



GOING LONG

Detterbeck Wealth Management, Inc.



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Annuities and Variable Universal Life Insurance - The Misunderstood Tools of Financial Management

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The popularity of annuities has been on a roller coaster ride. In the 90s, many investors flocked to variable annuities as a way to get great investment returns and pay no current tax. Then, the market bubble burst and many investors saw their annuities shrink in value. In addition, because annuities are perceived to be highly complex and expensive, there wasn't much interest in annuities until recently.

VULs are considered the most flexible type of permanent (cash value) life insurance. Like VAs, they offer multiple investment sub-accounts inside a life insurance contract. Cash values grow tax deferred like VAs and withdrawals are on a tax-favored basis. VULs are generally used by someone who needs long-term insurance coverage, wants maximum flexibility and is willing to assume some investment risk.

Here are a couple of ways that investors are using these contracts:

Today, investors are once again looking at fixed annuities, variable annuities ("VAs") and variable life insurance ("VULs"). Why? Because new programs give investors a unique combination-potential benefits similar to buying stocks while protecting their principal at the same time.

Let's first take a look at the basics of these contracts and then discuss some of the new programs available.

Annuities are contracts between a purchaser and an insurance company. They can be purchased as a single sum or a series of payments. The insurance company promises to pay either a lump sum or periodic payments in the future. Taxes are deferred on income and investment gains until withdrawal.

Annuities are either fixed or variable. Fixed annuities pay either a rate fixed at the time of contract or adjusted each year based upon certain benchmarks. The rates are typically somewhere between a 1 yr. C.D. and a long term Treasury bond.

In VAs, the purchasers may direct the investment of their payments. The investment options (sub-accounts) usually have stocks, bonds, money markets or a combination of the three. The investor has the flexibility to determine the investment allocation and to change it from time to time. In addition, the purchaser can choose to buy additional a la carte options such as increased death benefit and guaranteed income if these are important to them. Typically, VAs are subject to surrender charges if the investor wants to cancel before the agreed upon term (e.g. 5, 7 or 10 years).

1. Electing a GMIB (guaranteed monthly income benefit). For an additional monthly charge, an investor can provide a "safety net" under his or her VA investment. They do this by electing a GMIB whereby the insurance company will guarantee the investor a minimum guaranteed rate (let's say 5% annually on their investment) for payments to the investor for the remainder of their life. Of course, this is only available if the investor keeps his or her money with the insurance company for life. If the value of the contract is more than the guaranteed amount at the end of the contract, then the investor could take the lump-sum out (tax advantaged if desired) and invest it elsewhere instead.

2. Equity-indexed annuities- a recent Wall Street Journal article indicated that about 36 insurers offer more than 100 varieties of this product. One company, for example, offers a product that gives investors 100% of the gains, excluding dividends, of the S&P 500 index up to a threshold that can change every three years. The investor gets the larger of this value or a guaranteed minimum fixed amount. In addition, by investing in indexes rather than individual securities, the cost of managing the investment is reduced, which, over time, should produce better results for the investor.

3. Immediate annuities- investors pay a insurance company a lump-sum payment and the insurance company sends them check for the rest of their lives. For example, someone age 65 can receive \$1,000 a month for their lifetime by paying a lump sum of roughly \$156,000 to a reputable insurance company. Based upon actuarial life expectancy, this return is almost 8% per year.

(Annuities & VUL Continued from page 1)

In summary, many investors are now looking to annuities, VAs, and VULs as a complement to their traditional and alternative investments. Traditional investments in bonds (low interest rates) and stocks (mixed results over the past five years) have investors looking for ways to increase their return and lower their risk. One way to accomplish this may be through alternative investments (real estate, equipment leasing, hedge funds, oil and gas and others). Another way may be through some of the new programs for annuities and VULs.

Accordingly, some investors are now considering annuities and VULs as another asset class worthy of investment and diversifying a portion of their portfolio into these investments.

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We are pleased to announce that Charles Schwab & Co., Inc. has implemented new pricing (again!) for electronic equity trades beginning in May. The new pricing is \$12.95 for the first 1,000 shares and an additional \$.015 per share thereafter. Households with \$50,000 to \$1 Million in asset value are eligible for this great new pricing when enrolled in Schwab's electronic delivery services, such as electronic confirmations. For household accounts with over \$1 Million in asset value, the electronic pricing remains at \$9.95 for the first 1,000 shares and an additional \$.015 per share thereafter when also enrolled. Another electronic service, electronic statements, will be available soon. A key benefit of this service is the elimination of mailbox paper clutter. This latest move continues to show Schwab's commitment to aggressive price reductions and to the growth of the financial advisory market. Please call us if you would like to be enrolled for the electronic confirmations. Detterbeck Wealth Management, Inc. is excited to pass along this value to you!

Contribution Limits for Tax Years 2004 & 2005

Type of retirement account	Contribution limit		Additional "catch-up" contribution for acct. holders age 50+ as of December 31st
	Tax year 2004	Tax year 2005	
Traditional IRA, Roth IRA, Custodial IRA	\$3000 or 100% of compensation, whichever is less	\$4000 or 100% of compensation, whichever is less	\$500
SEP-IRA	Lesser of \$41,000 or 25% of compensation (20%* if self-employed)	Lesser of \$42,000 or 25% of compensation (20%* if self-employed)	None
Qualified Retirement Plan (QRP)	Lesser of \$41,000 or: <ul style="list-style-type: none"> • <i>Employer tax deduction</i>-25% of compensation (20%* if self-employed) • <i>Participant contribution</i>-100% of compensation 	Lesser of \$42,000 or: <ul style="list-style-type: none"> • <i>Employer tax deduction</i>-25% of compensation (20%* if self-employed) • <i>Participant contribution</i>-100% of compensation 	None
SIMPLE IRA salary deferral	\$9000 or 100% of compensation, whichever is less	\$10,000 or 100% of compensation, whichever is less	\$1500 for 2004 \$2000 for 2005
SIMPLE IRA non-elective contribution	\$4100	\$4200	None
Individual 401(K) Includes employer contribution and salary deferral	\$41,000 total: <ul style="list-style-type: none"> • <i>Employer contribution</i>- 25% of compensation (20%* if self-employed) • <i>Salary deferral</i>- Lesser of \$13,000 or 100% of compensation 	\$42,000 total: <ul style="list-style-type: none"> • <i>Employer contribution</i>-25% of compensation (20%* if self-employed) • <i>Salary deferral</i>- Lesser of \$14,000 or 100% of compensation 	\$3000 for 2004 \$4000 for 2005

*Self-employed individuals have a maximum contribution of 20%. This percentage of the business's net profit, after subtracting the self-employment tax deduction, is equivalent to a 25% employee contribution. Consult IRS Publication 560 for more information.

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