuity to pass money from one generation to the next is the taxation of annuity death benefits. When a beneficiary inherits nonqualified deferred annuity death benefits, the beneficiary must pay ordinary income taxes on any gain in the annuity. Therefore, the beneficiary does not receive the proceeds on an income-tax-free basis, as is usually the case with life insurance. In addition, the annuity is included in the estate for estate tax purposes.

EXAMPLE: Belle owns a nonqualified annuity worth \$150,000; she paid \$40,000 in premiums. When Belle dies, her beneficiary will have to pay income tax on the gain (which is the cash value less the premiums paid) or $\$150,000 - \$40,000 = \$110,000$.

On the other hand, had the beneficiary received shares of stock worth \$150,000 instead of annuity values, the shares of stock will pass to the beneficiary with a cost basis equal to the value at death, or \$150,000. If the beneficiary sells the stock immediately, he or she will not have to pay income taxes on any gain because the cost basis is now equal to its current value.

The taxation of nonqualified annuity death benefits makes a valid argument against leaving assets to heirs through annuities. One way to overcome this argument is to consider converting the nonqualified annuity into life insurance proceeds. The concept includes the annuity owner's purchasing a life insurance policy. Then the owner transfers the values from the nonqualified annuity into the life insurance policy, either on a lump-sum basis or over a several year period. For this concept to work, the annuitant must be insurable.

Because the policyowner cannot do an IRC Sec. 1035 exchange (see chapter 7 for more information on Sec. 1035 exchanges), the owner must pay income taxes on the gain in the annuity and apply the after-tax funds to the life insurance policy. The beneficiary of the annuity will be named

the beneficiary of the life insurance policy and inherit income-tax-free life insurance instead of partially taxable annuity death benefits.

Some caveats to this approach include the following:

- It is important to determine the age of the owner to be sure he or she is over age 59 1/2 to avoid the 10 percent penalty tax applicable to withdrawals or surrenders from deferred annuities to policyowners under age 59 1/2.
- The client must understand that this transaction is not a Sec. 1035 exchange. Therefore, any gain in the nonqualified annuity will be taxable income to the owner.
- It is necessary to ascertain that the owner does not need the annuity for retirement income.

EXAMPLE: Helen has a deferred nonqualified annuity worth \$100,000. She originally paid \$25,000 into the annuity several years ago. Helen has plenty of retirement funds and really has no need for this annuity. She is trying to decide whether to change the beneficiary to one of her favorite charities or name her nephew Adam as the beneficiary. Helen's financial advisor walks her through the pros and cons of each of the two options:

Adam as Beneficiary

If Helen names Adam as the beneficiary, upon Helen's death, Adam will receive a \$100,000 check from the insurance company. Unfortunately, Adam will have to pay income tax on the gain in the nonqualified deferred annuity, which is \$75,000 ($\$100,000 - \$25,000 = \$75,000$). If Adam is in a 20 percent state and federal income tax bracket, his taxes are $\$75,000 \times 20\% = \$15,000$.

Adam will need to set aside \$15,000 of his \$100,000 check to pay Uncle Sam on April 15. Adam's net inheritance after taxes is $\$100,000 - \$15,000 = \$85,000$.

However, Helen's financial advisor explains a different concept whereby she can make sure her nephew receives 100 percent of her money instead of only 85 percent. This concept is called *wealth enhancer*. In its simplest form, wealth enhancer converts a nonqualified deferred annuity to life insurance. Two things must be in place for this concept to work:

- Helen must be insurable.
- She must understand this is not a tax-free exchange.

Helen likes the idea. The financial advisor takes a trial life insurance application and within a few weeks finds out that Helen is insurable. Helen applies for as much life insurance as she can, given her age and health status.

For the next step, Helen accepts the life insurance offer. She then surrenders the annuity and uses the values to pay a single premium. The strategy is to have at least \$100,000 or more of paid-up life insurance so Helen is not at risk of paying any more premiums.

Helen has a second option. If she does not want to surrender the entire nonqualified deferred annuity, she can annuitize it over her life expectancy. She can then use the annuity payments to purchase as much life insurance as possible with the after-tax proceeds of the annuity payment. The goal is still that Helen have at least \$100,000 in life insurance to make it a viable planning option for her.

Consider if Helen's annuity is an IRA instead of a nonqualified annuity. Most IRAs have a cost basis equal to zero. Therefore, the taxable amount to Adam will be \$100,000, not \$75,000. With the same 20 percent tax bracket, his tax bill will be \$20,000 instead of \$15,000, giving the wealth enhancer concept even more credibility to eliminate taxes.

Charity as Beneficiary

If Helen chooses to name her favorite charity as the beneficiary of the annuity, the charity will still receive a \$100,000 check. Technically, the charity receives the nonqualified deferred annuity with \$75,000 of taxable gain, but the charity is a tax-exempt organization; therefore, it does not have to pay any income taxes. Instead, the charity receives the entire \$100,000 free and clear.

From an estate tax perspective, because the beneficiary of the annuity is a tax-exempt organization, Helen's estate will receive a charitable estate tax deduction of \$100,000. In the end, the net effect of this second option is to eliminate all estate and income taxes.

Private Annuities

A *private annuity* is not a product sold by a commercial insurance company. Rather, a private annuity is a contract between two people. One person, the transferor, transfers assets to the other person, the transferee, in exchange for a lifetime income stream. The payments cease when the transferor dies.

Private annuities are usually established between family members. They are particularly appropriate for parents who want to transfer property to their adult children but are afraid that by giving up the property, they may not have enough assets to generate the retirement income they need for their lifetime.

The transferee immediately receives title to the asset, but the asset cannot be used as collateral to back the payments. For this reason, the private annuity concept is not normally established between unrelated parties.

Preapproach and Approach Strategies to Market Annuities

Once you have identified a few target markets or market segments, the next step is to select some general preapproach strategies that you can use to identify yourself and to precondition prospects so that you can approach them about annuities. First, we will explore various preapproach and approach strategies and techniques that create interest and enable you to set appointments with annuities prospects. The section concludes with a closer look at seminars, a prospecting and marketing method that has proven to be effective in the annuities market.

What works effectively for you will depend on your specific market, as well as your individual personality and skills.

Preapproaches

The purpose of a *preapproach* is to create awareness of who you are and to generate an interest in your products. You want to precondition your prospects to meet with you when you call them. They will be less apt to do so if they have no idea who you are and what you can do for them.

How do you feel when you receive a cold call? If you react like most people, you are suspicious and defensive and do not listen to what the caller says. You are too busy thinking, “Who is this, how did he get my number, and how can I get rid of him?” Compare this scenario to receiving a call from a CPA you met briefly at a wedding or who sent you a postcard introducing herself as “a CPA for financial advisors, helping them to maximize their income tax deductions.” Would you listen? Use the preapproach to make your prospect curious; this can be done in many different ways. We will discuss some of the more standard preapproaches. The ones you use will depend on your target market, your prospecting methods, and your creativity.

Direct Mail

Direct mail is a systematic way to reach large targeted groups of prospects. Many companies offer direct mail programs that automatically

Direct marketing—once considered the stepchild of advertising and disparaged with such monikers as "junk mail"—has truly come of age. More than 300 companies in the insurance industry are using direct marketing to produce more than \$72 billion in new and renewal income. These companies know that direct marketing is one of the most efficient and cost-effective channels for direct sales lead generation, customer retention, and cross-selling opportunities.

LIMRA International—www.LIMRA.com

send out a set number of compliance-approved letters each month to the market segments you have chosen. Most direct mail includes a response card for potential clients to return if they want more information on the products or services described in the letter. Check with your product carriers to find out how they will assist you with direct mail. If you choose to write your own letters, be sure to have the appropriate compliance department approve them.

Direct mail is one of the more common preapproaches because it is an easy and relatively inexpensive way to

precondition prospects to be receptive when you call them. It allows people to see your message who otherwise might not be looking for your name in the telephone book or for your billboard advertisement. Furthermore, you can use direct mail to customize your message to different target markets. For example, you may send prospects ages 45 to 64 a postcard that talks about annuities as a major component of a retirement plan. For prospects aged 65 and older, you may instead send a postcard that talks about the uses of immediate annuities to provide a guaranteed stream of income.

Your company may have a direct mail program that requires you to supply the list of prospects you want to approach, select the particular letter you wish to send, and choose a giveaway offer if desired. Although the giveaway offer could be a remembrance item, such as a road atlas or a coffee mug, a better choice would be a booklet, book, or video on retirement planning that includes descriptions of annuities.

As mentioned when we discussed lists in chapter 1, many companies also offer market-segmentation programs that allow advisors to create a list of prospects who meet specific criteria. Examples of often used criteria include marital status, age range, income level, zip code, home ownership, and phone number. Consider a reputable vendor if you are dissatisfied with your company's options or if your company does not offer this service. Some vendors also have customizable direct mail pieces that they will send for you. Whether you use a direct mail piece from a vendor or one of your own, remember to have it approved by your company's compliance area before you send it out.

Using Direct Mail with a Giveaway

One advisor's company offers a giveaway that requires interested prospects to mail a tear-off response card back to the advisor, providing their names, addresses, telephone number(s), and permission to call if required. Then the advisor contacts them to set up a time to drop off a copy of the promised material. Here is the advisor's script:

"Hello, Prospect, my name is Joan with XYZ Company. I'm following up on the information that you requested about annuities. I'm not a telemarketer; I'm an advisor with the company and I have been for years. I would like to stop by, give you the information you requested, and take a couple minutes of your time to talk to you about annuities and answer any questions you might have. Would the morning be good for you, or would the afternoon be better?"

Here are some additional tips for a direct mail campaign:

- If you are working with a list of prospects you have generated through referrals, centers of influence, and casual meetings, make sure the names are spelled correctly.
- Before you purchase a list, check the undeliverable rate. Also check to see if the vendor uses a 5- or 9-digit zip code (5 digits have a greater chance of being undeliverable).
- Select a letter that matches the type of prospects on your list. Be conscious of both the content and the layout. For example, some companies use larger fonts for seniors.
- Keep the letter short. The main paragraph that creates interest should be no more than three or four sentences; otherwise people will not read it.
- Try using postcards. Many people do not open "junk mail" but they will take time to read a postcard.
- Use stamps rather than metered mail (no stamp). Metered mail to most people is perceived as junk mail.
- Try the "wave" mail technique, which involves sending several pieces of mail to the prospect over a period of time. For example, you may send three or four mailing pieces over a 3- or 4-week period, or perhaps over a 12-month period. Direct mail results show that people often respond between the third and sixth time they have seen a letter or an idea.

- Always include a postage-paid reply card that is easy for prospects to complete.
- Follow up direct mail with a phone call; it gives you an excuse to call. In the wave mail technique, wait to call after the prospects have received a few mailings from you. The mailings will help the prospects feel that they know who you are, and as a result, they will be more receptive to your call.
- Track your leads to monitor the effectiveness of your direct mail and other preapproach efforts.

Reputation-Building Strategy

Prestige, or reputation, is your personal public relations campaign. It is your standing in the eyes of others; it is the position or influence you command in people's minds. A good reputation increases the probability of your ability to approach prospects on a favorable basis. Therefore, take great care in *building prestige* and maintaining it. Make professionalism a priority. Here are a few guidelines:

- Dress professionally but not in a showy way.
- Be approachable and personable.
- Keep your car and office clean and organized.
- Consider earning an industry-recognized designation.
- Build your knowledge of annuities.

Furthermore, implement a strategy that will publicize your reputation, especially to your target markets. You want as many people in your target market to know you as the expert on annuities. For example, if you target the senior market, sponsoring a little league team would not be part of your strategy. Teaching a personal finance class at the local senior center, however, would be an excellent reputation-building activity.

Here are some other prestige-building ideas.

- Advertise on local radio stations. Select shows and stations that appeal to your target market. For example, "Sunday with Sinatra" would be a good radio show on which to advertise if you are targeting prospects over age 55.
- Advertise in local community-based newspapers.
- Make yourself available to the local media. Alert journalists that you are knowledgeable about retirement planning issues and willing to provide expert information.

- Give back to your community in ways that both you and your target market value such as volunteering activities.
- Leave annuities brochures (with your contact information on them) in places people from your target markets frequently obtain free information—for example, doctors’ offices, train stations, and credit unions.
- Educate key advisors, such as attorneys and CPAs who work with your target markets.
- Work with a local newspaper to publish achievements such as receiving your LUTCF, CLU[®], ChFC[®], or CFP[®] certifications.
- Join a local organization that will have a positive impact on the community.

Professional Brochure—Some advisors develop a *professional brochure* as one of their preapproach methods. The brochure is a self-promotional piece that introduces the advisor. Some advisors create their own brochures and then reproduce them using a local printing company. Other advisors use a vendor to design and print the brochures. The goal is to impress potential clients, so do not let price be the only consideration.

The self-promotional piece includes such information as

- name and contact information
- your mission statement
- a short biography
- credentials (designations, experience, and so forth)
- services
- products

Some advisors send brochures to referred leads, along with a cover letter that tells them to expect a phone call. A promotional brochure is also an appropriate handout to give new prospects when you introduce yourself to them, especially at an event you are hosting such as a seminar. The brochure should also become a part of your sales presentation binder.

As with other materials, the brochure will need to meet your company’s compliance standards.

Approaches

Generally, advisors use the telephone to approach prospects for sales appointments. This section will review some of the basics of effective

telephone approaches and methods to prequalify prospects during the appointment-setting call. Many advisors view annuities as one of several products they use to meet a client's financial and insurance needs; therefore, this section also looks at directing clients to annuities after selling another product.

Before we discuss aspects of telephone approaches, it is necessary to address the reality of the FCC's do-not-call rule, which is applicable to all financial advisors. For many, this is seen as a major obstacle to their prospecting efforts, but for others it is seen as an opportunity to explore avenues of marketing that play within the exceptions to the do-not-call rule.

These exceptions apply to

- established business relationships (includes transactions during the previous 18 months in the form of a purchase, payment, or delivery)
- prospective or current client inquiry during the prior 3 months (referrals do not satisfy the established business relationship exceptions and are not a basis to call someone on the list)
- written permission if received prior to call; are valid indefinitely unless revoked by the consumer
- business phone numbers
- family members, friends, and acquaintances

According to Gail B. Goodman, president of ConsulTel Telephone Skills Training, "There are hundreds of ideas that will move you toward better prospecting methods." For those prospects who are on the national do-not-call registry, you need to think creatively and utilize every opportunity within the law to make appointments with them.

Telephone Approach

You need to capitalize more effectively than ever on the opportunity to make telephone appointments with prospects who *are not* on the national do-not-call registry.

Objective—Your objective is to introduce yourself to the prospect and set the appointment. Obviously, you will not need to introduce yourself to an existing client, but you will want to re-establish rapport if you have not spoken to him or her for some time.

National Do-Not-Call Rule

On July 3, 2003, the Federal Communications Commission (FCC) made public its “Do-Not-Call” telemarketing rule pursuant to its authority under the Telephone Consumer Protection Act. The FCC rule, unlike the FTC rule, applies to the insurance industry. Insurance agents and financial advisors who use the telephone or send faxes to make solicitations will have to follow this rule even in states that have exempted insurance agencies from their do-not-call rules. Compliance with the do-not-call list was required, effective October 1, 2003.

The FCC rule makes use of the do-not-call list established by the FTC and sets forth the ways that telemarketers must check the list to ensure compliance. The term “telemarketer” refers to any person or entity—including an insurance agent or financial advisor—making a telephone solicitation.

Safe Harbor Rule

The FCC Rule provides a safe harbor for telemarketers who call a number registered on the do-not-call list under certain circumstances. A telemarketer working on behalf of a company is not liable for calling a registered number if as part of its routine business practice:

- It has implemented written procedures to comply with the do-not-call list.
- It has trained its personnel in its compliance procedures.
- It has maintained a list of numbers that it may not contact.
- It uses a process to prevent telephone solicitations to numbers on the do-not-call list using a version of the list that is no more than 3 months old at the time of the call.
- It does not sell or otherwise use the do-not-call database for any purpose other than its own compliance, and it purchases the list only from the administrator of the national list and not from any third party or through any cost-sharing arrangement.

Following these compliance steps acts as a safe harbor to shield telemarketers from liability for calling numbers registered in the do-not-call database.

Sometimes a prospect or client may ask you a question related to the product. One you probably hear often is, “How much does it cost?” Some advisors cannot resist the temptation to answer these questions over the telephone. It is more productive to save such answers for the interview; for now, you simply want to get the appointment.

A Professional Phone Skills Trainer's Viewpoint

Many advisors are panicking because of the recently passed do-not-call rule. They have called me lamenting, "What should I do?" since the passing of this new legislation.

First of all, this is the best thing that has happened to you because it will force you to market yourself using more relationship-oriented methods. Specifically, you should concentrate only on marketing activities that will put you in front of people—so they get to know you—before you attempt to create the professional relationship of financial advisor with them. Cold calling never worked effectively for those in this business anyway.

Second, you will be able to call and meet more of those people who are honestly interested in what you do, rather than wasting time attempting a phone conversation with those who are totally disinterested. It will be a more efficient use of your phone time and overall professional time.

Third, you will have to write a marketing plan that shows or uses good practice ideas.

Here are some ideas:

- Seminars are a terrific forum for getting interested people to sit and listen to you talk.
- You can also canvass a business area and introduce yourself to local business owners. Make sure you have a good, short face-to-face introductory presentation that will help set up the appointment-seeing phone call that follows.
- Try calling the people in your natural market such as friends, family, and acquaintances you have been too afraid to call! Those folks will accept your phone call, won't they?

I am sure that everyone will have a period of adjustment, but overall, this new law will help the truly professional financial advisors to rise to the challenge.

Gail B. Goodman, President ConsulTel, Inc./www.phoneteacher.com

System—You may already have a system for setting appointments. If you do not, now is a good time to develop one. A system is critical to ensure that appointment setting is done effectively. It provides you with clear expectations and a game plan that will increase your confidence and improve your results. Here are some points to consider as you create or modify your system:

- *Use a telephone script.* Write and practice your telephone script. Your script should reflect the needs and characteristics of your target markets. The script should vary depending on the source of the prospect and the preapproach, if one was used. For example, if you approach a referred lead, you will want to mention the referrer's name.
- *Coordinate logistics.* Plan a specific time to make your calls. Have a goal for the number of appointments you will make based on your sales and commission goals. Maintain a prospect list of names, telephone numbers, and addresses (to confirm where the appointment will be).
- *Follow the laws.* Follow federal and state laws concerning telemarketing. For example, observe the do-not-call rules established by the Federal Communications Commission, and abide by the call curfews set by your state.
- *Use good telephone techniques.* Smile, project your voice, and enunciate your words. These are just a few of the many suggested techniques.
- *Track your results.* Record keeping enables you to evaluate your prospect list and target markets. Without adequate records, you may miss a target market because you are relying on "feel" to measure results rather than objective numbers.
- *Confirm the appointment.* Send a letter, postcard, and/or call the prospect to confirm the appointment to prevent being stood up.

Follow-up to a Mailing to Preretirees

"Hello, this is Tom Smith from DEF Insurance. I recently sent you some information on the tax advantages of deferred annuities.

"As a specialist in retirement planning, I would like to get together with you and explain how tax-deferred annuities can enhance your retirement income. Regardless of whether tax-deferred annuities are appropriate for you, people in situations similar to yours have found it useful for them to take the time to learn some of the facts about how they work.

"Are evenings good for you, or do afternoons work better?"

Script—Many advisors balk at the words *telephone script*. They feel a script will restrict them or make them sound mechanical. Actually, the opposite is true. Scripts help you feel more comfortable and enable you to project a more confident phone personality. They free you to focus on the prospect and listen for clues to gauge his or her level of interest. In addition, they help you repeat success and diagnose failure.

A good script is short and creates interest.

EXAMPLE: “Good afternoon, Prospect, this is Joe Advisor from ABC Insurance. I will only take a moment of your time. The reason for my call is that I specialize in helping senior citizens (and retirees) increase the fixed rate of return on their retirement savings. I’ve been working with a lot of retirees and have found that many of them are not happy with the current rates of interest that they’re earning on their money. So I am offering information that shows some alternatives on how you could earn a higher rate of interest on a tax-deferred basis. Some ideas offer a guaranteed interest rate that may also reduce your total income taxes. What I’d like to do is meet with you to share ideas that may help you. Would some time during the morning work for you, or are afternoons better?”⁵

If you do not have a script, here are some of the basic elements of a good script. As always, remember to follow company guidelines and obtain any necessary compliance approval.

Greeting—You want to make a good first impression.

- Open your conversation with something upbeat like, “Good morning/Good evening.”
- Identify yourself and the company you represent.
- Consider adding a phrase that demonstrates you are sensitive to the prospect’s busy schedule: “Good afternoon, this is Jane Advisor with XYZ Company. I’ll only take a moment of your time.”

Creating Interest—Remember, you are trying to motivate the prospect to see you.

- Tell why you are calling and state your credentials (areas of expertise).
- Offer information.
- Give a unique benefit statement that describes the results you create for people like the prospect (your target market).
- Explain the purpose of the meeting in terms of the personalized results you hope to achieve for the prospect: “I’m calling because my area of expertise is in retirement funding for preretirees like you and your husband/wife. I offer individual plans tailored to meet your retirement needs, affording you the

luxury of enjoying your golden years. I would like to get together with both of you and show you some basic principles to prepare for your future financial security. Many of my clients feel that after meeting with me they were much better prepared to meet their retirement income needs.”

Close for the appointment—This is why you are calling.

- Avoid using the word appointment. Use “meet,” “see,” or “get together.”
- Use the word “share.”
- Keep your close as a choice between two large concepts of time, such as mornings or afternoons, evening or daytime, or beginning or end of the week: “What I’d like to do is get together with you to share some ideas that may help you. Are evenings convenient for you or is the daytime better?”

Conclusion—This ends the call and confirms the appointment.

- Give or get directions, depending on where you will meet for the appointment.
- Reconfirm the appointment and affirm your desire to meet the prospect.

Asking Prequalifying Questions—Many successful advisors prequalify prospects once they have agreed to an appointment. Whether you prequalify your prospects depends on your type of practice and personal views on this matter. For example, if you have multiple products, prequalification before the initial interview may not be crucial because you have other products that you can turn to in order to satisfy other needs the prospects may have. However, prequalifying before the initial interview will allow you to prepare for a smooth transition to the other needs and products.

If you do wish to prequalify before the initial interview, the next step is to decide what information you need to know and build a script. Choosing what questions you ask is based on your philosophy of prequalification. For instance, one advisor prequalifies for age only. His philosophy is that although annuities are his main products, they are not his only products. He can switch to a discussion of the prospect’s possible need for long-term care or life insurance. Even so, he cannot help anyone

over the age of 85 who may need these products. Therefore, as a matter of practice, he asks people for their date of birth. If they ask why he wants to know it, he simply tells them that all annuities (as well as life or long-term care insurance products) have age limits that restrict their issuance.

The transition from getting the appointment to asking the prequalifying questions needs to be smooth; that is why a script is important. One commonly used transition is, “I know your time is valuable. So to make our time together as productive as possible, it would help for me to know some basic information about you.” Then pause and begin to ask three to five brief and simple questions.

Some advisors include questions to identify other people who will influence the prospect’s decision such as children or a CPA. If these advisors find that there are other people involved in the decision-making process, they often suggest having them present at the interview. Here are a few of the questions successful advisors ask:

- What is your date of birth?
- What is your occupation?
- What is more important to you, saving income taxes or preserving your assets?
- Would you consider yourself a risk-taker or a conservative investor?
- Do you rely on anyone to help you make decisions about financial products?

Besides the actual answers to these questions, the prospect’s willingness to answer them and the tone of voice and spirit of cooperation will give you valuable preliminary insight into how well he or she meets the four criteria of a qualified prospect discussed in chapter 1. You will also begin to formulate ideas about the prospect’s income, his or her buying attitudes, and what products to discuss.

Finally, have a short script prepared that you can use to let the person down if you know he or she will not qualify. This requires the utmost care and sensitivity. You do not want the prospect to feel bad.

EXAMPLE: “Prospect, I am really sorry but according to your date of birth, we will not be able to help you at this time. I highly recommend that you consider seeing an attorney or financial planner who specializes in alternative strategies for meeting your estate planning needs. I can provide the names of several attorneys if you would like.”

Pivot Approach

An effective pivot or transition from one product to another uses previously shared information as the context for asking a question relevant to another product. Pivoting can occur from any type of product sale. Most likely, you will discuss annuities as part of retirement or estate planning. But if you are a property and casualty advisor or a life advisor who is working in the income replacement market, you will have the opportunity to pivot as well.

How and when to pivot are going to depend on such factors as what type of product the prospect bought from you (or did not buy from you), your personality, and so forth. Try to use something from the previous discussion to lead into annuities. Pivot when there is closure to the previous discussion. For instance, one of the best times to pivot is when you deliver and review a policy.

EXAMPLE: “Prospect, you have made a great choice to buy this life insurance policy. You are really thinking and planning ahead. Since you seem to be the planning type, I was wondering—have you thought about your plans for retirement? Do you know about how annuities can bolster your retirement income and save you income taxes before and after you retire?”

If your prospect responds with curiosity or wants to know more about how annuities can serve dual purposes, you can simply ask for the appointment so that you can discuss annuities further. For example, you might say, “Can we get together next week or another convenient time to discuss your current situation in more detail?” If the prospect asks you to tell him or her more now, keep it very general and brief; then ask again for the appointment.

Summary

Successful selling begins with effective marketing. Defining target markets for a product enables you to create efficient and effective preapproach and approach strategies that are customized to appeal to your prospects’ needs. As you begin to market annuities, treat them like

Another Pivoting Approach

One successful advisor asks prospects, “By the way, do you have any money in savings or investments that is currently generating taxable income that you really don’t need? Could you instead put that money away to grow on a tax-favored basis to enjoy in your retirement?”

other products you sell, and take the time to define your target markets and strategy, including details like your telephone and pivoting scripts. The execution of a well-thought-out plan will enable you to take advantage of the marketing opportunities in annuity sales.

Seminar Marketing

Seminars: What Are They and Why Use Them?

A seminar is a prospecting method in which you, alone or as part of a team of professional advisors, conduct an educational and motivational meeting for a group of people who are interested in the topic being presented.

Seminars are a form of mass marketing. Although classified in this textbook as a prospecting method, seminars do more than help you identify prospects. Seminars are a proven strategy for prospecting in the annuities marketplace. They create awareness and interest in your products and services, and they serve to establish and build your reputation as an expert in annuities, especially within the context of retirement planning. In these ways, seminars also function as a preapproach vehicle.

Seminars as a Prospecting Source

One advisor conducts 12 to 15 seminars a year for groups that include both pre- and postretirees. He uses such facilities as hotels, firehouses, churches, and retirement communities. Topics include

- how to make money in a down market
- asset allocation strategies
- safety of investments while making money

He uses a company that mails 5,000 invitations and calls the prospective attendees who responded the day before the seminar to remind them of the time and location. Seminars are his primary source for obtaining annuity prospects.

Think of seminars as live infomercials that educate people about the retirement planning need and motivate them to want to know how annuities can help them. Because of the educational and motivational aspects of seminars, they are an effective way to obtain appointments. The objective is *not* to make an immediate sale. The only selling that takes place in the seminar is selling yourself and your ideas.

Time Is Money

One successful advisor gives his reason for prospecting using seminars: “I prospect almost exclusively through seminars even though they require a lot of effort and expense. I justify them because I view the seminar as the initial interview that establishes the need for annuities in the minds of a group of prospects. If I have 20 people in the seminar, I am able to do at least 10 initial interviews (this assumes I have a group of married couples) in the time it would normally take me to do one. As they say, ‘Time is money.’”

Not surprisingly, in one study, advisors who were classified as “high earners” ranked seminars as the third most effective marketing tool for reaching targeted prospects, just behind referrals or centers of influence and the effective use of newsletters and brochures.

The general success of seminars and, specifically, the success that advisors have had using them to sell annuities are why we are looking in depth at this prospecting method. This section will discuss the advantages of seminars, some planning considerations, presentation tips, and the most important aspect—follow-up.

Advantages of Seminars

Seminars are a popular prospecting method for annuities because they appeal to the demographic age groups most interested in annuities: people aged 45 to 64, and people ages 65 and over. This appeal has much to do with the fact that, typically, seminars appeal to prospects who need information and have the time to seek it out—a description that fits prospects in the seniors market.

But there are other reasons why you should consider using this prospecting method.

Other Advantages of Seminars

In addition to being tailor-made for the age-45-and-over annuities market, seminars offer some of the following advantages:

- Seminars enable you to maximize your time. They represent an opportunity to educate and motivate many prospects at once. Consider seminars to be a group version of the first appointment.
- Seminars create a nonthreatening environment in which you can build rapport and credibility with prospects. What other prospecting method allows you to demonstrate your knowledge of the financial problems prospects face and the solutions that you can provide?
- Seminars help you identify qualified prospects. If you use a questionnaire or feedback form, you can identify whom you

- should call first. In addition, answers to questions can give you insight into prospects' concerns, needs, and questions before you meet them for follow-up appointments.
- To some extent, seminars prequalify prospects. Although you initiate the seminar by inviting the prospects, they confirm their interest by attending and represent a much better prospect pool than a cold-call list. If you can bring together the right people, ask the right probing questions, present the right solutions, and project yourself as the professional source for a specialized area of expertise, such as retirement planning, your seminar will be tremendously successful.

Planning a Seminar

Arrangements, program content, and follow-up are critical to the success of a seminar. If a seminar is not well planned, you risk losing credibility with the people who attend. Therefore, developing a well-thought-out plan is essential.

It is helpful to have a written game plan—a step-by-step description of what you need to do and when you need to do it. A checklist, such as the one provided at the conclusion of this section of the chapter, lets you see at a glance where you are and what remains to be done.

Your Objective

The first step in the planning process is to set your goal or objective. Before you do anything else, ask yourself what the seminar will accomplish. Your goal should be specific, attainable, and measurable. For example, you may set a goal of making 10 appointments with seminar attendees. Or your goal may be to provide an informational seminar for 15 of your best clients. The goal you set is important because it will affect other decisions regarding the seminar details.

Budget

It is especially helpful to establish a budget and work to stay within this constraint. Food is generally not served, but if you wish to provide refreshments, keep them simple and inexpensive. If you are using a hotel or restaurant, you may need to resist the pressures for lavish meals. Remember, you are selling your services and knowledge; you are not offering free food.

The Audience

Seminars involve target marketing. The people you invite should have a common interest or need. This allows you to focus on the specific needs of the audience. For example, you could present a seminar that covers Social Security retirement benefits and annuities, which would generally appeal to prospects over age 65. A seminar that focused on annuities as they relate to planning for retirement, on the other hand, would generally appeal more to prospects under age 65.

Sometimes the audience will be from a preselected group and is determined by the purpose of the seminar. For example, if your purpose is to create centers of influence, your audience will be made up of other professionals who work with prospects in your target market. You will probably invite such professionals as attorneys, CPAs, and fee-based financial planners. If your objective is to improve retention in your multiline book of business, you will invite a market segment from your current client base. Finally, you may want to expand your client base. In that case, you will invite new prospects (not current clients) from a specific market segment or target market. The point is that you need to make a list of invitees who have some common characteristics and needs.

To determine how many people to invite, begin by setting a goal for the number of attendees you wish to have. Initially, aiming for 15 to 20 prospects is reasonable. If 15 to 20 prospects attend, you can justify costs. At the same time, the group will be small enough to allow interaction between the speaker and attendees. You will learn from experience how many people to invite to have the desired number of attendees. A good rule of thumb is to invite at least 10 people from a preselected audience for each desired attendee. The ratio of invitees to attendees will improve as your seminars become better known.

Once you have created a list of invitees, your next step is to determine how to invite them to your seminar. Individual invitation letters are the most effective way. However, newspaper ads may be effective for attracting new prospects. Regardless of how you communicate your invitation, you need to determine how you want your prospects to respond. You may want to send a return card with your invitation letters. Another method is to ask for phone reservations from those who are interested. You may even want to plan follow-up phone calls in the event that your responses fall below your expectations.

Lists

Many advisors who host public seminars consistently draw their audiences from mailing lists that are available from list vendors. Review the information about lists in the section under “Preapproaches.”

One word of caution: Lists have short life spans. Today, our society is increasingly mobile. People move more frequently. Make sure to ask your list broker for the source of the list and how often it is updated.

A list broker will also be able to give you guidance on how many invitations must be mailed to obtain the desired number of attendees. These numbers can vary, depending on the targeted audience, the topic, the time of year, and the geographic location. A conservative approach is to expect a response rate of one-quarter of one percent. This means that for every 10,000 invitations sent, there will be 25 attendees.

Verifying Receipt

Professional list distributors recommend that letters be sent to known parties when a mailing is conducted. These parties can then verify whether or not a letter has been received. For example, financial advisors might request that letters be sent to their own family members as part of this process, which is often referred to as “seeding.”

Evaluating Vendor Lists

Use the following series of questions to evaluate your sources of lists:

- What is the source of the list?
- How often is the list updated?
- What selections are possible within the list?
- What is the history of successful usage of the list?
- What is the minimum quantity of names you must purchase?
- What addressing formats are available?
- Is the list in zip code sequence?
- What is the delivery time?
- What will it cost?
- Why is this particular list being recommended?

Topics

The content of your seminar should be a blend of technical information and motivational material. How much of each depends on the needs of the prospects you invite. The program should be technically accurate and

Seminar Topics

Wondering what to talk about? Many of the ideas presented in this textbook are ideal seminar topics. Seniors want to learn more about

- increasing retirement income
- financing healthcare
- lowering income taxes
- estate planning techniques

informative. If you give too much information, however, you may bore your prospects or they may have no need to make an appointment with you. In addition to being educational, the program should motivate attendees to meet with you for more information.

After you decide on a topic, your next step is to figure out whether the material is available or if you must develop it yourself. Many companies have seminar material for their advisors and require advisors to use it. If your company allows it, you can purchase seminar presentation

material. If you decide to develop and write your own seminar material, allow enough time to research your topic thoroughly, and make sure you have adequate resources to produce it. Be sure to allow time for a compliance review by the financial services company or companies you represent.

Alternatively, you may decide to use the services of a professional presenter or advisor such as a broker, CPA, or attorney. You may even decide to help organize and co-sponsor seminars where other advisors are the seminar leaders. This may be a good choice until you have some experience under your belt. If you pair up with another advisor, you will need to agree on some form of compensation such as a split in the commission. If you both invite prospects, you could offer to pay for the cost of the seminar since the other advisor is doing the majority of the speaking.

Whether you present the seminar or someone else does it for you, the seminar should establish you as an expert and a professional who can be trusted. Remember to follow your company's compliance procedures for situations in which you bring in an outside speaker.

Time Dimension

The time dimension of seminars has a couple of different meanings. First, effective seminars require a great deal of time to prepare, execute, and follow up. Many advisors who are successful in seminars contend that a seminar is not a single event but a continual process. All elements of the process must be carefully planned and implemented, which takes a great deal of time. The good news is that once the elements are satisfactorily developed, the seminar can be repeated time after time, frequently with increasing productivity.

Second, the time aspect of seminars also means selecting the best day and time to hold a seminar. The optimal day and time will depend on the needs of your audience. For example, it may be foolish to hold a seminar for your working prospects during working hours. Similarly, it may not be wise to hold a seminar for seniors late in the evening.

There are other factors to consider when choosing a date for your seminar. You need to be sensitive to holidays, holy days, and competing events. You may plan a terrific seminar, but if it competes with the NBA finals or the county fair, attendance may be adversely affected. You must keep all of this in mind as you look at the available dates and times for the facility where you will hold your seminar and examine your own schedule.

Preparing and Presenting a Professional Program

Presenting a successful seminar for the annuities marketplace involves the following steps:

- selecting the site
- announcing the seminar
- confirming attendees
- checking the facilities
- addressing miscellaneous details
- preparing the presentation
- presenting the seminar

Selecting the Site—Whether or not your seminar is being sponsored, try to have as much input as possible in site selection. A site that is inviting will result in a higher response rate. Thus, it is generally recommended that you not use your office. Attendees fear high-pressure selling. If prospective attendees think a seminar will be high pressured, they will stay away. An outside meeting space creates an air of objectivity and reduces perceived pressure to buy.

The site you select should be convenient for the members of your targeted group. Parking may be a critical consideration in urban and suburban areas.

The accommodations you select should match the size of your group. A small group in a large room gives the appearance that a lot of people decided not to come. On the other hand, too small a room may cause some people to leave your seminar because they feel crowded in too small a space.

Announcing the Seminar—The seminar announcement and/or invitation literature should clearly inform prospects that the seminar will be educational in nature. It should also provide information regarding the topic, date, time, and length of each session. The seminar title should be clear and relate to the areas of prospects' identified needs such as maximizing retirement income, lowering taxes, financing healthcare, and facilitating estate planning. If your seminar will include workbooks or other written information, the announcement should highlight the benefits of these materials. You may also wish to plant the seeds for follow-up work by indicating that each attendee will be entitled to a no-cost consultation regarding his or her personal financial situation.

Some financial advisors suggest that the announcement or invitation list the advisor's credentials. If the seminar is part of a team effort, the list should include the names and accomplishments of everyone who will be sharing the platform. It is important that the intended audience perceive that a quality seminar is being offered.

There are some cases where your audience will be drawn primarily from an announcement in a publication such as an association bulletin. Be sure that the announcement clearly lists the date, location, and time of your presentation. Many financial advisors include a telephone number so that prospective attendees can call to reserve a seat. Some also tie their presentations to other association business such as normally scheduled monthly meetings. This association tie-in increases the potential for higher attendance.

Confirming Attendees—The success of any seminar depends on who attends it. Therefore, it is important to monitor the mailing of invitations and equally important to monitor the response rate. Careful monitoring will allow time for you to make corrections, if necessary. The mailing itself should usually begin at least 4 weeks prior to the seminar date. When large numbers of invitations are being sent, it is best to seed the mailing with your name and those of a few trusted friends or colleagues. This gives you a mechanism to determine whether or not invitations have reached their intended destinations.

In addition to the invitation itself, your letter should contain a response mechanism—for example, a telephone number to call. Another approach is to include a stamped, self-addressed postcard as well as a number to call to reserve a seminar seat. You should also provide an e-mail address. Some financial advisors send a second (reminder) mailing.

Many advisors also suggest that if your presentation is being announced in an association bulletin, a familiar association telephone number or e-mail address should be used for seat reservations.

For best results, follow up replies with calls confirming attendance a day or two prior to the presentation.

Checking the Facilities—Checking and rechecking the facilities you have chosen will help your meeting run smoothly. If possible, try to visit the facility while another meeting is in progress. This will allow you to evaluate the lighting, the sound system, and the visibility of any screens you will use with an overhead, LCD, or slide projector. You can assess how well everyone in the room can see the speaker and judge whether the ambiance of the room reflects the feeling you wish to convey to your audience.

Consider what audiovisual equipment or visual aids, such as an easel or whiteboard, you will need before you begin calling facilities. If the facility does not provide audiovisual equipment, check that there are ample outlets for computers, projectors, or audio equipment. Double-check all equipment prior to the seminar to be sure everything is in working order.

Check with the facility about refreshments, and if you serve them, keep them simple. A basic guide is to serve something wet and something dry. For example, coffee and cookies are usually a hit.

Addressing Miscellaneous Details—Consider providing name tags, pencils, paper, and handouts. These may seem like small details, but it is important to pay attention to details. They send your prospect a message about you. For example, handouts of the highest quality that include your name and address convey the message that you are professional and that you are willing to put your name on the work you do. Having paper and pencils available sends the message that what you say is important enough to write down.

You also want to plan a feedback mechanism. Some seminar presenters ask attendees to sign in, giving their names, addresses, and phone numbers. Others design an evaluation form that asks the attendees for this information, as well as for feedback on the quality and usefulness of the presentation.

Details Add a Touch of Professionalism

Name tags and prepared packets of materials for each seminar attendee can enhance your professional image.

Seminar Handouts

Place handouts in a folder. Try not to overdo the number of handouts. Distribute only the essentials, such as

- a Social Security retirement benefits brochure (www.ssa.gov)
 - some annuities concept papers
 - a postseminar questionnaire
 - your business card and professional brochure
 - blank pages for notes
 - a pen/pencil

Preparing the Presentation—An integral goal of seminar marketing to preretirees and retirees is to enhance your image in that marketplace. Therefore, it is important to take all steps possible to heighten the professionalism of your presentation. We suggest that you use a written script and rehearse it in preparation for the seminar. (However, when conducting the actual seminar, it looks more professional if you speak from an outline or note cards, not a script.) This is particularly important if there are several presenters. A written script provides a framework for the presentation, familiarizes the presenters with

the materials, and helps presenters develop answers to potential questions that may arise from the audience.

If you are working as part of a team, be sure that each speaker is aware of the overall scope of the program in order to achieve a cohesive program and avoid repetition. If possible, have each team member submit a draft of his or her presentation a month before the seminar. This allows time for necessary revision if the presentation does not match the seminar content.

Presenting a Seminar—If properly presented, a seminar helps to sell you as a competent professional. The following list gives you a few pointers that may help you make an effective seminar presentation:

- Begin and end on time.
- Speak to your audience.
- Get to the point and stay focused. Your audience wants to know what you can do for them. They do not want to hear war stories.
- Keep your goal in mind during your presentation. If you keep your goal in mind, you will stay focused.
- Speak from an outline or note cards, but do not read or memorize your speech.
- Be conversational, friendly, and enthusiastic.
- Use visual aids, if appropriate, but keep them simple.
- Avoid offensive jokes, stories, comments, or language.
- Move around as you speak. Do not remain in one spot the whole time.

- Relax, smile, and enjoy yourself. People like to work with professionals who enjoy their work.
- Ask for feedback during your presentation in the form of questions and after your presentation in the form of a critique.

Conducting an Effective Follow-up Campaign

Seminars typically serve to present you as a knowledgeable professional to a group of potential prospects. Most effective seminars are low-key and avoid overt attempts to sell products or specific services. Any one-on-one selling typically occurs after the seminar. It is for this reason that the follow-up phase of the seminar takes on such significance. In fact, many advisors who use seminars end their presentation by telling their audience that the advisor will contact each attendee to answer any questions that might have resulted from the seminar.

Send each attendee a thank-you letter with an invitation to contact you to discuss any of the seminar topics. A letter offers a margin of safety for both you and your senior prospects. Some prospects are difficult to reach by phone. Moreover, some seniors are so afraid of scams that they will not conduct business over the phone unless they initiate the call. The written invitation reminds them to take action and gives them your name and telephone number.

Telephone—Following your seminar, contact the attendees by telephone or in person to schedule appointments for discussing individual needs. Ideally, this follow-up should occur within one or 2 days of the seminar.

Some advisors try to learn more about the specific interests or needs of the prospective attendees by asking them to complete a confidential fact-finding questionnaire prior to attending the seminar. Among other things, the questionnaire asks attendees about their health and financial situation.

Follow-up Phone Script

“Hello, this is Tom Smith from ABC Advisors. Thank you very much for attending our meeting. We covered a lot of details about how annuities can enhance your retirement income. I would like to sit down with you (and your spouse if you are married) on a one-to-one basis and review some of the material that would be very important to you and your family. Are the evenings or mornings more convenient for you?”

Questionnaire—Other advisors rely on post-seminar questionnaires to determine interest. A post-seminar questionnaire can be a very useful tool for determining which of the attendees is most likely to be interested

in learning more about your services. (See the accompanying sample post-seminar questionnaire.)

The mere fact that an attendee takes the time to complete a post-seminar questionnaire is a sign of interest. You can use the attitudinal questions at the end of the survey to gauge each prospect's interest and possible motivations for buying annuities.

Post-Seminar Questionnaire

We would very much appreciate your assistance in answering the following questions. Your responses will guide us in improving future seminars and in determining if our organization may be of assistance to you in the future.

1. Which speaker did you find the most helpful?

2. Which subject covered during the seminar was of most interest to you?

3. Briefly list any subject areas that were not covered in the seminar but which you think should have been covered.

4. You may have some questions that you did not have an opportunity to raise during the question-and-answer session. Please briefly list these questions below. We will make every effort to answer these questions for you or to find experts who can provide responses.

Name _____

Address _____

Phone _____

Observation—Still other advisors rely on observation and target those people who have asked questions during the seminar presentation for a follow-up call. These advisors mix with the audience during breaks and identify those who seem to be most interested in the presentations. They also ask each of the seminar speakers to give them the names of attendees who asked them questions after the seminar. (Remember that name tags for all attendees will help you and your speakers in this process.)

Staying in Touch

Take advantage of the goodwill and credibility you have created at your seminar by arranging personal visits with each of the seminar attendees. Also contact nonattendees. Prospects may become clients if you follow up on the phone or in person.

Contact—Whatever technique you choose to determine which attendees will be your best prospects, try to capitalize on the goodwill and credibility you have cultivated at your seminar by scheduling a personal visit with each of the attendees. Many financial advisors recommend that you contact nonattendees as well, especially those who previously indicated that they would be in your audience.

Even when they are unable to schedule an appointment with the nonattendees, astute advisors keep these prospects on their mailing lists for a specified time. The advisors then stay in contact with them regularly, sending them newsletters or bulletins on ideas that might be of interest. They invite these prospects to their next seminar and generally get a positive response. Many financial advisors find that these prospects become clients after the second seminar.

Here are some approaches you might use when you follow up on each seminar attendee on the telephone or in person.

EXAMPLE: “John, at the seminar you recently attended, we had a question-and-answer period. Since the time allocated for this purpose was fairly brief, I am calling to schedule a time when we could discuss your specific questions or concerns. Would the evening or daytime be more convenient for you?”

EXAMPLE: “Ann, several of the speakers from the seminar you attended this week indicated that you had some excellent comments regarding some of the areas discussed. I’d like to spend some time with you covering those areas. Would the a.m. or p.m. hours best suit your schedule?”

Summary

Finally, for seminars to be a cost-effective prospecting tool, you must repeat programs regularly. Only with repeat seminars will you be able to justify the heavy commitment of time that is required to develop a viable seminar process and an effective seminar program. If your seminars acquire the reputation for being informative and valuable, they will be well attended by qualified prospects.

For your convenience, we've included a checklist of the details and logistics that need to be considered and planned for in order to make you seminar successful.

Seminar Checklist
<p>Meeting Room</p> <ul style="list-style-type: none">• Confirm the meeting room.• Determine your contact. Meet this person, if possible.• Examine the facilities in person.• Ascertain how easy it is for your guests to find the meeting room.
<p>Guest List</p> <ul style="list-style-type: none">• Know who is coming.• Determine if anyone from your organization will be there.• Resolve budgetary concerns.
<p>Seminar Promotion</p> <ul style="list-style-type: none">• Arrange a schedule for printing promotional material and handouts. (Include time to proof printed material to avoid errors.) Make sure the schedule takes into account the possibility of delays at the print shop.• Send announcements to the local newspaper, radio station(s), or other media outlets.• Send letters or formal invitations at least 2 weeks before the seminar.• Call the invitees to confirm their attendance prior to the seminar.
<p>Getting There</p> <ul style="list-style-type: none">• Make sure your guests know the date and precise time of the seminar.• Give them directions to the meeting room.• Inform guests if they will have to use a special entrance.• Ask the hotel or office complex for directional signs, if necessary.• Determine whether you will have a check-in desk.• Decide how early arrivals will be handled.• Make sure there are adequate provisions for parking.• Determine whether your prospects will require a means of identification such as name tags.• Decide who will look for late arrivals.

Seminar Checklist (Continued)

Meeting Facilities

- Determine how the room will be arranged.
- Resolve whether you want chairs only or chairs and tables.
- Ascertain if you will need reserved seat signs.
- Evaluate the lighting in the room. Make sure there are spare light bulbs.
- Decide if you are supplying paper, pens, and pencils.
- Find out if the speakers will need help with any equipment during the presentation.
- Determine if you will need a microphone. If so, make sure to bring one in case one cannot be located at the meeting facility.
- Determine if you will need an overhead or LCD projector.
- Find out if presenters will need a projection screen. If so, also find out whether the main room lights must be shut off and who will handle this.
- Determine if a lectern, flip chart, writing pad, or magic markers are necessary for presenters.
- Make sure to supply water and glasses for the speakers.
- Decide whether or not there will be a coffee break. If so, also decide on refreshments, and delegate someone to be responsible for obtaining them.

Seminar Content/Speakers

- Select the topics that will be covered.
- Determine who the best speakers are to address each area.
- Decide how much compensation (if any) speakers should be offered.
- Identify the most appropriate format for the presentation (for example, lecture, roundtable discussion).
- Figure out how long each person should speak.
- Choose the person who will introduce the speakers.

Problems

- Find out whom to contact if there is a problem.
- Determine whether or not the house audiovisual technician will be available.
- Have a plan in place in case someone becomes ill.
- Know where the exits and fire escapes are located.
- Be cognizant of any required security measures.
- Assign someone to deal with any incoming phone calls.
- Determine how will you handle peoples' use of cell phones during the seminar.
- Appoint a reliable assistant to help you run the meeting, if necessary.
- Anticipate possible problems and resolutions to those problems.

Chapter Two Review

Key Terms and Concepts are explained in the Glossary. Answers to the Review Questions and Self-Test Questions are found in the back of the book in the Answers to Questions section.

Key Terms and Concepts

market segment	401(k) plan
age-based market segment	pension plan
nonqualified retirement planning	structured settlement
qualified retirement planning	step-rate annuity
additional market for annuities	charitable gift annuity
individual retirement account (IRA)	charitable remainder trust
spousal IRA	wealth enhancer
rollover IRA	private annuity
stretch IRA	preapproach
spousal rollover	direct mail
Roth IRA	building prestige
SEP IRA	professional brochure
SARSEP	approach
SIMPLE IRA	telephone approach
tax-sheltered annuity (TSA)	pivot approach
403(b) plan	

Review Questions

- 2-1. Identify the features of a nonqualified deferred annuity that make it an ideal retirement planning tool.
- 2-2. Describe the concept of a stretch IRA.
- 2-3. Identify the income tax benefits of distributions from a Roth IRA compared to a traditional IRA.
- 2-4. Explain how an immediate annuity can be used to “reinsure” a charitable gift annuity between a charitable organization and its donor.

- 2-5. Describe how a deferred annuity can be purchased by the trustee of a net income with make-up charitable remainder unitrust (NIMCRUT) to build retirement assets for the donor.
- 2-6. Describe the pros and cons of using an annuity to fund a student's college education.
- 2-7. Describe the income tax consequences of a death benefit payable to the beneficiary of a nonqualified deferred annuity.
- 2-8. List three ways to preapproach a prospect.
- 2-9. Identify the four elements of an effective telephone approach script.
- 2-10. Describe four advantages of using seminars as a marketing and prospecting tool.

Self-Test Questions

Instructions: Read chapter two first, then answer the following questions to test your knowledge. There are 10 questions; circle the correct answer, then check your answers with the answer key in the back of the book.

- 2-1. The average age of a nonqualified annuity buyer is
 - (A) 60
 - (B) 66
 - (C) 70
 - (D) 74

- 2-2. IRAs can accept contributions up to \$3,000 per year as long as the client
 - (A) has up to \$3,000 of earned income for the same tax year
 - (B) is under age 70 1/2
 - (C) is named the owner and annuitant of the IRA
 - (D) is all of the above

- 2-3. A client can contribute \$3,000 on behalf of his or her nonworking spouse (called a spousal IRA) plus \$3,000 to his or her own IRA as long as
 - (A) The nonworking spouse has \$3,000 of earned income.
 - (B) The contributing spouse has \$6,000 of earned income.
 - (C) The contributing spouse is the owner and annuitant of the spousal IRA.
 - (D) The spouse is not an active participant in a pension plan.

- 2-4. Which market segment contains the highest percentage of deferred annuity buyers?
- (A) age-65-and-older market segment
 - (B) age-45-to-64 market segment
 - (C) under-age-45 market segment
 - (D) business owners market segment
- 2-5. Which of the following statements regarding seminar marketing is (are) correct?
- I. There is a constant need to stay current on the subject matter to remain credible.
 - II. Financial advisors should seek to establish post-seminar individual appointments with attendees.
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II
- 2-6. Nonqualified deferred annuities are excellent charitable planning tools to accomplish which of the following?
- I. Reinsure a charity's financial obligation to a donor.
 - II. Give to a charitable remainder trust.
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II
- 2-7. A deferred annuity is an ideal asset to leave to a charitable organization upon death for which of the following reasons?
- I. The nonprofit organization is not subject to income tax on the built-in gain because of its tax-exempt status.
 - II. The estate of the deceased will receive an estate tax charitable deduction for the value of the deferred annuity.
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II

- 2-8. A deferred annuity can be used to fund the premiums for a life insurance policy in all of the following cases EXCEPT:
- (A) The client must be insurable for life insurance purposes.
 - (B) The event will occur based on an IRC Sec. 1035 tax-free-exchange basis.
 - (C) The annuity owner will have to pay income tax on the gain in the annuity if surrendered to fund the life insurance.
 - (D) The life insurance death benefit must be larger than the annuity's value to make it a worthwhile planning tool.
- 2-9. All of the following are advantages of prospecting using seminars EXCEPT:
- (A) Seminars are an efficient use of time.
 - (B) Advisors can meet prospects in a nonthreatening way.
 - (C) Seminars can be used to prequalify prospects.
 - (D) Seminars require less planning and effort than other prospecting methods.
- 2-10. A distribution from a pension or profit-sharing plan is eligible to be invested in a rollover IRA for all of the following reasons EXCEPT
- (A) death of the participant
 - (B) termination of the participant's employment
 - (C) retirement of the participant
 - (D) withdrawal due to illness

Notes

1. *Immediate Annuity Buyer Study: Profiles and Attitudes, A 2000 Report*. © 2000, LIMRA International, Inc.
2. *2003 Annuity Fact Book* pp. 67 and 68. © 2003 National Association for Variable Annuities (NAVA).
3. *Deferred Annuity Owner Study: Profiles, A 2003 Report*, LIMRA International, Inc.
4. IRC Sec. 104(a)(2). Also see Rev. Ruls. 79-220, 79-313, and 77-230.
5. Printed with permission of Gail B. Goodman, president, ConsulTel, Inc.

- 1-8. C
- 1-9. A
- 1-10. A

Chapter 2

Answers to Review Questions

- 2-1. As retirement planning tools, annuities offer clients these important features:
- income tax deferral
 - probate avoidance
 - guaranteed lifetime income at annuitization
 - limited liquidity using free-corridor amounts
 - the ability to take partial surrenders without having to surrender the entire annuity
 - flexibility in making contributions as needed
 - no limits on the amount of premiums that can be invested
 - surrender charges that discourage clients from withdrawing funds prior to retirement age
 - low cost (typically annuities do not charge an annual fee, but if they do, it is a relatively modest fee)
- 2-2. The stretch IRA is a marketing concept that allows beneficiaries of IRAs to avoid taking a lump-sum death benefit by instead taking only the required minimum distribution and correspondingly avoid a huge income tax liability. Instead, the beneficiary can stretch out the required distributions from the death benefit over a long period of time, usually over the life expectancy of the beneficiary.
- Stretching out the proceeds simultaneously stretches out the income tax liability. At the same time, it allows the remaining balance to continue to grow on a tax-deferred basis. The end result is that, over time, the beneficiary ends up with a much larger inheritance than he or she would have had if the IRA were taken as a lump-sum distribution at the time of death.
- 2-3. The most beneficial aspect of the Roth IRA is that if certain conditions are met, all the funds withdrawn from the Roth IRA by the participant or the surviving spouse are completely income tax free. Unlike their traditional IRA counterpart for which distributions are almost always 100 percent taxable, Roth IRA distributions can provide tax-free retirement income.
- Furthermore, “qualified distributions” from Roth IRAs are not included in the recipient’s gross income for federal income tax purposes, regardless of whether or not the recipient is the participant or a beneficiary.
- 2-4. Even though a charitable gift annuity is not an annuity available from an insurance company, there is a market for the sale of an immediate annuity with a charitable gift annuity. A charitable organization may “reinsure” its financial obligation to the donor

by purchasing an immediate annuity. The charitable organization purchases the immediate annuity on the life of the donor. It is the owner and beneficiary. The insurance company pays the immediate annuity to the charity that, in turn, pays the donor. The benefit to the charity is that no matter how long the donor lives, it will not be a financial hardship to the charity.

2-5. A special type of charitable trust called a net income with make-up charitable remainder trust, or NIMCRUT for short, allows the deferral of income from the charitable remainder trust until some later date. Because of the special nature of this type of charitable trust, it is the most ideal charitable trust to invest in a deferred annuity.

2-6. The significant advantage that deferred annuities offer to fund a student's college education is their tax-deferred growth. This allows each year's growth to continue without having to surrender some of the annuity values to cover any tax due. From an accumulation standpoint, deferred annuities are excellent tools for college funding plans.

The downside of using a deferred annuity for college funding is the taxation of withdrawals. Withdrawals out of most newly funded annuities are income taxable to the policyowner to the extent there is any gain in the annuity. Therefore, it is most likely that the policyowner will have to pay ordinary income tax on part or all of the money withdrawn. Furthermore, the Internal Revenue Service generally imposes a 10 percent penalty tax for withdrawals taken by policyowners who are under age 59 1/2.

2-7. When a beneficiary inherits nonqualified deferred annuity death benefits, the beneficiary must pay income taxes on any gain in the annuity. Therefore, the beneficiary does not receive the proceeds on an income-tax-free basis like life insurance normally is received, or a stepped-up cost basis like mutual funds or shares of stock are received. In addition, the annuity is included in the estate for estate tax purposes.

2-8. Three methods for preapproaching prospects are

- direct mail—a letter or postcard that preconditions prospects to be receptive when you call them
- building prestige—establishing a reputation that allows you to approach prospects on a favorable basis
- professional brochure—a 4" by 9" promotional piece, for example, that introduces and describes you

2-9. The four components of an effective telephone script are

- a greeting—making a good first impression
- creating interest—motivating the prospect to see you
- closing for the appointment—the reason you are calling
- the conclusion—reconfirming the appointment and affirming your desire to meet the prospect

- 2-10. Seminars enable you to
- use time efficiently. Seminars are an opportunity to educate and motivate many prospects at once in a group setting.
 - meet prospects in a nonthreatening way. Seminars allow you to demonstrate your knowledge of the financial problems prospects face and to present the solutions that you can offer.
 - identify qualified prospects. Answers to questions on a feedback questionnaire can give you insight into prospects' concerns and needs before you meet them for follow-up appointments.
 - prequalify prospects. Although you initiate the seminar by inviting the prospects, they confirm their interest by attending, which creates a much better prospect pool than a cold-call list.

Answers to Self-Test Questions

- 2-1. B
2-2. D
2-3. B
2-4. B
2-5. C
2-6. D
2-7. C
2-8. B
2-9. D
2-10. D

Chapter 3

Answers to Review Questions

- 3-1. A single-premium deferred annuity is a fixed-interest annuity contract that accepts a single deposit with a current interest rate that is guaranteed to some future date. At that time, the insurance company will offer a new interest rate for the next period of time. The policy's maturity may be at a date after the end of the interest guarantee period such as age 90.

A flexible-premium deferred annuity is a tax-deferred fixed-interest annuity contract that accepts periodic premiums and typically offers a guaranteed minimum interest plus excess interest, reflecting the general interest rate marketplace for a shorter period of time. The time period for the surrender charge may be measured from the original date of the contract or from the date of each deposit, referred to as a rolling surrender charge. The existence of a rolling surrender charge, however, means that the contract owner has to consider the risk this puts on each future deposit into the annuity contract.