Clients are sold on placing billions of dollars into annuities each year.

$250,000 or more in annuity commissions are paid to annuity sellers annually.

Hundreds of annuity salespeople earn $1,000,000 or more each year.

Are you part of the annuity bonanza?

The odds are you’re not!

Fewer then 10% of licensed agents make more than 90% of all annuity sales.

This book is about becoming the one in ten who knows what it takes to sell annuities...

It’s about getting in front of qualified prospects and making the sale.
ADVANCED Annuity Selling Strategies

The author, Doug Warren, and publisher, SalesArt Media, have made their best effort to produce an informative book to help licensed agents in their efforts to sell annuities. But they make no representation or warranties of any kind with regard to the completeness or accuracy of the contents of this book. They are providing general information, not legal or accounting advice. While the concepts, issues and examples covered in this book have been checked with sources believed to be reliable, some material may be affected by changes in the laws or in the interpretations of such laws since this book was completed. For that reason the accuracy and completeness of such information and the opinions based thereon are not guaranteed. In addition, state or local tax laws or procedural rules may have a material impact on the general recommendations made. Consult with your own tax or legal advisor for specific applications that apply to annuities and other insurance, investment and financial products. The techniques outlined in this book have succeeded for many salespeople and in many areas of the country; however, due to variable factors, the author and publisher cannot guarantee effectiveness.

Both the author and publisher strongly urge you to obtain prior approval from your company, broker-dealer and/or appropriate agencies before using any of the techniques outlined in this book.

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SalesArt.com
P.O. Box 1029 ● Temecula, CA 92593
This book is dedicated to Cheryl, Stephanie and Blake, who provide all the motivation a person could need.
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Foreword

Who Am I? … And What Makes My Think I Am Qualified To Write This Book?

Since this book is about the strategies and techniques used by top annuity producers perhaps you’re wondering if I am a leading annuity salesman.

The answer is … NO, I am not!

Your next question should be … where did I get the information that is in this book, if it does not come from my personal experiences with selling annuities?

In other words am I qualified to write this book?

The answer is … YES! In fact, I believe I am better qualified to write a book on the proven annuity selling techniques then most leading annuity producers.

Here is why.

For the past 15 years circumstances have put me in contact with many of the top annuity producers in the country. In many cases I have had a unique opportunity to learn exactly how they sell annuities and the marketing techniques that they have used to become successful.

In 1987 I started a company, Video Marketing Technologies, Inc, (the name was changed to SalesArt.com in 1999). Since then I have produced hundreds of multimedia presentations for some of the
insurance industry’s biggest companies and for some of the top annuity producers in the country.

Because of this activity I have been in the fortunate position of having access to many of the industry’s top annuity sales people. I have spent hours talking with them. Many of them have told me exactly what they do to sell annuities, and in great detail.

A partial list of companies that have used my generic presentations or who commissioned me to develop custom presentations specifically for them

American Savings Bank
American Life and Casualty Insurance Company
American General Life Insurance Company
American National Insurance Company
The Annuity Store
Catholic Life Insurance Company
CMIC Creative Marketing International Corporation
Bankers Mutual Life Insurance Company
Boston Mutual Life Insurance Company
Fidelity and Guaranty Life Insurance Company
Government Personnel Mutual Life Insurance Company
Great Southern Life Insurance Company
Investors Life Insurance Company of Nebraska
ITT Hartford Life Insurance Companies
Pioneer Mutual Life Insurance Company
Physicians Life Insurance Company
LSW Life Insurance Company of the Southwest
Pacific Guardian Life Insurance Company
Midland National Life
Mutual of Omaha Companies
Standard Insurance Company
MONY The Mutual Life Insurance Company of New York
New York Life Insurance Company
Utica National Life Insurance Company
You’ve heard the saying… “There are a hundred ways to skin a cat”?

Over the years I have learned that there are hundreds of techniques used by leading producers use to sell annuities.

My clients - leading companies and top annuity producers, have paid me to develop more than one hundred annuity sales presentations.

I have developed video, CD-Rom and PowerPoint presentations that deal with these topics:

- Fixed Rate Deferred Annuities
- Immediate Annuities
- Index Annuities
- Variable Annuities
- Split Annuities
- Triple Split Annuities
- Multiply Bucket Annuities
- Multiply Year Guarantee Annuities
- Bonus Annuities
- Charitable Gift Annuities
- Corporate Bond Bucket Annuities
- Pre-Lero Annuities
- Annuities for IRAs
- Annuities for Roth IRAs
- Annuities for Stretch IRAs
- Annuities for IRA Rollovers
- Annuities for 401(k) Rollovers
- Annuities for Section 403(b) Employees
- Annuities for Section 457 Deferred Comp Plans
- Annuities to Fund Retirement
- Annuities to Fund a Child’s College Education
- Annuities to Fund a Grandchild’s College Education
- Annuities to Fund IRA to Roth IRA Conversions
- Annuities to Fund the Purchase of LTC Insurance
- Annuities for Postal Workers
- Annuities for School Teachers
- Annuities for Retired Military
- Annuities for Car Dealers
And literally dozens more annuity-related presentations!

Before I could develop effective presentations on these topics for my clients, I had to find out as much as I could about the techniques they used that made them successful. Over the years, I have spent hundreds of hours talking to top annuity producers, asking them thousands of questions.

I believe that my background in sales has helped me to better understand the information that was shared with me about selling annuities. I want to share this information with the reader in such a way that can help them increase their annuity production.

From 1970 to 1987, I sold life insurance, mutual funds, and annuities. In fact, I was an MDRT qualifier and a top ten producer with two insurance companies. I am a CLU; I have certificates from the American College of Life Underwriters in Advanced Estate Planning and Advanced Financial Counseling. And, I have only one more section to complete before I can sit for the Certified Financial Planner designation.

A few years ago, my father (who spent 50 years in the insurance business) told me that I had been exposed to so many great annuity marketing ideas that I should write a book.

I thought it was a great idea so for the past few years, in my spare time, I organized the information that I had accumulated and wrote a first draft. While I thought the first draft contained a lot of good information, I knew that there was something missing. It lacked the real-world details that you can only get by being involved with actual sales.

I knew that if this book was ever going to help turn average annuity producers into top annuity producers, I had to get in the trenches to see first-hand how it was done.

Back in October of 2002, I phoned a client and friend of mine, Wayne Plemons, to see if he could help.
Over the past ten years Wayne has been one of the top annuity producers in the country. When he puts his mind to it, selling ten million or more of annuity premium in a year is “no big deal” for Wayne. If his commission checks are less then $50,000 for a single month you know he has been goofing off.

I told Wayne that I wanted to learn everything I could about how he sells annuities. I wanted to know how he prospects, sets appointments, prepares for client interviews, closes sales, processes business and deliverer’s policies. More importantly, I wanted to personally see him in action doing these things.

Since Wayne’s office is only about a 40 minute drive from mine I asked him if I could “follow him around” for a couple hours a day over the next week or two.

Wayne agreed, but with one condition.

He told me that if I was really serious about learning what it takes to be a top annuity producer, I had to agree to spend at least three hours a day for at least three months.

At first I thought that this would be impossible. After all, I had my regular business, SalesArt.com to run. I have devoted 100% of my working hours to building this company since I started it in 1987. I have over 15,000 insurance agents and financial advisors who have purchased sales presentations in the past.

But the more I thought about it, the more intrigued I was with the idea. I had a once-in-a-lifetime opportunity to learn exactly how one of the top annuity producers in the country generated his sales. Plus, Wayne was willing to allow me to write about any aspect of his business that I thought would benefit the readers of this book.

SalesArt.com was well established and could operate with only my limited involvement for a few months, so once I warmed up to the idea I jumped at the chance.

From the end of October 2002 until the middle of March 2003 I was at Wayne’s office an average of at least four hours a day, five days a week.

I never would have guess how much I was about to learn.
A small but important part of what I experienced is contained in my favorite chapter of this book … “Wayne’s World”.

My motivation for writing this book is to help average annuity producers become top annuity producers. If it helps you accomplish this objective then I will feel that in some small way I will have repaid many of the people who helped me when I started my career in sales.

Please send me an e-mail at doug@salesart.com if this book contributes in any way to your future success.

Introduction

Annuities are wonderful products, but usually they must be SOLD!

How do we know that annuities are so great? During the past ten years consumers have invested over $100 BILLION dollars in annuities.

There must be some pretty good reasons why this tidal wave of money has flowed into annuities. It didn’t happen because a few slick salespeople “pulled the wool over the eyes” of some unsuspecting prospects.

This product is being sold in record numbers for one simply reason. Once consumers understand annuities … they LOVE ANNUITIES!

The best news is that there is still a legion of consumers with billions more dollars just sitting on the sidelines waiting to be educated about annuities. Each year as thousands of annuities mature, their owners begin a search for new annuities.

If you’re not selling annuities, or not selling enough of them, you’re missing one of the greatest opportunities that every existed.

Wish you had been able to buy a McDonald’s Hamburger franchise when the company just started? Did you miss the boat by not purchasing Microsoft when the stock was first issued?
ADVANCED Annuity Selling Strategies

Well, if you are a licensed insurance agent, you’re in the right place at the right time. You’re sitting on top of a gold mine.

So grab a shovel and start digging… right?

Not just yet. First take the time to learn how the annuity selling pros are doing it. Find out what kind of shovels they’re using, where they’re digging and how they separate the real stuff from the “fool’s gold”.

Listen to those who tried it all, almost gave up, and then struck it rich. If you do, you’ll save yourself a lot of time wandering around the desert digging a bunch of empty holes.

This book will explain the proven techniques that others have used to strike it rich selling annuities. And it will show you both simple and sometimes complex techniques they use to achieve their success.

Senior’s “Hot Button” Issues

The best place to start is by understanding that there are common planning issues that will hit the “hot button” of most senior prospects today. Understanding these issues can be an important key to turning an annuity prospect into a client for two important reasons …

1) Seniors want to learn more about these issues because these are the things that that think about at 2:00 A.M. when they can’t sleep.

Top annuity producers understand this and use one or more of these issues in their prospecting efforts. These issues become the theme of a producer’s seminar invitations or the headline in their direct mail piece. Look at any prospecting material used by top annuity producers today and the chances are you will find at least some of the following issues.

2) Seniors don’t want to just learn about these issues, they want to solve the related problems.

If you can provide a logical solution to the problems discussed below, you can turn an annuity prospect into a client.
At first glance, some of these issues may appear more dynamic than others. The criteria for including an issue isn't only the severity of the related problem but also the degree to which the problem is or can become a nagging concern to a client.

You will find that many of the following chapters in this book deal with these issues, or aspects of these issues in much greater detail.

**Hot Button #1 – How To Deal With The Expense Of Long Term Health Care**

This is a difficult topic for most seniors to deal with. It is safe to conclude that the majority of your clients will consider it to be their **number one** financial planning challenge. It is an issue that can involve such a great deal of complexity that it can overwhelm a person to the point where they become paralyzed with inaction.

Here are just some of the questions your clients are asking themselves when they think about the challenge of catastrophic illness:

- **Will Medicare** pay my long term care expenses?
- **How can I qualify so that Medicaid** will pay my expenses?
- **How can I protect my assets** if I do rely on Medicaid?
- **Should I gift my assets away to protect from losing them to pay for long term care?**
- **What is the best way to private pay long term care expenses?**
- **Should I purchase long term care insurance?**

Help your prospects find answers to these questions and you are well on your way to making them clients.
The chapters in this book that relate to this issue are …

“The Medicaid Annuity Sale”

“The Long Term Care Annuity Sale”

---

**Hot Button #2 – Unintentionally Exposing Assets To A Child’s Debts**

It is all too common to find that seniors have exposed themselves to potentially catastrophic problems by placing their children’s name’s on their property, savings and investment accounts.

Many of your clients will not be aware of the problems that this can create until you point it out to them.

Here is how it happens. A person tells you …

“I have already protected my assets from nursing home bills by putting my child on the deed to my home as a joint tenant.”

Or … “I have avoided the problems of probate… I just added my son to my bank CDs as a “joint tenant.”

Or … “If I become incapacitated I know my financial affairs will be handled because my daughter is a joint tenant on all my bank accounts. “

On first glance it does seem an elegant solution. It appears to be an easy way to avoid probate at death, and an easy way for a client give access to their property to their children in an emergency. It’s seems convenient and it cost little if anything to accomplish.

Unfortunately these steps have quickly lead well-meaning people to financial disaster. If a child’s debts grow because of heavy gambling,
drugs or some other bad habit they could see their property vanish to pay those debts.

When you communicate this concern to your clients you’ll often hear –

“I’m not worried about that, I raised my son or daughter right. They don’t gamble, or drink… they are good and responsible citizens who, even if they got into financial trouble would never leave me “holding the bag”.

It’s hard to argue with a person’s faith in their own children and you shouldn’t try.

However, it may be a good tactic to point out that there are circumstances beyond even the most devoted child’s ability to control. For example, in the blink of an eye the most honorable child can be robbed of control over his or her finances (and control over the property that he jointly “owns” with the parent) when an accident he is responsible for or some unintended negligence on his part severely harms another. The day that the harmed person hires an attorney may be the last day the property that the parent holds jointly titled with their child is really in the parent’s or child’s control.

If this dilemma sounds like a stretch consider more common occurrences where a child’s financial world is suddenly turned upside down because of trouble with the IRS or because his or her spouse decides to get a divorce.

Regardless of your client’s faith in their children, it simply is not sound planning to stake their future financial security on the hope that the IRS or an ex-spouse will understand that the property in question really belongs to the parent, not the child.

Discussing these issues with your clients can quickly force them to face the fact that they have not adequately planned for their future.

The chapter in this book that relates to this issue is …

“The Living Trust Annuity Sale”
Hot Button #3 – Being A Prisoner To Low Interest Rates

One of the main reasons that a client accepts low interest earnings on bank CDs, Treasury Bills and other vehicles is because they don’t want to put their savings at “risk”.

Risk is often the most important consideration when seniors are trying to decide where to place their savings. Top annuity producers know that it is a mistake to encourage anyone to take on more risk than they can comfortably tolerate. However, they also understand that clients need to be made aware that there are many risks associated with even the safest of investments.

Here is how one top annuity producer explains this to his clients …

“Over the years I have convinced a good number of people to transfer money from their bank CD to an annuity by using a pad of paper and this simple illustration.

“This approach works no matter what the level of interest rate that banks are crediting to CDs. Annuities are almost always a little above the bank rate. It is the difference between these two rates that is important, not the actual level of the rates.

“Depending on the prospect I will usually recommend a traditional fixed rate annuity or more often an indexed annuity.

“I almost always use this approach during the initial interview when I am fact-finding and learning more about the prospect. If I find that a prospect has a CD, I quiz them as to their reasons. In the prospect’s mind it generally comes down to an issue of safety, so I probe and ask questions until they acknowledge this.
“My challenge is to educate the client that while a bank CD is safe with regards to the risk of the bank defaulting or the risk of market losses, CDs are exposed to other forms of risks that can be almost as damaging.

“Ultimately I am going to attempt to show the prospect that annuities can also provide a high degree of protection against default and market losses, and at the same time more effectively deal with other risks. Before I can do that I must be sure that the prospect understands the potential effects that low interest rates, taxes and inflation can have on their savings.

“Early in my annuity selling days I would use detailed inflation-adjusted projections showing what sums of money would grow to at various interest rates. However I dropped all of that because I found it that it takes me only a few minutes to go through this simple illustration. And by uses this approach I am able to make an even bigger impression on my prospects.

“So, once I learn that they like CDs because of their safety I say something like:

“Mr. and Mrs. Prospect, do you have any plans to purchase a new car sometime in the future?

(If they say yes, I try to adapt the illustration to them. If they say no I just use a generic example. The approach works well either way, but it works especially well if they do have plans to buy a car. Assuming that they don’t plan on buying a car, I would continue with …)

“Just so that I can illustrate an important financial concept let’s assume that you were planning on buying a new car.

“You’ve told me that you figure that you are in a 28% tax bracket. Correct?

“Let’s say that you have earmarked $30,000 that is currently in your CD to buy this car. And I believe that you just told me that the bank is currently paying you interest at a rate of 5%. Correct?
(Again, the actual rate doesn’t matter. You can use any rate you want, but you will need to also adjust the following numbers to fit.)

“Now let’s say that you have your eye on a car that will cost you about $36,000.

“With $30,000 in your CD you have 83% of the money you need to purchase the car today.

“In other words, you’re still $6,000 short of the money you need.

“Let’s assume that you don’t want to carry any debt so you decide to wait until your CD grows to the full $36,000 purchase price. How long will that take?

(I try to get them to make a guess. Usually people will say four to six years.)

“Let’s look at the numbers. The interest on $30,000 at 5% will amount to about $1,500 annually. In five years that’s at least $7,500 in interest… a total of more than $37,500 in your account. That’s enough to buy your car right?

“Unfortunately, NO it’s not!

“Here’s why … because of compounding you actually would have earned over $8,060 in interest. But, over these years you would need to pay over $2,200 of this interest in income taxes.”

“One of the problems with CDs is that you pay tax on earnings each year regardless of whether you withdraw the earnings, or, as in the case of this car example, you leave the earnings in the account to grow.

“So, your after-tax balance in your CD would actually be $35,800. While current taxes interfered with your purchase, your real problem isn’t taxes… it’s inflation. Because of inflation we might assume that after five years the $36,000 car might instead cost you $44,000. After
paying taxes on your CD’s earnings each year, you only have $35,800. This is only about 81% of the inflation-adjusted $44,000 purchase price.

“Five years earlier you had about 83% of what you needed. Today, even considering the interest you earned over those five years you only have 81% of what you would currently need.

“You’re not getting closer to achieving your goal, you’re getting further away.

“It’s the risk of Inflation and the risk of taxes that are actually causing you to go backwards!

“So how long will it take you to buy your dream car?

“Because of low interest earnings, taxes, and inflation, that day will likely never come!

“If the day you can afford the card doesn’t come, maybe it’s not that important. You might be able to buy a less expensive car or just keep your old car. It’s not getting a new car that is important, instead it is that this illustration applies to almost everything you spend money on today. Your food, utilities, medications, everything, inflation causes their prices to just keep going up … while taxes and low earnings cause your savings to be worth less and less.

“A big part of the work that I do for my clients is to help them develop strategies to deal with all of the risks that they face.

“Let me ask you this … If I could show you an alternative to your bank CDs where your principal would be guaranteed, where taxes on earnings could be deferred and where you could have an opportunity to keep up with inflation, would you give it serious consideration?”

About 99% of the time when I use this approach the prospect will say “yes”!
I then go directly into my annuity presentation and often I will get a sale on the first interview.

The chapters in this book that relate to these issues are …

“*The Rates Are About To Go Up Annuity Sale*”

“*The 1040 Tax Form Annuity Sale*”

“*Indexed Annuities – ‘The Second Generation*”

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**Hot Button #4 – Probate At Death**

It’s generally estimated that the average cost of probate in America is from 5% to 10%, and that the average time needed to settle an uncomplicated and unchallenged estate can take 6 to 18 months.

Proper planning and tools such as living trusts have been proven effective in reducing or altogether eliminating an estate’s exposure to the probate process.

Almost twenty years ago annuity producers began to realize the potential of integrating the topic of living trusts into their marketing efforts. Living Trusts have been marketed so aggressively since that time that most annuity producers will tell you that the market is saturated.

While it’s true that a good number of prospective clients have already established a living trust, there still are quite a few people who do not yet have one.

The topic of probate remains a powerful “hot button” issue for many senior prospects.
The chapter in this book that relates to these issues is …

“The Living Trust Annuity Sale”

Hot Button #5. – Living Probate

There are many prospective clients who have gone to great lengths to put their estates in order. They have confronted and done an admirable job of addressing the potential problems of inflation, nursing home expenses, probate, estate taxes and more. But it is not unusually to find prospective clients who have not addressed the question of what happens if they become incapacitated while they are alive.

Let’s consider this question in light of what may be a reasonably realistic example of a wife caring for a husband incapacitated by a stroke. Deciding to sell their large home and replace it with a smaller, more manageable home, she is confronted with the fact that she cannot complete the required paperwork without her husband’s signature.

There is a way out…she can ask the court to appoint her to act as her husband’s conservator. This may solve the immediate problem but it can also require her to initially petition the court and appear in court every year with an audited statement showing that she is managing her husband’s assets properly and wisely.

It will also mean that she will likely incur expenses and fees for attorneys and accountants.

All of this might have been avoided with a relatively simple legal document referred to as a durable financial power of attorney.

The chapter in this book that relates to these issues is …

“The Living Trust Annuity Sale”
Hot Button #6 – Reverse Mortgages

As people mature, they often find that the equity in their homes can be the key to a financially secure future. The current tax code establishes that a person, regardless of age, can sell their home and retain proceeds of up to $250,000 each or a total of $500,000 for two spouses as tax free income during that year.

This provides many people with a tax favored way of unlocking the equity in their homes so that they may invest the proceeds with the goal of increasing their retirement income or to use the money to travel or accomplish some other dream.

Perhaps you’re thinking that this might be fine for those who wish to sell a home that is now too large for their needs or who desire to move to some other location – but what about the person who desires to continue to live in their home? This can be an especially tricky problem for people who have a great deal of equity in their homes but little else in the way of assets to support them in retirement.

These people are equity rich but cash poor.

Living on a fixed income that may fall just short of meeting their living expenses, these people may struggle to pay their property taxes and to keep up with the ongoing maintenance and repairs that an older home typically requires. This can present a real planning dilemma.

One creative solution might be reverse mortgage. HUD offers a federally guaranteed mortgage that can allow the homeowner to keep their home and at the same time access a large portion of its equity.

The proceeds of the reverse mortgage could be invested by the homeowner with the goal of increasing his or her retirement income.

When does the homeowner have to pay back the loan to the federal government? He doesn’t, as long as he continues to live in his home! Upon his death, the entire loan with interest is paid back from the
proceeds of the sale of the home. Any remaining balance goes to the homeowner’s heirs.

A reverse mortgage is not for everyone but under the right circumstances it can provide a person with the ability to live out their life in familiar and comfortable surroundings with security and dignity.

Helping prospective clients understand reverse mortgages has proven to be a great door-opener for a number of top annuity producers.

Once the reverse mortgage is funded the assisting agent is in a perfect position to show the client the advantages of using an annuity to provide income or a safe place to let money accumulate.

The chapter in this book that relates to these issues is …

“The Reverse Mortgage Annuity Sale”

Hot Button #7 – IRA Distribution Errors That Can Cost Clients And Their Heirs A Fortune

In only a few decades there has occurred a dramatic shift in how wealth is accumulated and stored. Today you will find that a large percentage of a senior client’s wealth will be in the form of an IRA, 401(k), 457, 403(b) or similar qualified retirement plans.

This shift in wealth presents many new challenges and concerns for clients. It also presents tremendous opportunity for the savvy annuity producers who take the time to understand the issues surrounding the distribution of these assets.

Many of the challenges presented by these qualified retirement plans are due to the fact that they represent an enormous future tax liability. A tax liability, that if not managed properly, can be responsible for a dramatic reduction in assets that will be available during the remainder of the client’s life or for the client’s heirs.
The amounts of money within these plans is so large and prospective clients are so motivated to protect these assets that many top annuity producers have decided to focus all of their marketing efforts in this area.

Many have benefited by experiencing an increase in attendance to their seminars devoted specifically to “Avoiding IRA and 401(k) Tax Mistake” seminars. Not only are they experiencing an increase in attendance, but the people who attend often have greater amounts of assets to invest.

This niche presents an expanding annuity marketing opportunity with little current competition. Take the time to become an expert in the various issues surrounding distributions from tax qualified plans, let prospective clients know that you have the knowledge to assist them and you will surely see an increase in future annuity sales.

The chapters in this book that relates to these issues are …

“The IRA Rollover Annuity Sale”

“The Roth IRA Split Annuity Sale”

“The Stretch IRA Annuity Sale”

Hot Button #8 – Paying Taxes On Social Security Income

President Franklin Roosevelt once promised America that there would never be a tax on Social Security benefits. Today, many seniors find that they must include up to 85% of their Social Security benefits as taxable income each year when they file their income tax return.

How do they feel about this? Listen to what one of the nation’s top annuity producers, JUJU Franklin of Atlanta has to say about this …
“I like to keep things simple, so for the past 11 years I have focused on one primary issue to help me sell annuities. 90% of my new clients are people who were upset because the government was forcing them to pay taxes on their Social Security income.

“I love to work with these people because an annuity is just about the only product that will help them solve this problem. And, people are usually so angry that they are paying these taxes that they will do just about anything to stop.

“I use a lot of different ways to meet new prospects: seminars, direct mail, newspaper and radio ads. Regardless of the method my message is the same … Call to Learn How To Stop Paying Taxes On Social Security.

“This attracts prospects like bees to honey.

“One of my favorite prospecting methods involves renting a booth at senior fairs. I had a big sign made that I put behind my booth that reads …

FREE Video - Stop Paying Taxes On Social Security”

“My booth is always swamped.

“I tell the people that all they have to do is to write down their name and address and in about a week or two they will get the video. Then I use the Popcorn Approach to follow up. (See the chapter “Annuity Prospecting Results Not Rejections”.)

“The first thing that I do during an appointment is to ask the prospect how it makes them feel to pay taxes on their Social Security.

“Seniors have strong feelings about this issue.

“Make sure you thoroughly explain how annuities can reduce or eliminate those taxes. I have had plenty of appointments where the prospect was bobbing his head up and down indicating that he understood what I was saying when in reality he didn’t have a clue. My experience is that you have to show him exactly how and why annuities will reduce or eliminate this tax.
“If you have trouble closing the sale, remind your prospect how he told you that paying taxes on Social Security makes him feel.

“I have found that this single issue is a more powerful inducement for people to buy annuities than higher interest rates, tax deferred growth or any of the other annuity features or benefits.

The chapter in this book that relates to these issues is …

“The 1040 Tax Form Annuity Sale”

### Hot Button #9 – Living Longer Than Your Money Lasts

Wayne Plemons of San Diego is one of the top annuity producers in the country. Once I asked him if he could point to one single aspect of what he does that could account for his success. He thought a moment and replied . . .

“I know that a senior’s biggest fear is that they will run out of money before they die. And I know how to show them that annuities are the only product that can guarantee that this will never happen to them.”

I asked Wayne if he thought that running out of money was an even bigger fear then having to go into a nursing home. He told me that he believed that the two were pretty similar. They both involved losing everything; your money, independence, and control over your own life.

“Both are frightening prospects because a person usually experiences these losses at a time when they are frail and vulnerable. However, I believe that it is easier for most seniors to picture themselves losing their money then losing their health.”
“Each time they sit down to pay their bills they are reminded that the cost of living seldom goes down even if their interest earnings drop or their investment portfolio declines in value. But regardless of the cause, the fear of facing poverty when a people are at the end of their lives is profoundly disturbing.”

It could be argued that the one truly unique feature of an annuity is its ability to provide a guaranteed income for life. Bonds and other investments provide tax deferred growth. Other savings vehicles provide safety and will as competitive rates of return. But only annuities are specifically designed to provide what many seniors want … an income they can never outlive.

Read the chapter titled “Wayne’s World” for a first hand look at how one of the world’s best annuity producers shows his clients that they will never again have to worry about running out of money.

The chapters in this book that relate to these issues are …

“The Medicaid Annuity Sale”

“The Multiple Bucket Annuity Sale”

“Wayne’s World – Or, What You Learn When You Spend 100 Days With One Of The Best Annuity Salesmen In The World”
Here is a great technique for selling both annuities and long term care insurance. Anytime a prospective client plans to self-insure their LTC risk with money they have in a CD or other investment, you should present this **one-time transfer strategy**.

Before I illustrate how such a strategy might work, it is important to say that a number of LTC policy types are available that if structured properly, can provide the benefits of this one-time transfer strategy. The example we will illustrate is entirely hypothetical and uses rough estimates only as way to illustrate the basic concept behind this strategy.

First you need a long term care insurance policy that provides a **10-pay premium option**. Under such an option, the policyowner pays premiums for only ten years and then the policy is guaranteed to be fully paid up. Also, the policy should include a **return of premium rider**. This is a rider that stipulates that all of the premiums paid would be refunded at death, minus the amount of benefits paid.

*This slide is from our Legacy presentation. Learn more at www.salesart.com*
Example

This general example assumes that an individual obtains a 10-pay premium policy that requires the payment of $6,350 per year. (I am using $6,350 simply to illustrate the concept, not because it relates to the actual premium of any insurance product.)

At the end of ten years, there would have been a total of $63,500 paid. If there were never any benefits paid to the insured the return of premium rider would pay the entire $63,500 to the beneficiary at the insured’s death.

To complete this strategy, the entire premium outlay of the long term care insurance could be funded with a **Single Premium Immediate Annuity (SPIA)**. Generally speaking, a **one-time** asset transfer in the amount of $50,000 into a SPIA should provide enough income to fund the ten annual premium payments for the LTC policy.

Of course, the SPIA’s current interest rates and other factors at the time of this transfer will determine the actual payment that would be provided.
To better illustrate the advantages of this strategy consider two people who take different approaches to providing for the possible need for the long term care.

Instead of purchasing insurance, the person on the right in the illustration below (person “B”) earmarks $50,000 that he has in a bank CD to pay for long term care expense should the need arise. He feels that he can afford to self-insure the long term care risk because he doubts he will ever need to use this $50,000 for any other purpose. In other words, he is so affluent that he doesn’t really need the $50,000. This is common attitude shared by people with a great deal of wealth.

The person on the left (Person “A”) is just as wealthy, however he decides to use the asset transfer strategy. He makes a one-time asset transfer of $50,000 from his bank CD into a SPIA. He uses the ten years of annual $6,350 payments to fund the purchase of a long term care insurance policy with a ten-pay premium option and a full return of premium rider.
Results If No LTC Benefits Were Needed

First we will compare the two situations by assuming that both men died at the end of ten years and that neither had ever experienced a need for long term care.

The beneficiary of person “A” would receive the balance of the CD. Assuming a 3.5% compound rate of return this could have grown to $70,530. LTC Insurance was never purchased and never needed so at first glance it appears that person A made the wisest choice.

But, how much better was this choice?

The beneficiary of person “A” (the one who used the one-time asset transfer strategy) would have received a return of all of the long term care premiums paid, which in this example would total $63,500.

The difference between what these two men would have paid under these circumstances is only $7,030. This is an average cost of only $703 per year over 10 years.
Most seniors like the idea of owning LTC insurance, they just have a problem paying $3,000 or $4,000 a year in premiums. When prospects see how they can gain the security and peace of mind that LTC insurance will provide for an average net cost of only $703 per year this strategy can be quite attractive.

Results If LTC Benefits Were Paid

As we saw, there was a net total $7,030 savings when insurance wasn’t purchased, assuming that there was no LTC expense. But what would happen if these two individuals weren’t so fortunate?

To answer this question let’s assume that both men required 3 years of custodial care before their death. We will further assume that the cost of their care was a conservative $33,333 per year, or a total of $100,000.

(The actual cost of nursing home expense would likely exceed $50,000 per year. We will use the lower number because it is easier to illustrate and because we want to present the strategy in a conservative way.)

Person “B” would have been required to cash in CD and use the proceeds of $70,530 along with at least $30,000 more of other assets to pay for his care.
Person “A” would have had all of his care paid for by his long-term care policy. All of his remaining assets would be left intact.

The longer the length of care required or the higher the cost of care, the better off financially is person “AB”.

By making a one-time asset transfer of $50,000, person A has all of his costs paid. Person B must pay $100,000 for three years of care. And if the care is needed for a longer period of time, more of person B’s assets are at risk.

People like this one-time asset transfer strategy because it allows them to buy the insurance that they know they should have but without wasting all the premiums if they never need the benefits.

Agents love the approach because it allows them to sell two products and earn two commission checks.
The Stretch IRA Annuity Sale

A few years ago the IRS changed the rules that were used to calculate the Minimum Required Distributions that a person must take from IRAs and other qualified retirement plans.

Since that time annuity producers have discovered that these new rules can help them make more sales.

The basic concept is pretty simple. Under the new MRD rules a person can stretch their IRA distributions out over a longer period of time. This can help shrink current taxes and allow the IRA balance to grow much larger.

To understand the power of stretching out IRA distributions over time, you should first consider the power of compounding …
Consider an IRA owner, age 71. Assume that his IRA balance is $200,000 and that he does not have a beneficiary. Under the old rules, using the term certain method, he was required to take a distribution of $13,060 from his IRA.
This is fine if he needed this money to maintain his lifestyle. But what if his other sources of income were sufficient to meet his needs and he didn’t need the extra income?

It doesn’t matter; he still would have been forced to take a distribution from his IRA. What’s worse, he would have been forced to pay income taxes on money he didn’t need. And he would also lose the benefits of future tax deferral and compounding on the amount of the distribution.

The situation would only get worse because in the future he would see the amounts of his minimum required distributions increase annually.

Each year, more and more of this IRA balance must be distributed and each year less and less money remains to benefit from future tax deferral and compounding.

While he can’t altogether avoid taking distributions from his IRA, under the new rules the amount he is required to take could be reduced to only $7,900 (in this example).
That’s 39% fewer dollars distributed. This means there are 39% fewer dollars subject to current taxation. And there are 39% more dollars that will continue to benefit from future tax deferral and compounding.

As with the old rules, he will continue to see annual increases in the amount he is required to distribute, but these amounts increase more slowly under the new rules.

Using the new distribution rules, there may even be opportunities to stretch distributions over even longer period of time. This can mean getting even greater benefits from tax deferred growth.

This would be possible if he has a son or daughter to name as the beneficiary of his IRA.
Again, the primary consideration in this illustration is that this IRA owner does not need distributions from his IRA to maintain his lifestyle. With this in mind, he uses the new rules to elect to have the distributions stretched over his life and his son’s life.

When the son ultimately receives the IRA, he can elect to stretch the distributions over his remaining life expectancy. As a relatively young man with a long life expectancy, his annual distributions are less than what his father had been required to take. Again, this means more money is left in the IRA to benefit from future tax deferral and compounding.

For an even longer stretch, and greater tax deferred growth, the son could in turn name a child as a beneficiary of the inherited IRA.

For example, assume the son names his daughter as his beneficiary. Assuming he predeceases his daughter, she receives the remaining IRA balance … effectively spreading the proceeds over three generations!
As you can imagine, these new rules can provide a tremendous opportunity for families interested in using the benefits of tax deferral and compounding to build wealth over multiple generations.

If the annuity producer will take the time to first learn these rules and then help the client understand their potential benefit, a world of selling opportunities will follow.

The No Inheritance Annuity Sale

Have you ever had an appointment with a person who appears to be a great prospective client only to become frustrated by an attitude that they don’t really care that much about how much of their estate will be preserved for their children?
If your approach to working with clients deals with estate planning and preserving issues then surely you have come across people with this kind of an attitude. They are the ones who after you have gone through a Stretch IRA or a Living Trust presentation will say something like …

“Once I'm gone I really don’t care how much my kids get. Whatever is left they can have. I don’t see why I need to try to find ways to leave them more money.”

While many agents figure that there isn’t much you can do with a person who shares this attitude, I once had an interesting conversation with a top annuity producer who shared a unique way of dealing with these people.

“Ever since the IRS changed the minimum required distribution rules for IRAs and other qualified plans I have worked almost exclusively with the “Stretch IRA” or what I call the “Family IRA” concept. In explaining this concept I am showing people how they can use the new MRD rules to build substantial wealth over several generations.

“I often show people how a $100,000 IRA can grow to over $1,000,000 to benefit future generations if there is planning. These numbers are pretty impressive for most people but occasionally I get the person who tells me that they have no interest in building wealth for their kids.

“Many of the people who say this aren’t really sincere but some are. Regardless, I need to find out if they really feel this way and I have a great method for doing this.

“My approach involves telling the prospect about something I call the ‘Client Maximization Account’. This is really nothing more than an immediate annuity.

“Understand that it is not really my intention to sell an immediate annuity when I use this presentation. I certainly will sell one if that is what the client wants, but my real purpose for using this approach is to see if a client is genuinely sincere when he tells me that he really doesn’t care about techniques for maximizing his kid’s inheritance.”
“For example, suppose I am talking to a retired male who is a widower. During my regular Family IRA presentation he stops me to say he really doesn’t care about finding ways to leave more money to his children. I would say something like this …

“Mr. Prospect, the Client Maximization Account is just perfect for someone in your situation. Here is how it works. You can put any amount you want into the account but let’s say you started with $100,000. With that amount of initial deposit, the Client Maximization Account would pay you a monthly income of X.’

“(Use your annuity company’s SPIA figures for life payout with NO guarantee period. You want to show the highest possible income. You do this by having all income stop at the prospect’s death and no guaranteed period in which the income would continue to be paid to the heirs. After all, the client has told you that he is not motivated to leave them much money.)

That’s quite a bit more then the income you’re getting from your current CD isn’t it?

Not only does the Client Maximization Account provide you with a super high monthly income but 70% (use the actual percentage based upon the client’s age) of that income will be entirely free from income taxes.

“But here’s the best part of all. The company that provides the Client Maximization Account will guarantee to pay you this income for as long as you live. In other words, if you lived to be 120 years old, or even longer, you would continue to get your monthly checks.

“Now usually at this point the client will start to think this is too good to be true and he will ask me … ‘what’s the catch?’

“Here is how I answer.

“Mr. Prospect in your situation there really isn’t a catch. I don’t recommend the Client Maximization Account to my
clients that are trying to pass on a lot of assets to their children, because for them there is a catch, and it’s a big one.

“You see, unlike most accounts the Client Maximization Account uses both earnings and principal to provide the income.

“The monthly income is higher than your bank CD can provide because with the CD you usually don’t withdraw principal for the purpose of generating income. But suppose you were willing to withdraw principal from your CD in an attempt to match the income that the Client Maximization Account provides … it won’t work. At some point, assuming you live long enough, you wouldn’t have any principal or interest left in the bank CD.

“What makes the Client Maximization Account so unique is that the income is guaranteed no matter how long you live.

“Now, you asked me if there was a “catch” and I said “no, not in your situation”. Here is what I mean. As I said, for some people there is a catch because with the Client Maximization Account not only does the income stop at your death but there is no remaining principal to be passed on to heirs.

“In effect, you’re exchanging your principal for the guarantee that you will receive a relatively high income every month, no matter how long you live. And again, a good percentage of that income will be income tax free.

“On the upside, if you live 30 or 40 more years it becomes the best financial decision that you every made. The worse that can happen is you die a few months after you start your Client Maximization Account and all you have gotten in return is a couple of months of income.

“This shouldn’t really be much of a problem for you because if I understand you correctly, your goal isn’t leaving more money to your heirs.
“At this point prospects will always go in one of two directions. A few actually like the sound of an immediate annuity or as I call it the Client Maximization Account. Every year I end up selling some immediate annuities using this approach. But most of the time prospects don’t like the sound of this because it means their heirs wouldn’t get any money that they put into the immediate annuity.

“This presentation forces the prospect to admit that he really does care about leaving an inheritance. Once he does I say something like …

“You know Mr. Prospect, the longer I listen to you the more I believe that you are really like a lot of my clients. You’re first priority is to enjoy the benefits of your IRA and other savings to a reasonable degree while your alive and then allow your children to enjoy anything that’s left over after you’re gone.

“Does this fairly describe how you feel about these issues? Most people say yes, so I continue with …

“That’s exactly how most of my other clients feel. They don’t see any sense of sacrificing their enjoyment of what they have accumulated but they also don’t see any sense in not preserving as much as is possible for their children.

“No, I don’t think the Client Maximization Account is right for you but I do think that the Family IRA that I was discussing earlier would be perfect. My reason is that it can be structured so that income and assets are maximized for your benefit for as long as you live, and, because of the significant power of tax deferred growth, you can at the same time be building a tremendous legacy for your children and possibly your grandchildren as well.

“May I show you how this would work in your situation?
The funds that your client has accumulated in their 401(k), 403(b), 457 or other qualified retirement plans are one of the most important assets they own.

They will be forced to make an important decision sometime in the not too distant future if they:

- will soon retire
- change employers
- become a victim of corporate down-sizing
- are in a company pension plan that’s being terminated
- are the beneficiary of a deceased spouse’s retirement plan

The decision involves "rolling over" their 401(k) or other qualified retirement plan to an individual retirement account or IRA.

Top annuity producers look for people who must deal with these issues because they are great prospects for annuities. And because of the large 401(k) account balances that many people have, the IRA rollover market can be extremely lucrative.

**IRA Rollover Prospecting Technique**

One of the best targeted prospecting techniques that I have ever seen was the idea of one of my customers who put together a information kit designed to help executives who were being laid off or who were changing employers for some other reason.

In this kit he included one of our IRA Rollover videos plus a lot of information about COBRA benefits, short term health insurance options, and other transitional benefit information. He also included reprint articles on how to find a new job and how to negotiate a new employment contract. It was a really educational resource for executives who found themselves unemployed.
He would run a one inch column advertisement in the help wanted section of the Wall Street Journal. His advertisement offered a free copy of what he referred to as the Executive Employment Survival Kit.

Many people are surprised to learn that you can affordably advertise in the Wall Street Journal by having your ad appear in only a very small geographic location. For example, you can run an ad in their classifieds and have it appear only in the papers that are sold in Southern California. You don’t have to place an expensive ad that appears throughout the USA.

He gets literally hundreds of responses every time he runs this ad. He sends the kit out and then contacts each person to discuss what the person intends to do with the 401(k) account that is likely still with his or her previous employer.

Most people don’t really understand that they can roll this 401(k) account into an IRA.

“A lot of these people have a pretty sour attitude regarding their previous employer. Once I explain that I can help them transfer their 401(k) money to an IRA that is completely under their control, they jump at the chance.

“I usually don’t talk much about changing investments until after their money is in an IRA. I find that once I help them with that, they are more apt to listen to what I have to say about how their money should be invested.

“Some of these people have some fairly substantial balances. Once, I helped a client transfer over $3 million dollars from a 401(k) to an IRA. He was close to retirement and liked the concept of an indexed annuity. He didn’t put it all in my product but it was still the single largest annuity I have ever written.”

**IRA Rollover Basics**

If you have a client who is eligible to receive a distribution from a 401(k) or other qualified retirement plan, it usually comes down to whether it
would be better to take the funds as a “lump sum” distribution or to use the direct rollover method.

Regardless of the distribution method selected, your client has many options as to how the money can be invested. One of the best options may be an annuity.

Annuity producers have learned that one of the best ways to gain the confidence of your prospective clients so that they will ultimately take your annuity recommendation is to first help them decide which method of distribution will work best for them.

When first considered, a lump sum distribution might appear attractive to some clients.

A large lump sum payment in cash may look awfully good. Some plan participants are eligible for income averaging to help them lessen the potential tax bite. But there are other considerations to weigh with regards to a lump sum distribution.

One is the mandatory 20% income tax withholding which is incurred on lump sum distributions. This mandatory withholding would mean that your client would only receive 80 cents for each dollar that was distributed.

For example, a lump sum distribution of $100,000, after the mandatory $20,000 income tax withholding would net your client only $80,000.

Another consideration is that she might be in a higher tax bracket than 20%. If she is, she would have to cover some additional tax liability.

And, if she was younger than age 59½ the IRS would impose an additional 10% penalty tax.
Often a client will elect a lump sum distribution but then change their mind and wish they had “rolled” all or some of the funds into a traditional IRA.

Fortunately this can be accomplished if action is taken within a 60-day period.

However, for many people, a problem is created due to the 20% mandatory withholding that applies to the initial lump-sum distribution.

For example, a $100,000 lump-sum 401(k) plan distribution would have had $20,000 withheld. If the client changes her mind within the allotted 60-day period she can “roll” the entire distribution into a traditional IRA. However, because of the amount withheld, there is only $80,000 available instead of the original $100,000 distribution.

If she “rolls” only the $80,000 portion of the distribution that she has available into the IRA, she will have to pay taxes and perhaps IRS penalties on the $20,000 that was withheld.

To avoid taxes and possible IRS penalties on the $20,000 withheld, your client would be forced to come up with an additional $20,000!

As you can see, taking a direct lump-sum distribution can generate many problems for your clients.

A better alternative might be for you to recommend that your client arrange for a “direct rollover”. By electing a “direct rollover” instead of a lump sum distribution, she would be spared the 20% withholding requirement. Thus, in our example, the entire $100,000 direct rollover could be credited to her IRA. This would mean no withholding and no current taxation.

Now that you have shown your client the value of a “direct rollover” you can move on to the question of the best savings vehicle for her IRA.

Traditional fixed rate annuities or indexed annuities might be the best choice for your conservative, safety-minded clients.
During your presentation you will want to ask your prospect certain questions and discuss many of the features and benefits of annuities.

Discuss how fixed-rate annuities provide safety, flexibility and other important guarantees.

*Top Producer Tip:* Ask your client this question …

Are you more concerned with the return **ON** your IRA principal or the return **OF** your IRA principal?

Many clients will tell that the return of their principal is more important and this will lead you right into your annuity presentation.

If your client is looking for a more aggressive rate of return, discuss index annuities and explain how their return is linked to a stock market index, without the risk of market losses.

*Top Producer Tip:* Use a $100 bill and a silver dollar coin to demonstrate the exciting potential of indexed annuities. Put the $100 bill on the table and say …

“*Mrs. Prospect, I want you to imagine for a moment that I was willing to play a coin toss game with you. Here is how the game would work. I will flip this coin and if it comes up heads, you win this $100 bill. If the coin comes up tails you don’t lose anything, you just break even. If I was willing to play by these rules how long would you play this game with me?*”

Your prospect will likely play this game all day long. Explain to her the similarities between a game with these rules and the **can’t lose** opportunity provided by indexed annuities.
You should explain that annuities are highly flexible and offer a variety of payout options including guaranteed income for life option.

**Top Producer Tip:** Ask your prospect the following question ...

> “Mrs. Prospect, I deal almost exclusively with people who are retired or soon will be. The most common concern that I hear that my clients have is that they might live so long that they will outlive the money that have accumulated. Is this a concern of yours?”

A good number of prospects will tell you that they also share this concern. This provides you a perfect opportunity to discuss your annuity’s payout option which provides a guaranteed income for life.

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**The Roth IRA Split Annuity Sale**

It has always fascinated me how an average annuity producer and a top annuity producer can look at the same thing yet see entirely different opportunities. Never is this more apparent than with the use of Roth IRAs as an annuity marketing tool.

Many average annuity producers look at a ROTH IRA and see no opportunity. They rarely come across a prospective client who has a ROTH and they believe that nobody wants to convert to a ROTH because of the large conversion tax that would be triggered.

Yet when many top annuity producers look at a ROTH they see an annuity selling bonanza.

> “ROTH IRAs are hands-down one of the best ways to sell annuities available today. They allow me to talk to clients about strategies that can allow them to convert a large portion of their taxable assets into tax free assets.

> “I love the fact that accountants, brokers, bank reps and insurance agents all tell people that ROTHs are no good because the conversion tax is too high. I’m about the only
one out there that tells clients that they can enjoy all the benefits of a ROTH and structure the conversion in a way that will make the subsequent tax more affordable.

“What client won’t take the time to learn more about this?”

ROTH IRA Basics

Named for Senator Roth of Delaware, the Roth IRA does not allow a deduction when contributions are made, but instead allows tax-free withdrawals of both contributions and earnings. Thus, unlike regular IRAs and other retirement plans, which only defer taxation, the Roth IRA allows wealth to accumulate and ultimately be distributed entirely free from income taxes. (Sec. 408A(d)(1) and (2)) if the Roth IRA account has been established for five years and the owner is at least age 59½.)

The opportunity for tax-free growth and the ability to receive a lifetime of retirement distributions free from income taxes have prompted many clients to consider converting their regular IRAs, 401(k)s, SEPs, Keoghs, SIMPLE plans, 403(b)s, 401(a)s, and other qualified plans to a ROTH IRA.

A person’s adjusted gross income must be less than $100,000 to qualify for a Roth IRA conversion. Generally, all retirement plans that can be rolled into a regular IRA are eligible for the Roth IRA conversion. Regular IRAs are eligible for conversion to a Roth IRA. Most often you see a 401(k), 457, 403(b) or other qualified plan first rolled into a regular IRA and then rolled into a Roth IRA.

Roth IRAs are fundamentally different from these other retirement plan options.

With traditional IRAs and other qualified plans you receive a tax deduction every year that you make a contribution. This provides an immediate tax savings that can be attractive, however both the contributions and the earnings of these plans will be taxed upon distribution.
ADVANCED Annuity Selling Strategies

With the Roth IRA, your contributions are made with dollars after they have been taxed. However, once in your Roth IRA, those dollars grow tax-free. Then all distributions from your Roth IRA are received free of income taxes. (Sec. 408A(d)(1) and (2) if the Roth IRA account has been established for five years and the owner is at least age 59½.)

Roth IRA withdrawals are also tax-free if the owner is deceased or disabled or the distribution will be used for first-time homebuyer expenses.

ROTH IRA Conversion Example

Let’s consider a simple example of two individuals both age 70 and each with a $150,000 balance in their IRA. The first individual has a regular IRA. As such he deducted all of the contributions over the years. Certainly this did provide him with a valuable tax advantage each time he made a contribution – but when he takes money out of his IRA his entire $150,000 nest egg is taxable.

If his federal tax rate is 28% and he pays another 5% in state taxes his total tax rate is 33%. This means that approximately $50,000 of his IRA will go to pay taxes, and only $100,000 of his IRA nest-egg will remain for his own use.

The second individual converted her regular IRA to Roth IRA years earlier. Again, her current balance is also $150,000. She has meet all of the requirements to withdraw her Roth IRA nest-egg income tax free. The dollar value of her Roth IRA is identical to the dollar value of the first individual’s regular IRA but the after-tax value is 50% greater! This is because she can withdraw the entire $150,000 Roth IRA nest egg without paying any income taxes. 100% of the distributions are available to support her retirement lifestyle.

Of course, we need to consider the taxes that she would have been required to pay when she converted her regular IRA (or the 401(k), 403(b), SEP or other qualified plan) to the Roth IRA.
Let’s assume she was age 55 when she converted to the Roth IRA. At that time we will say that she had $75,000 in her regular IRA. If her overall tax bracket was 33% at the time of the conversion she would have been required to pay $25,000 in taxes.

She could have deducted $25,000 from her IRA to pay the taxes but this would have left only $50,000 remaining in her ROTH IRA. The long-term result would likely mean that she would have much less than $150,000 in her ROTH IRA by age 70. In effect, the advantage of the Roth IRA is largely lost if she uses her IRA money to pay the taxes due at conversion.

A better alternative is to pay any taxes due at conversion with other (non-IRA) funds. For example, if she had transferred the entire $75,000 from her regular IRA in to her Roth IRA and used other (non-IRA) savings to pay the $25,000 tax she would have had $25,000 less in savings, but in effect she would have had $25,000 more in her Roth IRA. And as we have seen, at age 70 she would have had the full benefit of her $150,000 IRA nest egg as opposed to only the $100,000 after-tax nest-egg that is available to the regular IRA owner.

Please note that the numbers used in the above example are based on simplistic assumptions. The actual benefit from a Roth IRA conversion could be smaller. The example is not attempting to project a benefit but instead is used solely to illustrate a concept.

No Required Minimum Distributions

Roth IRAs provide one additional advantage that might ultimately prove to be its most important benefit… Roth IRAs are not subject to the minimum distribution rules during the owner’s life.

Because regular IRAs are taxed when the money is withdrawn, it is a common practice (especially for wealthier individuals) to delay their IRA withdrawals for as long as possible. This allows them to delay the tax as well. Unfortunately regular IRAs require that the participant start taking withdrawals no later than by age 70 ½ or face severe penalties.
Roth IRA participants can choose to never take a withdrawal from their plan for as long as they live. Assuming they have sufficient assets (from other sources) to provide for their retirement income needs, they might allow their Roth IRA to continue to grow tax-free and then ultimately pass the entire Roth IRA balance on to their heirs.

With no required distributions, Roth IRAs provide the potential for tremendous wealth building power!

The ROTH Annuity Selling Opportunity

Because of the tax advantages provided by 401(k)s, IRAs and other qualified retirement plans, a good number of prospects have accumulated a great deal of money.

Unfortunately… these prospects have also accumulated a fairly large future tax liability.

Many prospective clients are in the fortunate position of not needing income from their IRA or other retirement plans to support their retirement lifestyle.

Often these people would just as soon not touch this money, leave it in their retirement plan and not pay the taxes. But they can’t! They must start taking at least the minimum distribution amount at age 70 ½.

Considering what their IRA or other plan could have grown to (if they had not been required to take any distributions) these IRS forced MRDs can erode an IRA’s principal balance down to 50% or more, over a client’s projected life expectancy. And remember that every penny a person is forced to withdraw will be subject to income taxes.

Any remaining balance will one day be passed on to the IRA owner’s heirs… but consider, the tax burden is passed on as well. The beneficiaries might defer these remaining taxes by stretching out minimum IRA distributions over their lifetime (see the chapter on Stretch IRAs) however, this doesn’t solve the tax problem it merely delays it.
What About People Who Need Income?

These are some of the issues that people must deal with when they don’t need income from their IRAs. But what about less fortunate people who are counting on their IRAs to provide the supplemental income they will need throughout their retirement?

Their income needs might force them to withdraw greater amounts then the IRS forced MRDs, and thus increase the amount subject to current taxes.

Over the years many of these people will see their IRA balances decline significantly because they will need to increase withdrawals by an amount necessary to not only pay their living expenses but also pay the taxes on the IRA distributions.

ROTH IRAs Might Solve These Problems Except …

Current income taxes must be paid on the amount converted to the ROTH IRA. For many people this “conversion tax” appears to offset the tax advantages of the ROTH.

Is the conversion tax a valid reason not to convert to a ROTH? Doing a little math with your clients might help answer this important question.
Assume that we have an individual with $300,000 in a traditional IRA. She needs the income from her IRA to maintain her standard of living.

In addition, we will say that she also has $99,000 invested in an account that is “outside” of her IRA.

She has many additional assets, but for the purpose of this illustration we will only concern ourselves with these two assets.

Now, to make the example simple we are going to assume that both accounts (the IRA and the non-IRA) grow at precisely 10% each year. Further we will assume that she is taxed at the rate of 33%.

At 10% her $300,000 IRA account will generate an annual income of $30,000. Because all of the income withdrawn from a traditional IRA is fully taxable, the $30,000 would be reduced by taxes of $10,000 (due to her 33% tax rate). The IRA’s net after-tax income would be only $20,000. In other words she has spendable income of only $20,000 from her $30,000 IRA distribution.
At 10% growth the $99,000 in the account outside of her IRA will generate an additional income of $9,900. Again, taxes would reduce this amount down to only $6,600. So, she has an additional spendable income of $6,600. After taxes she would have a total of only $26,600 of spendable income from both accounts.

Let’s compare this to an alternate portfolio which includes converting the $300,000 traditional IRA to a tax-free ROTH IRA.

This conversion does require the payment of $99,000 in current income taxes…. an amount equal to the balance of the account that is outside her IRA. Using this entire account balance to pay the conversion tax may appear to be bitter pill to swallow but let’s look at what effect this would have on her after-tax, spendable income.

She no longer has any income from the account that was outside the IRA (because that was used to pay the conversion tax). However, now she can take a $30,000 distribution from her Roth IRA without having to...
pay any income tax on the distribution. She has $30,000 of spendable income compared to only $26,600 of spendable income prior to the ROTH conversion.

The additional spendable income isn’t the only advantage she gains. An added benefit of converting to a ROTH is that one day her heirs will receive any remaining balance, entirely free of income taxes! Instead of the potential tax nightmare that often accompanies the inheritance of a regular IRA, her heirs receive the ROTH IRA balance with absolutely no requirement to share even a penny of the money with the IRS.

The ROTH Split Annuity Conversion Strategy

As we stated earlier, many people are already familiar with these ROTH IRA benefits. Yet, no matter how attractive the resulting tax-advantages may appear many view the potentially large conversion tax as being entirely unmanageable. This is precisely why the Split Annuity ROTH Conversion Strategy was developed.

Top annuity producers often use this strategy to effectively reduce the conversion tax down to a more affordable amount, and still allow the IRA owner and his or her heirs to ultimately enjoy the many advantages of the ROTH.

To illustrate this concept, let’s consider another hypothetical IRA owner who is age 65. He has an adjusted gross income of less than $100,000 so he does qualify for a ROTH IRA conversion. He pays tax at the rate of 28%, and has a total of $100,000 in his IRA.
Currently he doesn’t need any additional income however, starting at age 70 ½ he plans on starting to take withdrawals from his IRA. While future income is important to him he would also like to know that there might be some money left in his IRA so that one day it could be passed on to his heirs.

At first he decides against converting to a Roth because he learns that a tax of $28,000 will be due if he converts his entire $100,000 IRA balance. He feels that this is simply too big of a price to pay to gain the advantages of the ROTH.
Then he learns how the **Split Annuity ROTH Conversion Strategy** can make the conversion tax a much more manageable amount of $10,149.

Here is how it works…

He splits the 100,000 that is in his IRA into two parts. We will refer to these parts as two buckets.
In one bucket he places a total of $63,755. The remainder of $36,245 is placed into the second bucket.

Next he takes the bucket that contains the $63,755 and transfers that to a single premium deferred annuity -- we will call this the SPDA Bucket. This bucket will stay in his original IRA.

No withdrawals will be taken for the next five years when he will be age 70 ½.

Assuming a hypothetical growth rate of 5.5%, the $63,755 would grow to $83,327 by the end of five years.

At age 70 ½ he would be required to start taking distributions. Depending upon his income needs, he could select among a variety of time periods, over which, the entire $83,327 balance would be paid to him. For example, he could select to have the entire amount paid to him in equal amounts over a period of ten years (when he would be age 80). This might provide him with equal payments of $776 each month.
(Note: The income illustrated is based on hypothetical amounts assuming current rates and other assumptions, and are only estimates.)

These payments are made up of both earnings and a systematic distribution of the $86,327 balance that had grown in the regular IRA (SPDA) bucket. The entire amount of the distributions would be subject to income taxes.

The regular IRA bucket in this hypothetical example would provide a total of $93,120 over the 10 year period he selected. At the end of 10 years, (when he is 80 years old) all of the money in the regular IRA (SPDA) bucket would have been distributed and there would be no remaining balance.

Now turn our attention to his second bucket. Recall that after he split his original $100,000 IRA he took $36,245 and converted it to a ROTH IRA. Because only $36,245 (not the entire $100,000) was converted to a ROTH, a much smaller conversion tax would be triggered.

In a 28% tax bracket he would pay a much more affordable $10,149 instead of the $28,000 he would be required to pay if he had converted the entire $100,000 IRA balance to a ROTH.

To continue with the example, we will assume that the money he used to pay this tax would be borrowed or paid from sources other than from the money in the original IRA.

He might have initially placed the $36,245 that was converted to the ROTH bucket into an equity indexed annuity (EIA).

We will assume that no withdrawals would be made from this ROTH (EIA) bucket for a period of 15 years. (from his age 65 when he first utilized the split annuity ROTH conversion strategy to age 80.)

All of the withdrawals received by the owner during this initial 15 year period would have come from the single premium deferred annuity that was in the regular IRA bucket.

By not taking distributions from the ROTH IRA (EIA) bucket, the balance would be allowed to benefit from compound growth over the entire 15
year period. Assuming a hypothetical growth rate of 7%, the ROTH/EIA bucket would grow to a balance of $100,000 by the end of the 15 years.

**Example Summary**

The man in our example has a traditional IRA with a balance of $100,000. He utilized the *Split Annuity ROTH Conversion Strategy* and divided this $100,000 into two amounts. He placed one amount into the (SPDA) bucket (which stayed in the original IRA) and the second amount into a ROTH IRA (EIA) bucket.

After 15 years, the entire amount of the regular IRA bucket was distributed to him (totaling $93,120), and now (15 years later at his age 80) the ROTH IRA (EIA) bucket has grown to $100,000.
He started with a $100,000 in a regular IRA (with its IRS forced Minimum Required Distribution requirements and 100% taxation), he ended up with a $100,000 in a ROTH IRA that is 100% income tax free to him and his heirs, and has no distribution requirements.

The owner can take any amount of distributions that he wants, or he can choose to never take a distribution. It is entirely up to him.

After the initial conversion not a penny of income taxes will be paid on any amount he might take from the Roth bucket. And, consider that at his death any amount remaining in his ROTH IRA bucket will go to his beneficiaries income tax free!

And, he paid a much more affordable conversion tax of only $10,149 to obtain these Roth advantages.

Many prospective clients think that this is a great idea.

And many annuity producers use it to sell a great amount of annuities.

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**The Medicaid Annuity Sale**

One of the most popular yet controversial methods for selling annuities is related to the topic of Medicaid.

You may have heard the terms “Medicaid Qualified Annuity” or “Medicaid Friendly Annuities” and wondered what they mean? The purpose of this chapter is to provide a **general** answer to this question as well is to illustrate how some annuity producers have used the topic of Medicaid in their annuity selling.

Before I go further, it is important to stress that many State Insurance Departments have imposed rules designed to prevent or to strictly limit how agents may discuss the use of annuities as a way for a client to gain some advantage should he or she apply for Medicaid. Any agent who intends to market annuities in this manner and for this purpose should proceed with extreme caution. Be certain that you first understand any prohibitions that the laws, rules and practices of your
Background

One of the single most disturbing and challenging issues that face seniors today is the potential need for long term health care and how to pay the associated expenses.

While seniors understand that the costs of such care could ruin them financially, few have chosen to purchase long term care insurance. Many either believe that they can’t afford the coverage or that they won’t qualify.

These people are curious about Medicare and Medicaid and want to learn more about how these programs work and if they can be relied on to pay for nursing home bills and other expenses associated with long term health care.

Many annuity producers have capitalized on this by providing information on these topics. For example, they have found that it is relatively easy to increase attendance at seminars that feature a discussion of Medicare and Medicaid.

Many of these producers also understand is that there are situations where, under certain circumstance annuities have been used to successfully help people protect a portion of their assets when faced with the potentially enormous costs of care.

Does Medicare Pay For Long Term Care?

Long term care is generally provided in nursing homes to people with disabilities or chronic illnesses. The care that is provided is referred to as custodial care as opposed to skilled care.
A person must meet several requirements before they will qualify for Medicare.

- Three full days in an acute care hospital within 30 days of your admission to a nursing home.

- The need for **skilled** nursing care seven days a week, and/or rehabilitation services at least five days a week.

These two requirements often stand in the way of many people being eligible for Medicare.

Even if a person qualifies, the longest nursing home stay where Medicare will pay for 100% of the bill is only 20 days. After the first 20 days, Medicare will only pay part of the bill if the person still requires **skilled** care. The person pays a large co-payment for each day of the next 80 days. After 100 days, the person is required to pay 100% of the bill from that point on.

Because of these strict requirements, Medicare pays **less than 10%** of all of long term care bills.

### What is Medicaid?

Medicaid (referred to as "Medi-Cal" in California and "MassHealth" in Massachusetts) is a program that is designed to provide health insurance coverage to low-income children, people with disabilities and seniors. It is a joint program between the federal government and each state.

This program is of particular interest to seniors because unlike Medicare, Medicaid can provide substantial amounts to cover care in a nursing home. Because so few seniors have purchased long term care insurance, Medicaid has become the default nursing home insurance for a large percentage of today's seniors. However, there are some very specific rules that must be met before a person qualifies for Medicaid.

While the Federal government provides financial support for Medicaid, each state administers its own program and typically has its own rules.
Although the framework for the program is the same throughout the country, the rules are somewhat different in every state. It is very important that you understand specifically how these rules apply to your state because crucial differences may exist.

How Is Financial Eligibility For Medicaid Determined?

Medicaid is the best solution for the poor, who have no problem qualifying because they have little income and few assets. For the middle-class, Medicaid might still provide assistance but it becomes even more important that a person understands the Medicaid rules and the extent that their assets and income may be in jeopardy under Medicaid.

All states consider a person’s income in one of two ways as one test for determining eligibility.

Alabama, Arizona, Arkansas, Colorado, Delaware, Florida, Idaho, Iowa, Louisiana, Mississippi, Nevada, New Jersey, New Mexico, Oklahoma, Oregon, South Carolina, South Dakota, Texas and Wyoming are all referred to as **Income Cap** states. They consider a person to be eligible if, in part, each month’s income is below a certain level.

The actual level of income can vary from state to state and will generally increase annually.

If in any month that a person’s income exceeds this level, then they are not considered eligible for Medicaid and they will be required to pay for their care. It is not uncommon for a person to find that the total cost of care for the month will exceed their total monthly income.

Miller Trusts have been widely used in **Income Cap** states as a way to make sure that a person’s income is less than the eligible levels.

All other states are referred to as **Spend Down** states.

To qualify for Medicaid in a **Spend Down** state after you deduct your medical expenses you must have less than a certain amount of income and countable resources.
If you exceed these Medicaid limits, you will not get Medicaid benefits until you first lower your income to a level that meets the Medicaid program rules.

Lowering income to qualify for Medicaid is commonly referred to as "spend down".

**Certain Assets Are Non-Countable In Determining Medicaid Eligibility**

Assets identified as being non-countable do not have to be spent on a person’s health care before they can become eligible for Medicaid benefits.

These exempt assets include:

- Your **home** regardless of its value is **exempt**. It must be your primary residence (as opposed to a second or vacation home). However, in order for a home to be protected, the institutionalized spouse must intend to return to the home, or the well spouse, a dependent child or sibling with an equity interest in the home must continue to live in the home.

- One **car** is considered **exempt**. (While rarely enforced, some states do place a limit on the value of the car.)

- **Household items** including your furniture and personal effects are **exempt** regardless of their value.

- Your **wedding ring**.

- **Prepaid Burial plots** of any value.

- **And, an annuity** that is properly annuitized can also be considered an asset which is **unavailable** or not **countable** when determining Medicaid eligibility.

Specific and detailed rules apply to the treatment of annuities, and later in the chapter I will provide additional information but first it is important
to understand how a person’s assets and income affect Medicaid eligibility.

For married couples, in addition to these non countable assets, in the year 2003 the **well spouse** is generally **allowed to keep one half of the couple’s combined net worth up to $90,660** in property and other assets.

<table>
<thead>
<tr>
<th>Assets Considered exempt</th>
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</thead>
<tbody>
<tr>
<td>Your Home</td>
</tr>
<tr>
<td>One Car</td>
</tr>
<tr>
<td>Household Items</td>
</tr>
<tr>
<td>Wedding Ring</td>
</tr>
<tr>
<td>Life Insurance</td>
</tr>
<tr>
<td>Burial Plots</td>
</tr>
<tr>
<td>Certain Income</td>
</tr>
<tr>
<td>Property</td>
</tr>
</tbody>
</table>

**In addition they can keep…**

| Well Spouse $90,660 | Institutionalized Spouse $2,000 |

*This slide is from our Medicaid presentation. Learn more at [www.salesart.com](http://www.salesart.com)*

If the person needing care is single, he or she can only keep $2,000, $2,500 or $3,000 depending on the state. In other words, the $90,660 of additional exempted property that the well spouse can keep is lost when the person applying for Medicaid is single.

### Income Limits
Medicaid rules concerning income limits can be complex and will vary depending on the state. I will use the state of California and its rules concerning Medi-Cal (California’s version of Medicaid) to provide a general illustration.

In California, the well spouse of a married couple is also allowed to keep all of the income received in his or her name, regardless of the amount. If the amount of income in the well spouse’s name is less than $2,267 per month, the institutionalized spouse may allocate his or her income to bring the at-home spouse’s income up to this $2,267 per month limit. (These are California limits. Your state’s limits and rules may be different.)

This amount is referred to as the **Minimum Monthly Maintenance Needs Allowance (MMNNA)**

The institutionalized spouse is only permitted to keep $35 a month for personal needs. (Note: these are the amounts Medi-Cal allowed in 2003; each year they are adjusted by annual increases of the consumer price index.)
There is an important rule that people need to understand concerning how Medi-Cal treats the income of a married couple. It is called “The Name On The Check Rule”.

Following this rule, Medi-Cal determines who the income belongs to by whose name is on the check.

This can be extremely important for people attempting to protect their assets. You see, the well spouse is allowed to keep 100% of his or her own income. In other words none of the well spouses income must be spent down before Medi-Cal will start paying the nursing home bills for the institutionalized spouse.

As you might imagine couples often attempt to claim that income belongs to the well spouse because the institutionalized spouse can only keep $35 of their income each month. Again, with few exceptions Medi-Cal uses the name on the check rule to determine who the income actually belongs to. If both spouses’ names appear on the check, the income is considered to be split 50/50 between the two spouses.

Again, the institutionalized spouse is only able to keep $35 a month. However, before the institutionalized spouse is forced to spend their excesses income on their care they are allowed to allocate some of his or her income to the well spouse as long as the well spouse’s income is below a certain amount. In 2003 $2,267 was the limit.

For example, if the institutionalized spouse has income of $2,035 in his name and the well spouse has zero income in her name, the institutionalized spouse can keep $35 each month, transfer or allocate the remaining $2,000 to his spouse and Medi-Cal will still pay for his care.

If the well spouse’s income already exceeds $2,267 a month then the institutionalized spouse must instead spend the income in excess of $35 on their care before Medi-Cal will pay.

Again, it is The Name On The Check Rule which Medi-Cal uses to determine how the income is allocated to the spouses.
Estate Recovery Claims

Federal law requires every state to recover the money Medicaid spends on care. As with the other provisions of Medicaid, estate recovery rules can vary depending on the specific state. The purpose of the claim is to recoup the money that was spent on care, whether it’s for nursing home care, out-patient care, and the cost of hospitalization and prescription drugs.

Because it is often the largest asset in many people’s estates, Estate Recovery claims often involve the family home. The rules regarding recovery will depend in large part on whether a person is single or married.

Single people are required to spend down their assets to a level of no more that $2,000, $2,500 or $3,000 depending on the state. If a person cannot reasonably be expected to return to their home then in many states they could be forced to sell the home and use the proceeds to pay for their care. States that are considered homestead states will not place a recovery claim against the home even if a person is not expected to return, until after that person has died.

For married couples the rules will be different. No recovery claim will be placed against the home until after the well spouse dies.

Again, I will use California to provide an example of the effect of Estate Recovery. Assume that the net value of a home owned by Frank and Betty was $300,000. As a community property state, they each own a one-half interest in the home, so Frank’s portion is valued at $150,000. Remember, a person’s home is considered exempt so there is no requirement that Frank’s interest in the home be spend-down before Medi-Cal (California’s version of Medicaid) will pay his nursing home expenses. Assume Frank dies and leaves his interest in the home to Betty. There would be no collection action as long as Betty was alive. However, when Betty dies, the Estate Recovery unit could present a claim, against her estate, for Frank’s Medi-Cal usage.

If at the time of Frank’s death, his sole asset was the one-half interest in the home ($150,000), assuming Medi-Cal had paid for services in the amount of $150,000 or more, Frank’s entire value in the home could be claimed and used to reimburse Medi-Cal.
Estate Recovery collection claims must generally be limited to the lesser of the value of the person’s estate assets or the amount of Medicaid paid services. (Assuming the well spouse does not receive any Medicaid benefits.)

Holding property of the institutionalized spouse in joint tenancy or in a revocable living trust will **not** necessarily avoid estate recovery claims.

You should learn more about your state’s policies and practices regarding estate recovery. Many states do not have a history of enforcing estate recovery claims. However, as more and more states experience budget deficits, and pressure grows from the federal government, their policies regarding estate recovery could change.

**Protecting Assets And Avoiding “Spend Down”**

One method that is commonly used to protect assets is to attempt to change assets that are currently **subject to** Medicaid “spend-down” to assets that are considered noncountable or **exempt**.
For example, assume that in addition to the $90,660 that the in-home spouse is allowed to keep and the $2,000 (or more depending on the state) that the institutionalized spouse can keep, a couple still has $100,000 that is exposed to Medicaid spend-down. If they did nothing, they might be forced to spend down the entire $100,000 before Medicaid would begin to pay for care. Rather then watch this money disappear, they could instead use it to immediately pay off their home mortgage or, if there wasn’t any mortgage, they could use the money to make home repairs and improvements.

They could even consider selling their current home and paying cash for a home of greater value. Remember, under Medicaid rules a person’s home (assuming it is their principal place of residence) is exempt regardless of its value.

Assuming no better planning options existed, the question to consider is... would it be better to spend-down dollars to pay nursing home bills or convert those dollars to exempt assets by paying off a home or
purchasing a more expensive home? The answer to this question will depend largely on a person's individual circumstances.

Before a person pays off their mortgage they should keep in mind that while this action may avoid or reduce the amount of their assets subject to spend down, it may not prevent the an Estate Recovery Claim being filed against those assets.

Again, it is a good idea to be familiar with your State's policies and practices concerning estate recovery claims.

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**Can You Protect Assets By Gifting Them Away?**

Often people will attempt to protect assets from spend down by gifting or transferring them to a child or to another person other than their spouse. Under certain circumstances this might be a viable option. However, in many states transfers of a non-exempt asset or asset subject to spend-down within 30 months of an individual's application for Medicaid for nursing facility level of care could likely result in a period of ineligibility. If an asset is transferred to a trust the period of ineligibility can be even longer.
Caution and expert advice is needed anytime a person is considering the gifting of assets. Gifts can have serious tax implications. And one needs to carefully consider the potential ramifications of giving up ownership and control of an asset that they may very well not be able to get back should they find that they need it in the future.

Many people have transferred assets to a child or other family member solely to protect that asset from spend down, only to find that the asset was lost due to the child’s divorce, legal difficulties or problems with the IRS.

In spite of these and other potential problems, many Elder Law Attorneys will develop and recommend gifting strategies that under certain circumstances have proven to be viable.
Using Annuities To Protect Assets

Several years ago two popular books were published that inspired a good number of annuity producers to market their products as vehicles for protecting assets from Medicaid spend down requirements. These books, Avoiding the Medicaid Trap by Armond Buddish and The Medicaid Planning Handbook by Alexander A. Bove, Jr. seem to make a strong argument for the purchase of annuities within the context of protecting assets from the requirements of Medicaid.

Agents discovered that many clients found annuities to be extremely attractive if, in addition to all of their other features and benefits, they could also be used to provide protection against Medicaid spend down requirements.

In assessing the value of using annuities in this situation it is important to recognize that the advantages discussed in these books are generally available to immediate annuities only, not deferred annuities.

The reasons for the apparent advantages of immediate annuities used for Medicaid planning purposes are quite simple...

When a person purchases an immediate annuity they are transferring their principal to an insurance company in exchange for receiving income. Because immediate annuities are generally irrevocable contracts, once the client makes the purchase (after the 30-day free look period) the client cannot revoke the purchase and get back his or her principal. If the person no longer has the principal and cannot get access to the principal (as they could with a deferred annuity) then Medicaid cannot force them to spend down the principal or place an Estate Recover claim against the principal.

In 1993, federal legislation referred to as OBRA established guidelines in an attempt to clarify the treatment of immediate annuities with respect to Medicaid claims.

Among the requirements specified by OBRA guidelines were that the annuity’s income stream could not be guaranteed for a period lasting longer than the actuarial life expectancy of the annuitant. The OBRA guidelines use a specific life expectancy table to determine if a particular annuity meets this requirement. It is important to understand that the

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OBRA life expectancy table may be different than the life expectancy table used by the insurance company issuing the annuity.

In addition, OBRA requires that the annuity must be irrevocable, and nonassignable. This means that the owner can’t cash in or sell the annuity. The annuity cannot be commutable. This means that the income payment stream cannot be changed while the annuitant is living.

Assuming that the immediate annuity meets all of the OBRA guidelines, there is no principal amount available for Medicaid to claim.

Earlier in the chapter I indicated that Medicaid rules can allow the in-home spouse to keep $90,660 and the institutionalized spouse to keep $2,000 in assets in addition to their home, car and other exempt assets. (depending on the state). Any principal sums that are in excess of these limits will be required to be spent on the person’s health care bills before Medicaid will start paying. Unlike immediate annuities (which meet the OBRA guidelines) there is a good chance that any bank CDs, Treasury Bills, mutual funds, bonds and most other investments and savings vehicles that exceed the exempt limits will be in required to be used to pay for care before Medicaid will pay.

Income generated by the immediate annuity and paid to the institutionalized spouse is subject to Medicaid’s spend down requirements. Remember, that in general the rules concerning income are as follows …
The institutionalized spouse is able to keep only $35 a month (depending on the state). However, before an institutionalized spouse is forced to spend their excess income on their care they are allowed to allocate some of their income to the well spouse as long as the well spouse’s income is below a certain amount (depending on the state).

In 2003, $2,267 was the limit (depending on the state).

If the well spouse’s income already exceeds $2,267 a month then the institutionalized spouse must instead spend their income that is in excess of $35 on their care before Medicaid will pay (depending on the state).

If the well spouse had little or no income, an institutionalized spouse who was receiving income from an immediate annuity could transfer up to $2,267 of that income to the well spouse each month instead of being required to use it to pay for care (depending on the state).
Keep in mind that there are no limits to the amount of income that a well spouse can keep (depending on the state). The limit is on the amount the institutionalized spouse is allowed to transfer each month and still have Medicaid pay for care. This means that a well spouse could receive any amount of income, without limit, when it is paid to her directly from an immediate annuity or from some other source (depending on the state).

Summary

A good number of annuities have been sold by producers who position their product as a vehicle which, if used properly can help clients protect their assets from Medicaid **spend down**.

Unfortunately some of these producers have exaggerated or misrepresented the case for using annuities for this purpose. Some of them may have had the best intentions but because they did not thoroughly understand the complexities surrounding Medicaid, they sold annuities that did more harm then good for their clients.

As is often the case, the backlash has been that various State’s Departments of Insurance and other regulatory agencies have established market conduct standards that can make it difficult if not impossible for an agent to discuss how annuities can be used to protect assets from Medicaid **spend down** requirements.

Under the right circumstances, immediate annuities might provide one option available to clients faced with the nightmare of protecting assets in the event that they or their spouse require long term care.

However, agents wishing to market annuities in this manner should proceed with extreme caution. Contact the Department of Insurance in your state, your broker-dealer, and the annuity companies that you represent to learn what is **proper conduct** relating to these issues.
Most agents that I have come across who use Medicaid to market annuities, use it more as a door opener or prospecting tool than as an actual planning or selling tool. Many of these agents will conduct seminars or send direct mail that offers information on Medicaid.

Again, Medicaid is a topic that can easily capture the interest of the many seniors who do not own long-term care insurance.

Usually the agent’s objective is for these prospecting efforts to attract healthy seniors who do not currently need long-term care or Medicaid. If they get a prospect that does have a current need, the smart agents will immediately refer them to an attorney specializing in Elder Law.

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**Important Chapter Notes**

The preceding chapter is intended to provide general information only. It should not be viewed as a complete or exhaustive treatment of the topic of Medicaid, Medi-Cal or annuities. Nor should it be viewed as legal or tax advice. The information reflects the author’s understanding of Medicare, Medi-Cal and relating issues as of January 2003. These issues can change at any time and with no notice. The author will not be liable for any claims or losses as a result of your clients inability to qualify for Medicaid or Medi-Cal. Therefore, it is highly recommended that your clients seek the advice of a tax consultant and attorney specializing in elder law.

Medi-Cal is California’s Medicaid program. Please note that much of the information in this presentation pertains to Medi-Cal. This information may not be valid for people who reside outside of the State of California.

Many state Insurance Departments have imposed rules designed to prevent or to strictly limit how agents may discuss the use of annuities as a way for a client to gain some advantage should he or she need to apply for Medicaid. **Any agent who intends to market annuities in this manner and for this purpose should proceed with extreme caution.** Be certain that you first understand any prohibitions that the laws, rules, and practices of your state and any other government agency or regulatory body impose on your conduct as it relates to the issues discussed in this chapter.
The Living Trust Annuity Sale

Using a living trust as a way to “open the doors” to annuity sales is another potentially lucrative, yet extremely controversial marketing technique.

Many of today’s top annuity producers have at one time or another used the promotion of living trusts as the initial step to selling annuities.

Agents are typically frustrated by the fact that prospects resist more straightforward attempts to discuss annuities. After facing numerous rejections many agents attempt to find other approaches that prospects will be more open to. Starting in the early 1980’s many annuity producers believed that they found the perfect approach … the revocable living trust.

This estate planning tool has been around for decades, but seemingly overnight it become a heavily touted method for avoiding probate. Dozens of books were written and hundreds of articles were printed by the people recognized as financial experts. They all provided the same advice; replace your will with a revocable living trust.

The Annuity Selling Bonanza

Soon, savvy annuity producers realized that these trusts provided them with a marketing opportunity that was simply too good to be true for three reasons …

**First**, prospecting was a snap because consumers would swarm to seminars or respond to direct mail to get more information on trusts.

**Second**, it was much easier to get prospects to “open up” and tell the agent all about their assets during the course of a trust.
And third, prospects would often view the presenter of the trust information in a much more favorable light than they might view an annuity salesperson.

There was only one problem. The annuity producer ran the risk of being accused of practicing law.

In an attempt to solve this problem many agents developed relationships with attorneys. The agent would do the marketing and educate the consumer. Then they would turn their prospective client over to the attorney to get the actual trust work completed.

Unfortunately, the process often would fall apart once the client was in the hands of the attorney. The agent needed the attorney's cooperation, if not endorsement, in order to pave the way to the annuity sale after the trust work had been completed. Many attorneys not only withheld that cooperation but they often became an obstacle to the annuity sale.

If the agent was fortunate enough to develop a relationship with a cooperative attorney they could make a tremendous amount of money. Many did and soon saw an opportunity to profit by arranging to get trust work completed for other agents. This activity led to the creation of organizations whose sole purpose was to turn out a large volume of trust documents. These organizations were ultimately tagged with the name “Trust Mills”.

With access to these organizations it appeared that agents now had the ability to market and deliver trust, without being accused of practicing law and still retain control over the client relationship. The procedure would go something like this …

The agent would hold seminars, send direct mail, or use some other method to attract the attention of prospects interested in learning how a revocable living trust might spare their family the unnecessary expense and delays of probate.

During a subsequent interview with the client, the agent would quote a price to get the trust work completed and attempt to close the trust transaction.

The agent would then collect the fees for the trust work (often with
the client’s check made payable to the attorney) and obtain all of the client data that the attorney would need to draft the trust document.

The agent would forward the information and all or a portion of the fees to the attorney (or to the organization that did the trust work). Some agents would keep a portion of the fees so that they were compensated even if the client never purchased any products.

Once the trust was completed it would be forwarded to the agent for delivery. The agent would not only explain the trust to the client but would assist the client in transferring the title of the assets to the name of the trust.

During this process of re-titling assets, agents found that they had a golden opportunity to sell annuities. By this time they would have developed a strong relationship with the client. Clients had gotten used to following the agent’s advice and would often view the agent as more of an advisor like view their accountant or attorney.

Annuity Producers Come Under Attack

Trust mills and the annuity producers who used them flourished throughout the ‘80s and well in to the ‘90s until they came under attack on several fronts. First, bar associations accused annuity producers of practicing law and at the same time the trust mill lawyers were accused of not meeting ethical standards due to the fact that they never actually met with the client. In addition, Insurance Commissioners and Attorney Generals from many states started receiving a high volume of complaints from consumers who were accusing agents of misrepresenting themselves and the products they were selling.

Some believe that many of these complaints were encouraged by attorneys who wanted to see the trust mills closed down because they were losing business. Others believe that the problems were due to the action of annuity producers who simply got greedy.

Regardless of who was at fault, the environment changed. Agents who continue to work in this arena must be extremely carefully if they are to
avoid the possibility of violating their state’s rules and regulations.

Many annuity producers believe that the living trust market is no longer worth the regulatory hassles. Their reason is that living trust were promoted so successfully over the past 20 years that most prospects already have them.

“I started marketing living trust in 1989. Back then I would send 5,000 invitations to a living trust seminar and I would get about 150 people to attend. When I asked the audience how many had a living trust there would be maybe five to ten people who would raise their hands. Now my seminar invitations draw about half as many attendees and the only reason I get that many is because my seminar now deals with many topics other than living trust. When I ask how many people have a living trust, generally half to 75% of the audiences will raise their hand. The “low hanging” fruit has already been picked off the living trust tree.

One Of The Top Annuity/Living Trust Marketing Organizations

Many top annuity producers that got their start marketing living trust have moved on to use other marketing methods. However, there are agents who continue to use the living trust as a “door opener” to annuity sales.

In 1988 we started to market a living trust video presentation. We still sell a couple hundred copies each month so I know that agents still use this approach.

One of our customers is a very successful multi-state annuity marketing organization with about 30 agents. Their primary marketing method is seminars devoted to the duel topics of “Avoiding Probate” and “Understanding Medicaid”. Their agents average about $250,000 per month in annuity business.

They use telemarketing to invite people to their seminars. Each agent does one seminar per week. Attendance will average about 20 buying units per seminar. Do the math … 30 agents each doing a seminar a
week, times an average of 20 buying units per seminar, that’s a total of 600 buying units per week.

The general agent who runs this organization is one of the smartest marketers I have ever met. He manages one telemarketing unit that is housed in Texas. The unit runs two shifts a day and they make calls six days a week. They book seminar attendance for 30 agents located in a dozen states from California to Florida.

He pays his agents about 50% of the total “street level” annuity commission.

Agents love working for him because they never have to prospect. Each agent is placed on a master seminar schedule so they know, for example, that every Tuesday they will have a luncheon seminar.

The Texas headquarters office does all the work. They book the restaurant, phone and invite the people to attend and even make reminder calls to all attendees the day before the seminar. All the agent has to do is to show up, give the seminar and follow up on the leads.

They are not alone. I usually speak to at least one agent a week who continues to find success using living trust as a marketing tool.

Before any agent considers working with living trust it is extremely important that they understand any rules and regulations imposed by their State Department of Insurance or other regulatory agencies.

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Living Trust Basics

This part of the chapter is designed to provide you with basic information about the revocable living trust and other planning tools that clients use to obtain greater control over their assets, and their lives.
After all, it really does come down to the question of control… of who will be in control of your clients assets. Will it be the client … will it be their family members… or… will their assets one day be under the control of the courts, the attorneys or the government?

With proper planning, your clients control what they have and they control who will ultimately receive what they have. They control when their family will receive those assets, and to a greater degree they control and eliminate the unnecessary hassles, delays and expense commonly associated with passing those assets on to their heirs.
Without proper planning, your clients and their heirs could easily lose control. Control instead could be placed in the hands of attorneys, judges and even politicians. And after they are done, it’s safe to say that a good portion of your client’s assets will have disappeared.
This chapter has two purposes . . .

**First**, to help you gain a better understanding of two common potential problems that your clients and their heirs could one day face. They are **probate** and **conservatorship**.

**Second**, to provide information on the **revocable living trust**, the **durable financial power of attorney**, **durable medical power of attorney** and the **living will** (or **advance health care directive**) as simple, affordable, yet extremely powerful methods for combating the potential problems of probate and conservatorship.

It is important to keep in mind that only attorneys can make legal recommendations and determine the suitability of a living trust in your client’s specific situation.
What is probate?

Probate is a legal procedure designed to supervise the administration and distribution of an individual's estate (assets) after death.

Probate isn’t just a concern of the wealthy. It can have a dramatic effect on estates of $100,000 or less. Some of the types of property typically involved in probate can include a persons...

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Probate Fees Are Calculated On The **Gross** Estate

It may not come as a surprise that these and other assets can be subject to probate, but most people are shocked when they discover that probate fees are calculated on not just their assets but on their **debts** as well! That’s right, it is your **gross** estate, not your **net** worth that is subject to probate fees.
This slide is from our Living Trust presentation. Learn more at www.salesart.com

The logic behind this is that because the court must make sure that all debts and obligations are resolved or paid before heirs receive their inheritance, the fees must be calculated on the entire estate including debts!

These debts include the standard items such as credit card balances, installment loans and mortgages, and they also include one additional item… the fees of probate.

More than one estate has been forced into bankruptcy because the combination of the estate’s debts and the probate fees were greater than the net value of the estate.

Few assets escape probate when the time isn’t taken to plan. Estates are subject to probate regardless of whether the person dies with or without a will!
In fact, wills **guarantee** that an estate will go through probate.

And, it's not just the unnecessary expense of probate that is of concern. People can expect a number of things to happen in probate court. For example, probate is the time and the place for **contesting** the will! And, probate is the place that creditors go to make claims against the estate.

There are at least three reasons why many prudent people have chosen to rely on a living trust to avoid probate …
Many heirs have been forced to wait years before their inheritances were finally released from probate. And while they waited, they watched as 5%..., 6% . . ., even as much as 10% of their money vanished.

The process of probating an estate is virtually an open book to the public. Anyone can go to the courthouse and read your clients will. Anyone can find out…

- How much your client was worth!
- What they owned!
- Whom they left it to!
- How much they owed!
- Whether they gave to charity!
- And perhaps of most concern… anyone can learn your clients’ beneficiaries’ names, phone numbers and addresses!
Salespeople, scam artist even criminals can uncover the most intimate details of the estate and who will inherit the assets.

Avoid Probate With A Revocable Living Trust

Fortunately the revocable living trust has proven itself as an affordable method to altogether avoid the expense and delays of probate, and to protect a person’s privacy.
With a revocable living trust, if a person dies at 1:00 Friday afternoon the successor trustee could be appointed by 1:01 that same afternoon!

A revocable living trust, like a will, is a way for a person to direct where their assets go upon their death. However, unlike a will, with a revocable living trust, the estate does not go through the process of probate.

**How is the probate court avoided?**

A revocable living trust is a legal agreement that allows a person to transfer all of their assets to a trust while they are alive. They can continue to **retain control** over these trust assets as long as they appoint themselves as the trustee.

To understand the power of a revocable living trust it might help to think...
of your client as wearing two hats. They wear one hat as the individual who created the revocable living trust, and they can also wear a second hat as the **trustee** of the trust.

As trustee, they maintain full control of all of their assets… and they can do pretty much what they want with these assets. They can buy, sell, encumber, trade, or do anything they did before they placed their assets in the trust.

Beyond the ability to retain control over one’s assets, people get peace of mind with the knowledge that they can retain the right to always amend, alter or **revoke** their revocable living trust **at any time**.

People should consider a living trust …

If the **gross** value of their estate exceeds their state’s probate limit, (a limit as low as $10,000 in some states.),

If they have minor or adult children,
If they or their spouse have children from a previous marriage,
If they are concerned about a child’s lifestyle or spending habits,
If they have a disabled child,
If they own or have an interest in a business,
If they own life insurance,
If they value their right to privacy,
If they want greater control over their assets today and after they die,
If they want their heirs to get their estate without unnecessary delays, attorneys and courts,

The bottom line is that if a person wants to avoid probate they should consider a revocable living trust.

Living Probate

While the revocable living trust has proven to be an extremely effective and affordable way to avoid unnecessary expenses, delays, and loss of privacy at death … people must also be concerned about the possibility that many of these issues could also arise while they are alive.

A person’s planning should not end until they address the question of what happens if they become incapacitated while they are alive.

Let’s consider this question in light of what may be a reasonably realistic example of a wife caring for a husband, incapacitated by a stroke. Deciding to sell their large home and replace it with a smaller, more manageable home, she is confronted with the fact that she cannot complete the required paperwork without her husband’s notarized signature.
She could ask the court to appoint her to act as her husband’s conservator so that she can sign on her husband’s behalf. And while this would provide an immediate solution to the problem of selling the house, it would require her to petition the court and it could also require her to appear in court every year with an audited statement proving that she is managing her husband’s assets properly and wisely. It could also mean that she would likely incur unnecessary expenses and fees for attorneys and accountants.

The Durable Financial Power of Attorney

Much of this potential hassle and expense might be avoided with a relatively simple legal document referred to as a Durable Financial Power of Attorney.

A Durable Financial Power of Attorney allows your clients to name the person they want to handle their financial matters, ahead of time, should
they become incapacitated. This can allow them to keep the control of their financial affairs in your family and can reduce or eliminate interference from the courts.

The Durable Financial Power of Attorney can always be modified at your client’s discretion and it only gives the person they appoint as their agent the power to act if and when they become incapacitated.

Advance Health Care Directive and the Durable Medical Power of Attorney

There are two additional documents that have proven to be invaluable tools for families dealing with health care issues as opposed to financial issues. They are the living will, more properly referred to as the Advance Health Care Directive, and the Durable Medical Power of Attorney.
The *Advance Health Care Directive* is a document that a person would use to state their wishes concerning whether to use, withhold, or withdraw life-prolonging procedures.

The *Durable Medical Power of Attorney* allows a person to prename who they want to make health care decisions for them if they can no longer make these decisions for themselves.

**Living Trust Summary**

The choice for many people is fairly simple. A will guarantees that their estate will go through the probate process. It exposes their heirs to…

- unnecessary legal fees,
- unnecessary court costs,
- unnecessary publicity,
- and unnecessary delays.

Heirs can avoid these problems with a Revocable Living Trust.

They avoid the hassles,

they avoid the delays,

they avoid the publicity,

and they avoid probate!

It all comes down to the question of what a person wants for their heirs.
Good Trust vs. Bad Trust

To reduce the chances of being accused of practicing law without a license, the agents must ultimately refer their clients to an attorney to make the final determination of whether a trust should be used in a particular situation and then to draft the actual document.

In forming a relationship with an attorney, agents often consider the typical fees that the attorney will charge for their work.

Prices for trust work vary. In Southern California they seem to range from between a low of $400 to $1,000 or more for a standard revocable living trust.

So the question is… what is the difference between a $400 trust and a $1,000 trust? Often it boils down to the amount of time that the attorney spends with a client.
While it may not be fair to make a blanket statement, common sense would indicate that when you pay $400 you’re likely going to spend less time in front of an attorney who will potentially listen to your goals and concerns.

But is this really that important? After all, aren’t revocable living trusts pretty much the same?

To help answer this question, we asked San Diego’s Bryan Holland, an attorney very experienced in drafting many different types of trusts for his clients.

“I am often asked if an inexpensive trust is as good as a more expensive trust. I give the standard attorney answer … maybe!

“Here is a good way to look at the issue. 90% of the time, any revocable living trust is going to allow the client to accomplish exactly what he or she wants. In fact, if someone is really trying to save money they could even go to the book store and buy a do-it-yourself living trust kit. For $35 and several hour’s work they could end up with a trust that could do everything they need done. But I wouldn’t recommend it, and not just because I want to stay in business.

“The problem is the other 10% of the time when the inexpensive or do-it-yourself trust isn’t adequate. If issues arise that might have been avoided with a better trust then the expensive, delays and hassles can be significant.

The Five Reasons Why a Person Doesn’t Have a Living Trust, and How the Agent Can Overcome Four of Them.

Most of the agents that I interviewed who continue to use the revocable living trust in their marketing efforts indicated that there are still plenty of people out there who don’t have a trust. However, many of these prospective clients have considered a trust, but for some reason have not gotten one.
“I started using living trust as a door-opener or client prospecting tool in 1992. Not as many people understood the advantages of a living trust like they do today. Often, these people would make the decision to get a trust after I went through just a thirty-minute presentation.

“Today it’s much different. The sale is more challenging, and to be effective, you have to be able to learn why the client doesn’t already have a trust and be a skillful enough salesman to overcome the client’s objections.

“I have averaged at least four or five trust presentations each week for the past 15 years. This experience has led me to believe that there are rarely more than five reasons why a person doesn’t have a revocable living trust.

Reason #1

“Not everyone needs or should have a living trust. I am really careful about crossing the line and being accused of practicing law without a license, so I never would tell someone that they don’t need a trust. That’s a legal opinion and I am not going to put myself in the position of making it. However, when I meet someone who doesn’t have much in the way of assets, I don’t see much of a prospect for a trust or my annuities. If the reason for my appointment was to talk about a living trust, I might show them my 20-minute video and then tell them that if they have an interest they should go see their attorney.

“I try not to make the same mistake that I see a lot of other agents making when they don’t think they have a good prospect. Instead of rushing off I figure that I am already there and so I might as well spend a few minutes and give them some information.

“Once I had an appointment with a couple that lived in a run-down trailer that was a mess. These people looked like they were dirt poor so I didn’t think I had much of a prospect. After they warmed up to me I found out that they had over
$200,000 in a CD and another $1,000,000 in real estate. I hooked them up with the attorney I work with, and he not only did a living trust but he also did a charitable remained trust so that they could sell their real estate without getting hit too hard with capital gains taxes. Today they have over $500,000 in annuities with me.

“Aside from these occasional “surprise” sales, there are people out there that just aren’t good prospects for a trust.

**Reason #2**

“There are still people out there who don’t really know much about these trusts. I find fewer and fewer people in this category, because of all the publicity that revocable living trusts have gotten over the years. Today, most people I speak with have already been to one or more living trust seminars and read articles in AARP and other publications. When I do come across the occasional person who hasn’t had much exposure to trusts then I have to educate them from A to Z.

“I usually start my appointments off by showing a video. There are a number of good trust videos available. Then one that I currently use is about 20 minutes which to me is about the best length.

“I introduce the video by saying something like… you can hear me talk for the next hour or two or I can show you this twenty-minute video and then just answer your questions. What’s your preference?’ They always pick the video.

“After the video, I use a PowerPoint presentation to highlight key points and find out what parts of the presentation the client didn’t really understand. The PowerPoint presentation follows the video so it’s easier for the client to follow along.

“By the time we are finished with the video and the PowerPoint presentation, most people will understand the
trust, so if they don’t buy it’s usually because of one of the remaining three reasons.

Reason #3

“I often have appointments with people who are genuinely concerned about probate. They know that a living trust effectively avoids the problems of probate, and the cost of the trust isn’t an issue.

“But they still don’t have one!

“In these situations, I am suspicious that the reason is that they fear that the living trust will somehow force them to give up control of their assets.

“Once I had an appointment with a lady who was in her late seventies. She was a perfect candidate for a trust but I just couldn’t close her. Just before I was ready to give up and leave, I asked her why she didn’t want a trust. Her answer was that she didn’t want to have to …

“be like Lucy and have to ask some guy at the bank anytime she wanted to spend a little extra money”.

“I had no idea who Lucy was or what she was talking about until she explained that she used to watch the old Lucille Ball Show on TV. This wasn’t the original I Love Lucy show but the one the second series that was on TV for years.

“As soon as she started talking about this I remembered the TV program and knew what was troubling her. In that program Lucy had been left a sum of money (pretty much all she had). But the money was left to an irrevocable trust. The trust had named a bank as the trustee. Lucy got an allowance each month from the trust that was just enough to pay her monthly expenses but not much else. Any time she needed more money, she would have to try and convince her banker/trustee. These requests were often the center
point to hair-brained schemes that Lucy would get involved with.

“Suddenly, I realized that many of my clients watched this program and that their conception of the revocable living trust that I was encouraging them to get was the same as Lucy’s irrevocable trust.

“One thing I have learned about people is that they will seldom admit that they there is something they don’t understand. I might think that my presentation was clear as a bell. And when the prospects are nodding their heads up and down it’s easy to be fooled in to believing that they know what I am talking about. But, the fact is that if I assume that they understand important concepts like who controls their assets after they are placed in the trust, then I am going to miss a good number of sales.

“What I do to help make sure that people understand the specific issue of control and living trusts in general is to use the example of my father’s trust.

“Using an actual copy of his trust, I show the client how we put the assets in the trust by retitling them. I have several copies of voided checks from my father’s trust account and copies from the old checking account he had before he had the trust. I show my clients how my father pays his bills in exactly the same way that he did before the trust. I make sure they understand that the only difference between the two checking accounts is that his trust account has the words “Family Trust” after his name. If it’s around Christmas time I will say that when he buys gifts for his grandchildren he just writes checks the way he always did but now he signs them as the trustee. I also have a copy of an old property tax bill and compare it to the bill he gets now that he has a trust. Again, I tell the client that my father uses his trust checking account to pay the property tax bill just like he always has, except now when he signs the check he is signing as the trustee.

“I keep talking about how the trustee is in control of everything and that because the client is setting up the trust he or she can name whoever they want as the trustee.
“Once they get this point then they aren’t worried about the issue of who controls their assets.

Reason #4

“So let’s say that I have a prospect that both needs a trust and already understands the advantages of a trust. The question that will be in my mind is why they haven’t gotten a trust. Usually, I will come right out and ask them.

“Sometimes they will give me a specific answer but often all I get is some vague response that really doesn’t make a lot of sense. This is when I have to start digging for the real reason.

“First, I want to find out if it is a question of spending the money to get the trust drafted. In my experience, the cost of the trust is seldom the real issue. However, occasionally it is.

“I like to use a lot of “third-party” material in my presentations. I always have a bunch of newspaper and magazine articles with me that all show the cost of probate as being between 5% and 10% of the estate.

“Today, anyone can use an internet search engine to search for the keywords “cost of probate” and you will find dozens of articles that confirm this.

“When I’m dealing with a prospective client who doesn’t want to spend the money, I make them face the fact that they are being “penny wise and pound foolish”.

“If the value of their assets is $400,000 for example, I ask them if they really want to save a $1,000 today even if it means that their children will be forced to spend $20,000 to $40,000 of their inheritance in the future.
“I live in the part of the country where termites can be a big problem so like to use this analogy to make them see cost of putting this off …

“Mr. and Mrs. Client let me ask you a question. Assume that after I leave here you happen to go upstairs and you find a lot of little winged ant-like bugs in the corner of one of your rooms. You have a termite exterminator come out to take a look and he confirms that you’ve got terminates. He inspects that attic and he tells you that you’re in luck because they haven’t spread to far. By doing about $1,000 of work he can get rid of your problem.

“Now assuming that you were convinced he was right, that his prices were reasonable and that he did could work, would you have him fix the problem or would you try to save yourself $1,000 and just hope that everything will work out on its own?

Reason #5

“If it’s not the cost of the trust, or some misconception about who is in control of the assets or some other aspect of the trust, then what’s the likely objection or reason why the client doesn’t have a trust?

“In my experience, the number one obstacle that stands in the way of most people getting a living trust has to do with family circumstances.

“This may sound like an exaggeration, but if I am sitting down with a prospective client who has three children… I would bet you money that one of them will be a “black sheep.” Either they will have been married and divorced two or three times, have a history of drug or alcohol addiction, be a deadbeat and not pay their bills, or have criminal record.
“Generally speaking, there are a good number of families that are so screwed up that the parents don’t know who they want to get their assets and under what circumstances.

“It is a real mistake for an agent not to recognize this as a problem, because I will guarantee you that it is the reason why many people have never had a living trust drafted.

“People know that if they go to a trust attorney they will be asked to make decisions regarding bequests that they don’t feel that they are prepared to make. They are afraid that they will be embarrassed and look foolish.

“So what do they do? Exactly what most of us do when we are faced with a confusing decision… nothing!

“This is the most difficult obstacle for me to overcome when I have a client that I suspect is dealing with this. You have to flush it out so that you can discuss it with the client.

“I don’t expect them to tell me that they don’t know what to do about making bequests because …

“my son is a bum”

or “my daughter is a drug addict”.

“Instead I have to find this out on my own. So, early on in the interview I will be chit-chatting with the prospect. Typically there will be family photos, especially photos of grandchildren, throughout the house. I always use these photos to try to get the prospect talking about his or her family.

“I ask a lot of general questions without trying to appear noisy. And because people like to talk about their grandchildren I will usually start there. I casually ask things like …

“How many grandkids do you have?

“Where do they live?
“This leads me to asking about the grandkid’s parents, the client’s children …

“What does your son/daughter do for a living?

“Where did they go to school?

“The specific questions don’t matter. All I am doing is giving them an opportunity to talk about their kids. If they are proud of their children they will usually talk your ear off. If they are disappointed in a son or daughter they will usually get pretty quiet or even say something that indicates there is a problem.

“I file away in my mind any answers that I get that lead me to believe that they may have a black sheep. Then at the end of my presentation if I run into resistance I will say something like this …

“Well it's obvious that you understand all the advantages of a living trust. You impress me as being a pretty sharp individual, so I am curious as to why you don’t want to go forward.

“Is it because of the cost of the trust?

“Are you concerned that by having a trust you won’t have the same level of control over your assets?

“Assuming the client answers NO to these two questions I then say …

“Well, let me ask, is it a matter of not knowing who you want to leave your money to after you’ve died?

“Even though I might be thinking that it’s this last reason I still don’t expect them to come right out and tell me about their “black sheep.” So what I do is use my family to make the points I need to make. You see, my family also fits with my theory that if there are three children one will be a black
sheep. So I use my parents and sister to explain why it’s important to go forward with a living trust.

“After I explain that my parents delayed getting a trust for years because they didn’t know what they wanted to leave my sister I tell them that I finally forced my parents to get their trust drafted.

“I tell them that my parents hesitated to get their trust completed because they were afraid of the added expense if they had an attorney draft the trust and then later changed their minds and wanted to change it.

“I take out a piece of paper and draw a line down the middle. On the top right I write NO TRUST – UNDECIDED. On the top left I write TRUST – UNDECIDED. Then I say …

“You know if you are waiting to get a trust until that day comes when you are confident that you will never change your mind about who is going to get your property and under what circumstance, the odds are that your heirs will eventually suffer the unnecessary delays and expense of probate.

“Then on the left side of the paper I write…

1. COST OF PROBATE,
2. DELAYS OF PROBATE.

“But what may be even worse then these cost and the delays is that there is a good chance that you will ultimately be pitting your children against each other. And that is something that I am certain you would want to avoid.

“Again, on the left side of the paper I write…

3. PIT CHILDREN AGAINST EACH OTHER.

“What’s ironic about this is that you don’t gain any advantage because by doing nothing you almost guarantee that your wishes won’t be carried out.
“Then on the left side of the paper I write…

4. WISHES NOT CARRIED OUT.

“Consider what happens if you get your trust done now understanding that there is a possibility that you will later change your mind about your bequests.

“On the right side of the paper I write…

1. COST OF CHANGING THE TRUST
2. WISHES NOT CARRIED OUT IF YOU FAILED TO CHANGE THE TRUST.

“The worst that can happen if you go forward with a trust today is that you might have to spend a few dollars to change it in the future.

“It boils down to what you want for your heirs. Does it make sense to run the risk that you might put them through the aggravation and expense of probate when you know you can always change your trust if you want?

“By this time the prospect starts realizing that there really isn’t much justification for waiting. Even still, it’s not unusual for them to make one last attempt to avoid making a decision.

“The last close I use is to say this …

“I understand your reasons for wanting to put this off but let me ask you, have you ever took a vacation where you packed the entire family in the car and took off to visit relatives or take the kids somewhere? (Most people answer yes.) Did you wait until every traffic signal along your route was green before you started the trip? Of course not, you started out knowing that there would be stops along the way. You knew there might be some detours and decisions you would need to make along the way. That didn’t stop you from starting.
“I'll tell you one thing that I know for certain. If you make the decision right now to get your trust, if you're like most of my clients you will sleep a whole lot better tonight.

“Doesn't this make sense?

“ If they give me any kind of indication that it in fact does make sense then I start filling out the paper work.”

One Final Word Of Warning

Read a part of the following notice from the Insurance Commissioner of the state of California to get a better appreciation of the potential perils that an agent might face should he or she decide to use the marketing of living trust as a way to open doors to annuity sales.

In 1997, the People of the State of California, represented by the Attorney General and a number of district and city attorneys, sought civil penalties, restitution, and injunctive relief against Fremont Life Insurance Company and others, including a corporate licensed life agent 1 and several individual licensees, in an action alleging unfair business practices and false advertising under California Business and Professions Code section 17200 and 17500. The specific allegations of the complaint were that the insurer, the agents and others, operated a “living trust mill” in which the agents, posing as experts in estate planning, marketed an estate plan to senior citizens in the manner described above.

(The description referred to in the last paragraph was that of a Living Trust Mill.)

It was alleged that the concealed, material purpose for an estate planning interview conducted by the agents was to obtain personal financial information from clients in anticipation of the sale of a Fremont Life Insurance Company annuity, and receipt of the commissions generated by the sale. Where clients agreed to purchase the estate plan, the agents prepared standardized trust documents, and delivered them to the purchasers of the annuity during the delivery and execution process.
The court’s Statement of Decision and subsequent judgment provided
injunctive relief, restitution to policyholders and civil penalties of
approximately $2.5 million dollars.

Again, it is extremely important that you understand the rules of
your state and other entities, prior to discussing living trusts with
your prospective clients.

The 1040 Tax Form Annuity Sale

Many struggling annuity producers spend far too much time telling their
prospects about their products interest rates and not enough time
illustrating the tax advantages of annuities.

One skill that many top annuity producers share is an ability to use the
1040 tax form to show their clients how annuities will reduce their tax
burden.

Before we proceed it is important to say that rules established by your
State’s Department of Insurance or by other agencies that may regulate
your insurance and/or securities licenses may prohibit or restrict your
ability to discuss issues of taxation with your prospective clients. It is
important that you are familiar with these rules and regulations prior to
using any techniques discussed in this chapter.

To illustrate the benefits of focusing more on tax advantages and less on
rates of return, consider two different styles used when approaching
prospects. Which approach do you think will appeal more to a prospect?

Mrs. Prospect, I can show you how to earn $1,000 more
interest each year.

OR.

Mrs. Prospect, I can show you how to reduce your taxes
by $1,000 each year.

It’s the same amount of money, but top annuity producers know that
most people are more attracted to the opportunity to reduce their tax
bite.

Many annuity producers shy away from an in-depth discussion of tax
issues surrounding annuities because they feel they don’t really
understand them well enough to talk about them intelligently. Fortunately, it’s really not that difficult. You don’t need to be a tax expert. However, you do need to understand the following basic concepts and talk both intelligently and convincingly about the tax advantages of annuities with your clients.

The 1040: The Map to Your Client’s Assets

There are three different ways that the majority of clients will get bit by taxes. If you know what to look for on the 1040 tax return, in just a few minutes you can determine if the IRS takes one bite, two bites or all three bites.

**Bite One …** taxes on interest and dividends currently earned.

**Bite Two …** taxes on Social Security income.

**Bite Three …** taxes from capital gains.

With the right annuity, you can show your clients how to **reduce or eliminate** each of these tax bites.

It’s a good idea to review at least the last two years’ tax returns when you are trying to determine the extent that your client might be affected by these tax bites. Comparing the two year’s returns will provide an initial indication of if the client has an on-going tax problem or if the problem was created by a one-time event like the sale of some property or the distribution from an IRA (other than a Minimum Required Distribution MRD) that may not occur again in the future.

**Bite One … Taxes On Interest And Dividends**

Each year your clients receive 1099 forms reporting any interest earned from bank CDs, bonds and other investments along with any dividends.
received. All of the 1099s will be totaled and entered on lines 8a, 8b, and 9 of the first page of the 1040 tax return.

The amounts shown on these lines are taxed in the year earned regardless of whether the client withdrew the money or left it to accumulate.

Here is the key ... earnings from annuities are only taxed in the year they are withdrawn.

If there are amounts reported on lines 8a, 8b, and 9 there should be a Schedule B attached to the 1040. On the schedule you will find a break-down showing the name of each institution where your client has an account and the exact amount of the interest or dividends the institution credited to the client’s account.

Ask your client these three questions for every account shown on Schedule B:

"I see that last year XYZ bank **reported to the IRS** that they credited you with $3,500 of interest earnings.

(1) Did you spend this money or did you leave it in the account?

(2) What was the interest rate that the XYZ bank paid last year?

(3) When does this account mature?

You can learn **four** very important things from the answers to these questions:

**First** ... If the client tells you she did not spend the money but instead left it to accumulate you know that she is a great prospect for a tax-deferred annuity. If she is in the 28% tax bracket she could **reduce** her current **tax bite** by almost **$1,000** by transferring these funds to an annuity.

\[
$3,500 \text{ (interest)} \times 28\% \text{ (tax)} = 980
\]

You need to keep in mind and make it clear to your client that with an annuity they are **deferring** taxes, not avoiding taxes. Ultimately, taxes will be paid when money is withdrawn from the annuity. However, while the taxes are deferred the client benefits from earning interest on the
amount of money that otherwise would have been paid in taxes each year.

Second … by knowing the interest rate that the XYZ bank paid you will know how attractive the rate paid by your annuity will be to the client.

Third … you also can estimate the total dollar amount that is in the account if you know the amount of interest that the bank paid. If, for example, the client tells you the bank pays her 3.5%, you can calculate that the balance in her account is approximately $100,000.

   at 3.5% … it takes $100,000 … to generate $3,500 (interest from Schedule B)

Fourth … by knowing when the bank account matures, you can determine if there will be a penalty if the client withdraws the money and transfers it to your annuity.

By keeping track of these maturity dates, you will know when to contact the client (just before the account matures) to discuss your annuity.

Or, depending on the amount of the penalty, a better option for both you and the client might be to present an annuity that provides a first year bonus in an amount sufficient to offset any penalty.

The tax deferral advantage of an annuity is provided by Internal Revenue Code Section 72.
One of the best ways to illustrate this advantage to your clients is to discuss...

**Taxable vs. Tax-Deferred Equivalent Yields**

<table>
<thead>
<tr>
<th>Tax-Deferred Yield</th>
<th>5%</th>
<th>6%</th>
<th>7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in a 28% tax bracket)</td>
<td>6.9%</td>
<td>8.3%</td>
<td>9.7%</td>
</tr>
<tr>
<td>(in a 31% tax bracket)</td>
<td>7.2%</td>
<td>8.7%</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

In other words, your client must earn 6.9% in a current tax vehicle to match the equivalent yield of 5% in a tax-deferred annuity.
Again, you need to make it clear to your client that with an annuity they are deferring taxes, not avoiding taxes. When the deferred taxes are paid, the difference between the above taxable and tax-deferred yields will narrow. However, while the taxes are deferred, the client benefits from earning interest on the amount of money that otherwise would have been paid in taxes each year.

Bite Two … Taxes On Social Security

One of the best annuity selling techniques you can use concerns the issue of taxation of Social Security income.

Many advisors are aware that annuities can be used to reduce taxation of SS income, but few could show a client exactly how those taxes are calculated. Top annuity producers know this cold… and so should you.
Taxation of Social Security is a real “hot button” issue for many seniors. To use it to your advantage, you must be able to tell your clients more than just... “annuities can help reduce this tax.”

To determine if the client is paying tax on Social Security see if there is an entry in box 20b of the 1040 tax return. If there is an entry, the client is paying tax on Social Security income.

Unfortunately, an annuity can’t always help to reduce or eliminate this tax. For example, if the client’s income is generated primarily from pension income or distributions from a traditional IRA (not a ROTH IRA), annuities won’t likely help.

If however, there are amounts reported on lines 8a, 8b, and 9 of the 1040 tax return and your clients don’t currently use this income, there is a good chance that an annuity could help reduce or eliminate any tax on Social Security.

Remember, that even tax-exempt interest is included in the Social Security taxable income calculations.

Before you can show clients how an annuity can help, you must understand the term Threshold Income.

The amount of a person’s SS that is subject to income tax is based upon something referred to as their Threshold Income.

Under current tax law single taxpayers with income between $25,000 and $34,000 of taxable income are subject to having up to 50% of their SS income considered taxable. If the single taxpayer has income in excess of $34,000, then up to 85% of their SS is considered taxable income.

Married taxpayers with a combined income of between $32,000 and $44,000 are subject to having up to 50% of their social security benefit considered taxable income. If their combined income exceeds $44,000, then up to 85% of SS can be considered taxable.

To illustrate how we calculate threshold income let’s look at the hypothetical example of a single taxpayer with a total income of $47,400. His income sources are as follows:
$11,400  Social Security
$19,200  Pension
$12,400  CDs
$4,400  Municipal Bonds*

$47,400  Total

*Note that even tax-free Municipal bonds are included in the calculations

Calculating threshold income is simple. We include one half of his Social Security and 100% of the remaining items.

$5,700  50% of SS
$19,200  Pension
$12,400  CDs
$4,400  Bonds

$41,700  Threshold Income

Because he is single with a threshold income greater than $34,000, 85% of his full Social Security income is subject to tax.

$11,400  X 85%  =  $9,690

Assuming a 28% bracket, the tax from his Social Security income would be approximately $2,713.

$9,690  X 28%  =  $2,713

Seniors get really angry over this tax and who can blame them. Throughout their working years, they see a deduction for Social Security contributions on their paychecks. After they retire and start receiving income, they see taxes taken from their Social Security. They are motivated to stop this and you can show them how.

Earnings from a deferred annuity are only included in the threshold income calculations when they are withdrawn. As long as the earnings stay in the annuity they won’t be used to determine threshold income.
And when withdrawals are taken from an immediate annuity a large percentage of the income will still not be used in the threshold income calculations because it will be considered a return of principal under the rules concerning “Exclusion Ratios.” It is possible that with proper planning 90% or more of an annuity’s withdrawals won’t be counted depending on the client’s age and the income option selected.

Let’s look at how a deferred annuity could substantially reduce the tax on Social Security.

<table>
<thead>
<tr>
<th>Instead of This</th>
<th>With an Annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,700 50% of SS</td>
<td>$5,700 50% of SS</td>
</tr>
<tr>
<td>$19,200 Pension</td>
<td>$19,200 Pension</td>
</tr>
<tr>
<td>$12,400 CDs</td>
<td>$0 Deferred Annuity</td>
</tr>
<tr>
<td>$4,400 Bonds</td>
<td></td>
</tr>
</tbody>
</table>

$41,700 Threshold Income  $24,900 Threshold Income

Understand that the zero in the deferred annuity column is only a zero for the purpose of determining Social Security threshold income. Historically, there is much evidence to support that the annuity would likely generate approximately the same or even higher earnings than the $16,800 that the CD and bonds would generate. However, because these earnings are deferred they are not considered in the threshold income calculations until they are withdrawn.

In our example, because the threshold income would be less than $25,000, none of the Social Security is considered as taxable income. The client not only saves the $2,713 tax on Social Security, his other income taxes could be thousands of dollars less as well.

The advantage of using the above example with clients is that it is fairly easy to understand. However, the actual calculations can be a bit more complicated when the single taxpayer’s income exceeds $34,000 and married taxpayer’s income exceeds $44,000.
The general rule is that benefits that add to income **between** $25,000 and $34,000 for single taxpayers or **between** $32,000 and $44,000 for married taxpayers are **subject to the 50% rule**, while benefits that add to income **above** $34,000 for single taxpayers or **above** $44,000 for married taxpayers are **subject to the 85% tax**.

This means that if your income is **over** $34,000 (single) or $44,000 (married), you must calculate **two tax amounts** … one for income up to $34,000 (single) or $44,000 (married) and one for income above those amounts. The two tax amounts are then **added together**. The total amount of Social Security benefits subject to tax is the **lesser of**:

1. **the sum of the two tax amounts**, or
2. **85% of Social Security benefits**.

One of the single most important things that you can do to increase your annuity production is to thoroughly understand how to calculate taxation of Social Security.

Client’s will take action and use annuities to reduce tax on Social Security, but they must be confident that you know what you are talking about.

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**Bite Three … Taxes On Capital Gains**

When stocks, mutual funds, real estate and many other assets are sold capital **gains** taxes or a capital loss deduction can be triggered.

While reviewing your clients’ 1040 tax return you can check **line 13** to determine if there are capital gains or losses reported. If there are, take a look at **Schedule D** to learn the details.

If you find that the client has lost money in stocks or mutual funds, ask them…

“**Would you like to learn more about a tax-deferred fixed annuity with returns linked to a stock market**
ADVANCED Annuity Selling Strategies

index but with **100% protection of principal against market losses?**

With indexed annuities, you’ve got a great story to tell someone who has just experienced **losses** in the stock market.

What if the client reported capital gains instead of losses?

You can show how annuities provide the client with 100% control over the timing of when taxes must be paid.

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**Top Producers’ Tips:** Here are some great tax related questions to ask your clients during the interview process:

"**When** would you like to defer the taxes on the money in your CDs?"

"Would you rather pay taxes on capital gains today, or defer those taxes until after your death?"

“After all of the Social Security deductions that were made from your paychecks while you worked, how does it make you **feel** today when the IRS taxes your Social Security benefits?”

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**The Tax Free Dividend Annuity Sale**

Passage of the Jobs and Growth Tax Relief Reconciliation Act for 2003 sent a wave of **panic** through the annuity industry.
Since President Bush signed the new tax law I have had dozens of conversations with struggling annuity producers who have told me that they were getting out of the annuity business. Their reason? … Annuity sales will plummet because the new law lowered the tax rate on capital gains and dividends to 15%.

Their concern was that with lower taxes on dividends, clients will now prefer dividend producing stocks over annuities.

I had an opportunity to discuss this issue with a top financial planner who is also a CPA. He sells in excess of $8,000,000 in annuity premium so I felt he was the perfect person to ask how the new laws concerning tax treatment of dividends would affect his annuity production.

“As long as annuity salespeople really understand dividend tax treatment under the new Jobs and Growth Tax Relief Reconciliation Act for 2003 it should have little if any affect on their annuity sales.

“Probably the most important thing to know is that dividends from money market mutual funds do not qualify for the lower tax rate. Plus, a large percent of the dividend income that a person receives from a bond mutual fund also won’t qualify for the lower tax rate because many of the underlying securities in the fund are paying interest, not dividends.”

“There is a good deal of third party source material available which backs up these assertions. It’s a good idea for salespeople to have copies of this material in case a client believes otherwise.

“In addition to these limitations, the marginal tax bracket for the 15% rate, caps out at a taxable income of $56,800. This is important because it means that married taxpayers with less than $56,800 in taxable income will pay 15% tax or less on any taxable income they receive.

“Most of my clients are retired and have a lot of assets but their incomes are typically under this $56,800 cap. This means that their dividends will be taxed at the 15% rate and any annuity income would also be taxed at the 15% rate. In other words, for them there would be no advantage of
receiving dividend income as opposed to income from annuities.

“I sell a lot of annuities to people who want to reduce or eliminate the taxes they are forced to pay on Social Security. The new law doesn’t provide any help for people in this situation. Any income they receive from dividends and capital gains is still included for purposes of determining how much of their Social Security is taxable.

“Annuities are still the best choice for people who are trying to reduce or eliminate the taxes that are caused by Social Security income.

“I also sell a lot of index annuities to people who have lost their shirts in the stock market over the past three years. They could care less about the lower tax rate on dividends and capitals gains, because they are never going back into the market again.

Struggling producers get spooked and run. Top annuity producers get the facts and get rich.
A good number of top annuity producers use a “Multiple Bucket Retirement Plan” strategy as a very effective method for selling a large amount of annuities. I have spoken with producers who sell $5,000,000 and more in annuities each year using this planning technique.

They believe that this strategy allows them to position their annuity products in a way that their retired clients find very attractive.

I will give you a general idea of how they do this but first let me clarify that the word “bucket”, as used here has a different meaning then when it is used to describe an investment option within an indexed annuity product.
Also, forgive me for a brief commercial announcement. We have developed a software program that we call “Multiple Bucket Retirement Planning”. With this software it takes only a few minutes to do the necessary calculations to develop a plan. Plus, the software allows you to demonstrate how this simple concept uses three different annuities (or alternate vehicles if you prefer) to address the challenges that are of most concern to senior clients. You can learn more about our Multiple Bucket Retirement Planning software by visiting www.salesart.com

There are many variations of this “bucket” approach to selling, but the theme of all of these approaches is essentially the same. A client who is retired takes all of her investment and savings and divides it among three or more accounts or “buckets”.

For a few minutes, let’s ignore annuities and how the money in these accounts or “buckets” is invested, and instead focus on the purpose of dividing the money in this manner.
Top annuity producers will tell you that the chief concern of many of their retired clients is to **avoid running out of money while they are alive**. The fact that this possibility exists becomes a frightening nightmare after a person is no longer able to earn an income from employment.

This fear will motivate many clients to take action and follow your advice assuming that you convince them that your recommendations will provide a solution to this concern.

One super annuity producer told me that he will always find an opportunity to say something like this when he is reviewing a prospect’s financial plan …

*Producer - “Mr. Prospect, I see that you have some stocks and mutual funds in your portfolio. May I ask you why you selected these types of investments?”*

*The prospect will often answer by saying something about the growth of his investments.*

*Producer - “Let’s assume that tomorrow or sometime in the future you found your investments had doubled in value. Would you double the amount of money you spend each month?”*

*The prospect will usually say ‘no’.*

*Producer – “So, it’s likely that a large portion, if not all of the appreciation, would be left alone in case it’s needed in the future. Correct?”*

*Prospect – “Yes, that’s right.”*

*Producer – “Now, let me ask you a different question. Instead of having your investments double in value, assume for a minute that tomorrow or sometime in the future, you found that they had lost 50% of their value, would you reduce the amount of money that you spend each month by 50%?”*
Prospect – “Well, I would try to cut back on my spending but I couldn’t reduce it by that much.”

Producer – “So a large increase in your assets wouldn’t really change your lifestyle that much, but large decrease in assets would. Why do you think that is?”

Most prospects will understand that the reason they feel this way is because it is far more important for them to protect their nest egg then it is to grow their nest egg. If they don’t protect it, and if they live long enough then their worst nightmare could come true… they could run out of money before they run out of time!

The “Multiple Bucket Retirement Plan” is attractive because it can be used by clients to greatly reduce the risk that this could ever happen to them.

Plan Design Overview

Here is a general example of how it works: A retirement planner advises his client to divide her money into three buckets. Because each bucket has a different purpose, its funds are invested differently.

The purpose of the first bucket is to provide immediate income. During a presentation the retirement planner would refer to this as the “income bucket”, “paycheck replacement bucket”, or some other name that conveys that its purpose is to provide immediate income.
The income from this first bucket is usually made up of both earnings on the funds in the bucket and also the bucket’s principal as well.

It is designed so that by the end of a certain number of years, there are no funds remaining in this first bucket. All of the earnings and principal are taken as income over a period of say seven years.

During this seven year period, all of the earnings from the money in the second bucket are left to accumulate.

The objective of the retirement planner when designing a “Multiple Bucket Retirement Plan” is to make sure that enough of the client’s money was initially put into the second bucket so that it can grow to an amount sufficient to “refill” the first bucket by the time it has been emptied.
After being refilled by the second bucket, the first bucket now has enough money so that it can continue to provide the client with an income.

Again, both earnings and principal from the funds in the first bucket are used to provide the client's income so after a certain period of time, say seven more years, the first bucket is once again empty.

The period of time before the second bucket will be needed to refill the first bucket usually isn’t very long (seven years in this illustration), so the money needs to be invested accordingly. Because of a relatively short time, horizon, the amount of growth or earnings expected should be fairly conservative.

Because the second bucket has the important job of refilling the first bucket, it is commonly labeled as the “safety bucket”, “replacement bucket”, or some other similar term.
After 14 years (in this illustration) both the first and the second buckets are empty. However during this period, the money that was initially allocated to the third bucket has been left to accumulate. Because of the longer period of time before the third bucket will be needed, many retirement planners will project its growth assuming a higher rate of return than they used to project the growth of the second bucket.

Generally speaking, the goal of the third bucket is for it to grow to an amount that is equal to the total amount of money that the client initially started with by the time that the first and second buckets are empty (14 years in this illustration).

Regardless of the total starting amount, it would be divided between the three buckets in a way that would meet all of the following requirements:

Bucket #1 Requirement – Provide current income to client for a specific number of years (i.e. seven years).

Bucket #2 Requirement – Grow to an amount sufficient enough replace the funds in bucket #1 when they run out (i.e. seven years).
Bucket #3 Requirement – Grow to an amount that equals the total of what was initially placed in all three buckets by the time the funds in bucket #2 have run out (i.e. 14 years).

If all three objectives are achieved, then the client has the income she needs for 14 years and at the end of this period she also has the original amount of money that she started with. This money could then be reallocated among the three buckets to provide her income for an additional 14 years (or some other period). This could continue for as long as she lives.

One important point to consider with this strategy is the potential effect of inflation. Producers that I have spoken with who use this approach have different attitudes for dealing with the long-term effects of inflation. Most recognize that it is important to develop a “Multiple Bucket Retirement Plan” so that it has the potential of generating an income that increases by some rate over a period of time. Some planners keep the income from the first bucket level over the initial years but then allocate enough money to the second and third buckets so that they grow amounts sufficient enough to provide an inflation adjusted income.

Filling the Buckets With Annuities

Many top annuity producers have found that clients really like this “Multiple Bucket Retirement Plan” strategy because it is uses a conservative “lifetime” planning approach.

Because of their guarantees and income options, annuities are great products to fund the various buckets.

The requirement of the first bucket is to use both principal and interest to provide the client with a monthly income in a specific amount, for a specific number of years. By definition, this is exactly what an immediate annuity is designed to do.
The requirement of the second bucket is to conservatively grow to an amount that will be sufficient enough to replace the money in the first bucket at some future date. The time horizon for the second bucket is usually not long enough to make it wiser to invest in stocks or mutual funds. A stock market slump occurring at a time when the second bucket is needed could cause disastrous results for the client. A tax-deferred fixed annuity can also be a great choice for the second bucket.

Using a fixed annuity would altogether avoid this possibility. Plus, if the annuity provided a multiple-year interest rate guarantee that extended over the second bucket’s time period, the client could be certain that the needed amount of money would be available to “refill” the first bucket.

Using an index annuity for the third bucket might be a great choice as well. With an emphasis on growth and the longer time-horizon of the third bucket, index annuities would seem to be especially well suited for safety-minded clients.

The top annuity producers that use this approach will tell you that their clients aren’t looking for a strategy that promises to “beat the market” or provide superior investment returns. Clients are attracted to the “Multiple Bucket Retirement Plan” strategy because they can see how it can help them avoid the possibility that they would ever run out of money during their lifetime.

**Tax Advantages**

As long as deferred annuities are used for bucket #2 and bucket #3, taxes on earnings will be deferred until withdrawn. In addition, if an immediate annuity is used for bucket #1, you can often show clients how 90% or more of the initial income that is generated will be tax-free, depending on the age of the client and the duration of bucket #1.

A large portion of an immediate annuity’s income is tax free because it is made up of both earnings and principal. The return of principal is excluded from income taxes.
When bucket #2 “refills” bucket #1 so that it can produce the second stream of income, the percent of income that is tax-free will reduce. This is because a greater amount of income will now be coming from earnings that occurred as the second bucket was growing. These earnings have never been taxed.

Allocating Money Among The Buckets

Our software program “Multiple Bucket Retirement Planning” will do all of the calculations below automatically. You simply enter the total amount of money, interest rates paid by your annuities or other investments and rate of inflation. The software calculates how much money needs to be allocated to each bucket and illustrates the effect of that allocation. You can learn more by visiting www.salesart.com

I have seen producers who use this strategy use different methods to decide on how to allocate the client’s money between the buckets. Some agents develop and use Excel spreadsheets to do the calculations. Other’s do the job with an HP 12C calculator. There is also the option of using our Multiple Bucket Retirement Planning software. (Learn more at our website www.salesart.com.)

You can also use the following worksheets to provide you with a general idea of the concepts behind the calculations.

1.) Remove Adequate Emergency Fund

Every planner that I spoke with that uses the “Multiple Bucket Retirement Plan” strategy agrees that allocating a sufficient amount of money to an emergency fund is an essential element of a good plan.

Here is what one planner said about the importance of this …

“One of the reasons that I use a multiple bucket approach with my clients is because if we develop the plan correctly, it should be a lifetime plan. It should address many, if not
all of my clients’ financial needs for the rest of their lives. But if the plan doesn’t provide for an emergency and the client is forced to withdraw funds from any bucket prematurely then the entire plan is jeopardized. In addition to possible surrender penalties, their future income could be reduced substantially if they have to take unscheduled withdrawals to cover an emergency.”

Often planners will use some multiple of monthly income to come up with an emergency fund. Whatever method you use, you and your client need to come up with a reasonable amount for emergencies and then set it aside in a safe and liquid vehicle.

1.) Subtract Emergency Fund and Enter Total Amount
Available For Multiply Bucket Plan

$___________

2.) Determine Plan’s Duration

There are no set rules for determining the duration of a client’s plan. Most of the planners I have spoken with “loosely” base the duration of the plan on their estimate of a reasonable life expectancy for each client. In addition to the client’s age, the planner might also try to factor in the client’s health. If the mortality tables say life expectancy for a given current age is 15 more years, the planner may reduce that if the client has heart problems.

The general goal of a Multiple Bucket Retirement plan is to use the first two buckets to provide income for a period of time that roughly matches the client’s life expectancy. Enough money needs to be allocated to the third bucket so that it can grow back to the original starting balance by the time the first two buckets are empty. If structured this way, then the client knows that if they happen to live beyond their normal life expectancy, the funds in bucket #3 can provide a continuation of income.

Following this approach, let’s assume that we have a client with an estimated life expectancy of 16 more years. Using this number, the planner might determine that bucket #1 should provide income for a period of eight years (half of the total estimated life expectancy). Once bucket #1 is empty (again, after eight years) then bucket #2 would be
relied on to “refill” bucket #1 in an amount sufficient to generate continued income for a second eight-year period. In other words, bucket #1 and bucket #2 are counted on to the provide income throughout the client’s normal life expectancy. For this reason, the duration of both bucket #1 and bucket #2 should match the total estimated life expectancy of the client. Bucket #1 will provide the income for the first half and bucket #2 will provide the income for the second half of this total period.

Enter the period you want to use as the duration for bucket #1.

2.) Bucket #1 Duration (usually one half of client’s remaining life expectancy) _____ yrs.

3.) Client’s Income Need

Next, you need to determine the amount of income your client needs annually. At this point in the calculation, you do not want to adjust this income for inflation. You will make an inflation adjustment later.

3.) Annual Income Required $ _______________

4a.) Determine Amount to Allocate To Bucket #1 (Step 1)

Assuming that you intend to use an immediate annuity for bucket #1, because of possible premium taxes and other factors it’s best to get the actual premium amount required by the company issuing the annuity to provide the income entered on line 3.

Some annuity companies provide software that allows you to “solve for premium”. In other words, you plug in the income you want and the software calculates the premium you would need. Having access to this kind of software makes the allocation process much simpler, because you will likely find that you have to make a number of adjustments before you finalize your plan.
If you have software that will calculate the premium required to generate the desired income, skip this step and enter the premium amount in step #5.

If your annuity company doesn’t provide software, then you should use the table below to come up with an approximate amount of money that needs to be allocated to bucket #1. You should then phone your annuity company and confirm the actual premium amount.

To use the table you select the interest rate that your annuity (or other product) will pay. (You should be certain that you understand the rules and regulations imposed on you by your annuity company, broker-dealer, or any state of federal agency regarding projections of rates and full disclosure requirements.) Then go down the column on the left until you get to the appropriate number of years (initial number of years that bucket #1 needs to provide the income – line 2). That will give you a factor that you enter here.

4a.) Bucket #1 Allocation Factor _________

<table>
<thead>
<tr>
<th>Years</th>
<th>2%</th>
<th>3%</th>
<th>4%</th>
<th>5%</th>
<th>6%</th>
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<td>4.7135</td>
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<tr>
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<td>8.5302</td>
<td>8.1109</td>
<td>7.7217</td>
<td>7.3601</td>
</tr>
</tbody>
</table>

4b.) Determine Amount to Allocate To Bucket #1 (Step 2)

Multiply the factor that you entered on line 4b times by the desired amount of income that you entered on line 3. This is the amount of money that must be allocated to bucket #1 (placed in an immediate annuity) in order to provide the amount of income desired for the number of years desired (line 2).

4b.) Bucket #1 Allocation $ ________________
5.) Calculate Amount Of Money That Bucket #2 Needs To Contain At The Time That Bucket #1 Is Empty

Before you can calculate the amount of money that needs to be allocated to bucket #2, you need to factor in the potential effect of inflation. This isn’t difficult to do if you use the table below.

You start by determining the rate of inflation that you and your client are comfortable using in your calculations. Next, find that rate in the table below. Then go down to the number of years it takes for bucket #1 to be empty (line 2). Multiply the factor from the table, by the annual income that bucket #1 needs to generate (line 3) and enter the result here:

Inflation Adjusted Income Needed (after bucket #1 is empty) $__________

<table>
<thead>
<tr>
<th>Years</th>
<th>1%</th>
<th>2%</th>
<th>3%</th>
<th>4%</th>
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<tr>
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<td>1.0937</td>
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</tr>
<tr>
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<td>11</td>
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<td>1.9799</td>
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<td>2.0789</td>
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<td>1.3728</td>
<td>1.6047</td>
<td>1.8730</td>
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<tr>
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<td>1.4859</td>
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<td>2.6533</td>
</tr>
</tbody>
</table>
Second, multiply the inflation-adjusted income that you just calculated, by the same factor you used in line 4a and enter the result below. The result is the amount of money that needs to be allocated to bucket #2.

5.) When Bucket #1 Is Empty, Bucket #2 Must Contain $__________

6.) Calculate The Amount Of Money That Needs To Be Initially Allocated To Bucket #2

Before you can determine how much money you need to put into bucket #2, you need to know (or estimate) the amount of interest that this money will earn. If you intend to use a fixed annuity for bucket #2, what interest rate do you expect that annuity to pay?

(You should be certain that you understand the rules or regulations imposed on you by your annuity company, broker-dealer or any state of federal agency regarding projections of rates and full disclosure requirements.)
Once you determine the interest rate, go back to the table above (Future Value of $1) and find that rate. Then go down the number of years that matches the time period that you selected for bucket #1 (line 2).

Take the amount from line 5 and divide it by this factor. Enter the result below.

6.) Initially Allocated To Bucket #2  $______________

7.) Calculate Amount That Remains For Bucket #3

Take the total amount of money that you have available for the plan (line 2) and subtract the amount you initially allocated to bucket #1 (line 4b) and subtract the amount you initially allocated to bucket #2 (line 6).

Enter that amount below.

7.) Money Remaining For Bucket #3  $____________

8.) Calculate The Amount That Bucket #3 Will Grow To

First, you must decide on the interest you want to use in your calculations.

I have seen producers use rates of 10% or higher when then intend to use mutual funds or variable annuities for the third bucket. I have also seen producers use a rate of 7% or more when they intend to use an indexed annuity for this bucket.

(You should be certain that you understand the rules the regulations imposed on you by your annuity company, broker-dealer or any state or federal agency regarding projections of rates and full disclosure requirements.)

Once you know the interest rate that you want to use, refer again to the previous table (Future Value of $1). Locate the appropriate rate on this
table and then find the number of years that the money in bucket #3 will have to grow. Remember that the plan is that bucket #3 will not be accessed until both bucket #1 and bucket #2 are gone. For example, if bucket #1 was designed to initially last for eight years, then be refilled by bucket #2 and last another eight years, you would used a total of 16 years as the growth period for bucket #3.

Take the factor from the table and multiply it by the amount of money initially allocated to bucket #3 (line 7) and enter the amount below.

8.) Money In Bucket #3 When Buckets #1 And #2 Are Gone $___________

Plan Adjustments

This completes your initial calculations.

Line 4b shows you how much of the client’s money will be allocated to bucket #1. Line 6 shows you how much will to be allocated to bucket #2. And, line 7 shows you how much will be allocated to bucket #3.

Before you can finalize the plan, you might find that you will need to make some adjustments to your initial allocations.

As you are doing the calculations, you should keep in mind that your objective is to develop a plan that provides an adequate current income for the balance of a client’s life expectancy (buckets #1 and #2) and also leave enough money so that the entire starting principal grows back to the original amount (or greater if you want to adjust for inflation).

Often you’ll find that your clients will not have enough current assets to support their income objectives. Their only option may be to face reality and to make compromises.

For example, if a client expresses the need for a level of income that is too high for her assets to support, it will require you to either increase the rates of return that you use in your calculations (perhaps to a level that is not realistic) or to allocate so much money to bucket #1 and bucket #2 that there isn’t enough remaining for bucket #3 so that it can accomplish its objective. Without sufficient funds in bucket #3, it will not be able to
“grow back” principal to the amount that the client started with once buckets #1 and #2 are empty.

One of the main reasons why a “Multiple Bucket Retirement Plan” is so attractive to clients is that bucket #3 replaces the principal that buckets #1 and #2 used to provide income over the clients life expectancy. A properly funded bucket #3 provides the key to addressing the concern that a client might live longer then their money lasts.

Before a plan is finalized you will often need to recalculate allocations several times until you find a balance between adequate income production and necessary asset growth.

You should also be prepared for the fact that some clients simply will not have sufficient assets to make a “Multiple Bucket Retirement Plan” work.

Design Flexibility

One of the great things about using the “Multiple Bucket Retirement Plan” approach is the degree of flexibility you have to work with. There is nothing “magic” about using three buckets, so don’t be afraid to experiment with four, five or even more buckets.

I have seen several plans prepared by a top annuity producer in which he uses a total of five buckets to accomplish the following objectives …

**Bucket #1 Objective** – Provide Income For Years 1 – 5  
**Bucket #2 Objective** – Provide Income For Years 6 – 10  
**Bucket #3 Objective** – Provide Income For Years 11 – 15  
**Bucket #4 Objective** – Provide Income For Years 16 – 20  
**Bucket #5 Objective** – Replace All Principal Used Buckets #1 - #4 at the end of 20 years.

I have also seen innovative plans from creative designers that have incorporated special “World Tour Travel Buckets”, “Grandchild Education Buckets” and “Charitable Remainder Buckets”.
Integrating An IRA Into A Multiple Bucket Retirement Plan

IRAs, 403(b)s, 457 plans and other “qualified” retirement plans present a few challenges as well as opportunities when developing a “Multiple Bucket Retirement Plan” for a client.

Many producers will attempt to segregate any qualified plan money into its own bucket or buckets. In some plans this “IRA Bucket” will be used as the final bucket which has the responsibility of replacing the principal that the other buckets used up as they provided income. I have also seen plans where the “IRA Bucket” was used as one of the initial income producing buckets.

What may be right for your client would depend on their individual goals and circumstances. However, it is critical that you keep in mind that IRAs and almost any other qualified plans (not including Roth IRAs) will require the client to begin taking “Minimum Required Distributions” (MRD) at age 70 ½.

MRDs can present problems, especially when a plan is designed with an “IRA Bucket” used as the final “grow back” principal bucket. IRS-forced MRDs will require distributions starting at age 70 ½, regardless of how you set up the plan.

A technique that is often used with great success for clients who meet certain requirements is to convert an IRA to a Roth IRA and then use the Roth for the final bucket.

Roth IRAs do not have any requirements that force the owner to make distributions. An even greater advantage with Roth IRAs occurs if and when distributions do begin. All of the money will be received by the client (or her heirs) income tax-free! These advantages must be weighed against the possible disadvantage that a conversion tax will be charged at the time that the IRA is converted to the Roth IRA.

For a method of dealing with the conversion tax please see the chapter in this book titled “The Roth IRA Split Annuity Sale”.

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The “I’m From Missouri” Annuity Sale

Missouri is known as the “Show Me” state because its citizens have the reputation of understanding that talk is cheap. Regardless of whether or not they are from Missouri, most seniors are skeptical of the claims of salespeople. They want more than just talk before they will put their life’s savings into an annuity.

Because of this, one of my favorite customers and friends is Chuck Basset, who is now semi-retired and lives in south Florida. A few years back Chuck was one of the nation’s top annuity producers. He still sells $2 to $3 million in annuity premium working only a few months each year.

I thought it would be valuable to include some of his comments because he has a perspective on selling annuities that many people find unique.

“For reasons I don’t quite understand, a lot of agents try to hide that they are selling annuities until after they have spent hours talking about everything else under the sun. Not me. I bring it up within the first couple of minutes. I love annuities. I think they are one of the best products that has ever been devised.

“All my IRA money and other savings is in annuities. My mother is still living, and I have had her put all her money in annuities as well. My wife used to be a teacher and all her retirement money is in annuities. Our son is a doctor and I’ve had him put a good portion of his money in annuities. Between the four of us, it’s well over a million dollars that we have in annuities.

“I keep copies of each annuity contract and statements in my briefcase. There are a total of 12 annuities and only two are with the same company.

“Within ten minutes after sitting down with a new prospect I will show our annuity contracts.
“If the prospect is younger (under age 60) the first thing I say after they see that the total amount of money in the contracts is over a million dollars is … ‘if you think this is a lot of money, you’re in for a pretty rude awakening when you retire’. When they reach my age (I’m 68) they will see that this isn’t a lot of money.

“I tell them that I spent pretty much my whole life selling life insurance and annuities so I don’t get any kind of a pension check. The money my wife and I have saved is all we will have once I completely stop working.

“I want my clients to understand that the retirement security that my wife and I, and even my mother are able to enjoy is entirely dependent on our annuities.

“About 90% of my presentation is going over my annuity contracts and statements with my prospective clients.

“I have an annuity with a multiple year guarantee that I bought several years ago that pays me a high rate by today’s standard. But I also have several annuities that pay the lower rates that are more common today. I have an index annuity that gave me several years where my earnings were over 15% (one year it was 26.8%). But I also have an index annuity and a variable annuity that I am not at all happy with.

“I show them all to the prospective clients. I tell them which annuities I like, which ones I don’t like and the reasons why.

“One of my favorite things to say to someone has to do with the fact that for the most part, all these annuities are mostly from different companies. I tell people that different insurance companies offer annuities that may be great in one situation but not so good for another. Plus, one company might have the best of a certain type of annuity one year and then a competitor offers one a little better the next year. My job in helping my clients is to find an annuity that is best suited to meet their needs.

“In south Florida, there are banks on every corner and it seems that they are all trying to sell annuities. I tell my clients that these banks can maybe offer two or three annuities and they always seem to have a favorite they try to
push all their customers to. I can sell just about any annuity that is out there, so I am in a better position to find one that is best for my client.

“Prospective clients look at all the annuity contracts I own and they see that they are from different companies, so they know that I must have a pretty good reason for all this variety. This drives home the point that I can help them more than a bank or broker in getting them a good annuity.

“I go through all my annuities and tell them what I plan to do with each one in the future. For example, I will take out my multi-bucket indexed annuity and say that currently I have the money in the fixed rate bucket because on the last anniversary I thought the market was still going to go down. I laugh at myself and say that it looks like I guessed wrong, that it looks like the market will do pretty good this year and I probably would have made about 8% or 9% if I had instead put the money in the indexed bucket.

“My style of selling is different than a lot of agents. After I tell the prospect that I intend to change to the indexed bucket on the next anniversary I laugh and say, ‘if you want to make a lot of money just do the opposite of what I do.”

“Everyone that I say this to thinks it’s funny but I don’t say it for the laughs. I say it because I want them to understand that I am not trying to pawn myself off as some sort of investment guru.

“I have been in this business for over 30 years and I am tired of all the salespeople who try to make prospects believe that they are something that they’re not.

“I’m not just taking about us insurance agents and annuity salespeople. Go listen to the person sitting at the bank’s financial desk or the guy working at the brokerage office down the road. All of them talk like they are Warren Buffet yet half of them don’t know where their next mortgage payment is going to come from.

“I’m not saying this strictly because I believe that we are obligated to be honest with our clients. I’m honest, but just as importantly, I don’t think it is smart selling for anyone to try to come across as something that they aren’t.
“I believe that when a salesman tries to act like some kind of an investment or financial planning genius they end up losing more sales then they make. People, especially seniors, who have been around the block a few times are pretty good at picking out the phonies.

“It's very disarming to a prospect when you tell them that you have no idea what the stock market is going to do or whether interest rates are going up or down. Everything else you say becomes much more believable.

“As I go through my annuity contracts I will tell people that when I bought my variable annuity I thought it was a pretty good thing for me and my wife. And it was, up until the bottom fell out of the market.

“I take my statements and show them exactly how much money I lost with my variable annuity. Then I take the statements from the indexed annuity that I bought back in 1996 and show them how it performed compared to the variable annuity.

“The prospect can see that the variable annuity beat the index annuity (but not by all that much) in 1997, 1998 and 1999. Then they see that the variable annuity lost money, including a big chunk of principal since then. I love to show them the statements on the indexed annuity during this same period, because they see zero interest being credited. I use this to drive home the point that the worse that can happen to an indexed annuity is that zero interest is credited. This is also a great way to show how previous gains are locked in by contract.

“A lot of people will ask me at this point why I don’t cash in my variable annuity and switch to the indexed annuity. I love this question for two reasons. First, when I prospect asks me this I know he’s thinking about buying an annuity. Second, I use this question to explain surrender charges. Again, I will take an annuity contract and show them the actual page with surrender charges. In my experience people don’t have a problem with surrender charges if you’re up-front about them. This is especially true for indexed annuities.
“My explanation of indexed annuity surrender charges is pretty simple. First I make sure that the client understands that their principal is protected from market losses as long as they keep the contract to the end of its term. Then I explain that the contract provides them with a minimum guaranteed amount of earnings at the end of the contract’s term. I tell the prospect that the insurance company uses long-term bonds to provide these guarantees. If the company has to take losses to cash the bonds in before they mature, so that they can cash out people who change their minds and want to get out of the contract early, then they are going to charge them a penalty.

“This makes sense to people, so surrender charges don’t often get in the way of me making a sale. Plus, I never have to worry about a client coming back in two or three years and tell me they didn’t understand that there was a penalty.

“I could go on and on about this, but the bottom line for me is that I really believe that the reason I have been able to sell the number of annuities that I have in the past is because I really believe in them.

“I started in the business selling small life insurance policies door to door. Like most new agents, I really struggled the first couple of years. I was fortunate to have a manager who taught me most of what I know about selling. In a lot of ways he was somewhat responsible for me being able to keep a roof over my family and get my kids through college.

“Once when I was particularly frustrated over my lack of sales I asked him if he thought I should quit. He shocked me when he answered, ‘YES’!

“He said that I was wasting my time because deep down inside I really didn’t believe in life insurance. I got defensive and said that he was wrong and that I was a big believer. Then he asked me why I didn’t own any of it?

“My explanation that my finances were low and that I planned to get some as soon as I was selling more fell on deaf ears. He really let me have it. He told me that I was letting down my wife and kids because I would go to the
movies or buy sodas when I could instead use that money to protect my family.

“He told me a lot more that really stung because it was all true, but the basic point was that you’re wasting your time if you don’t believe in what you sell enough to own it. He went on to say that I would sell at least ten times as much insurance as I personally owned.

“This conversation was a real turning point for me. The next day I bought all the life insurance I could afford and over the next twenty years I added a lot more. And, up until a few years back when I stopped selling life insurance I never had a year when I didn’t sell at least 10 times what I owned.

“Before I sold my first annuity I transferred a good chuck of my money into an annuity. Then I sold my mother and father an annuity.

And after that I have tried to sell an annuity to anyone who will listen to me, because I really believe that it is the best place you can put your money.”

This conviction has allowed Chuck to be a “top ten” annuity producer with two companies at the same time.

The Guaranty Association System
Annuity Sale

Fixed rate deferred annuities are often sold as a better alternative to bank CDs. With similar interest rates (annuity rates are historically higher) and product terms, it is easy for prospective clients to relate to annuities when they are compared to CDs. Factor in the additional benefits of tax deferred growth and lifetime income options, and annuities seem to win the contest hands down.

However, annuity producers often find that prospective clients have one more issue in which they want to see how annuities compare. One of the most often heard questions is… are annuities F.D.I.C insurance?
The answer is no. This can be a big problem for the safety-minded saver.

While annuities do not enjoy the benefit of F.D.I.C. insurance, consumers do have a degree of protection through the Guaranty Association System.

This is great for the clients, but from a marketing standpoint, it might appear to be of little value to the agent. The reason is that in many states, agents are prohibited to use the Guaranty Association System as an inducement for a client to purchase an annuity. In other words, you are prohibited from discussing the protection provided by this system during your sales presentation.

You can check the rules in your state at the web site http://www.nolhga.com/stateinformation/main.cfm

For example, here are the California regulations restricting how agents can use the Guaranty Association System in their marketing efforts…

§ 1067.17 “Use of existence of association for purpose of sales, solicitation, or inducement to purchase insurance; summary document; disclaimer; contracts not covered by association”

(a) No person, including an insurer, agent, or affiliate of an insurer shall make, publish, disseminate, circulate, or place before the public, or cause directly or indirectly, to be made, published, disseminated, circulated, or placed before the public, in any newspaper, magazine, or other publication, or in the form of a notice, circular, pamphlet, letter, or poster, or over any radio station or television station, or in any other way, any advertisement, announcement, or statement, written or oral, which uses the existence of the California Life and Health Insurance Guarantee Association for the purpose of sales, solicitation, or inducement to purchase any form of insurance covered by the California Life and Health Insurance Guarantee Association Act. Provided, however, that this § shall not apply to the California Life and Health Insurance Guarantee Association or any other entity which does not sell or solicit insurance.
Throughout this book, I have attempted to point out the differences between how struggling annuity producers and a top annuity producers can look at the same issue and see either problems or opportunities.

The Guaranty Association System is a prime example of this.

The struggling annuity producer learns that he or she is prohibited from using the Guaranty Association System as an inducement for a prospective client to make a purchase. For this reason, it wouldn’t seem to make a lot of sense to spend time learning about the program.

Contrast this to many top annuity producers who legally use the Guaranty Association System as a way to... directly influence clients to purchase annuities.

But wait a minute!

Didn’t I just say that agents are prohibited from using the Guaranty Association System as an inducement for a prospective client to purchase an annuity? And if that is the case, then how can an agent legally use it to sell annuities?

Even states that prohibit the use of the Guaranty Association System in sales, solicitations, or as inducement to purchase an annuity, will usually allow the agent to discuss this program after the sale has been made. In fact, in many states, insurance companies are required to include a brochure explaining the system along with the annuity certificate.

Let’s see how one top annuity producer (who has averaged over $5 million in annuity sales annually during the past 12 years) uses a discussion of the Guaranty Association System at delivery to sell additional annuities.

“I really had a difficult time when I first started selling annuities. Even today I find that people, at least in the Midwest are reluctant to turn over $50,000 or $100,000 to someone that they met only a few hours before.
“What has worked for me has been to take an approach where I only try to make small sales with new clients.

“I have gotten pretty good at picking up $5,000 to $25,000 annuity sales on the first interview.

“I follow the rules and never mention my state’s participation in the Guaranty Association System when I make the initial sale. But it’s a different story when I come back to deliver the annuity. I view delivery as the most important step in the sales process. Now the client is relaxed because he doesn’t view everything I say as if I am trying to sell him something. After all, at this point the client has already bought.

I thoroughly explain the annuity and all of its features and benefits. I go over every point in detail that I discussed during the initial sales interview.

At the very end of the delivery I also spend a good amount of time explaining the Guaranty Association System.

Now this is the first time my clients have heard about how this system can provide additional protection of their funds. I am not using the system as an inducement to buy because again, they have already bought my annuity.

But, when I do a good job explaining the Guarantee Association System, a funny thing often happens at the end of my annuity deliveries... I get an awful lot of people who ask me if they can put more money into the annuity.

You would be surprised how many little $5,000 annuities have turned into $100,000 annuities.

Policyholder Protection

State legislatures create life and health insurance guaranty associations to protect policyholders and beneficiaries of an insolvent insurance company. Any insurance company that writes annuities in a state is required to be a member of that state’s guaranty association.
These companies pay assessments into the association so that if one company becomes insolvent, money is available to pay claims to the policyholder or beneficiary.

The maximum limits provided will vary from state to state with most states providing a basic limit of $100,000 in withdrawal and cash values for annuities. Some states provide even higher limits of protection.

The protection applies only to the **guaranteed** benefits of the annuity.

You can check the protection limits in your state at the web site [http://www.nolhga.com/stateinformation/main.cfm](http://www.nolhga.com/stateinformation/main.cfm) or by phoning your state’s number is the table below.

<table>
<thead>
<tr>
<th>State</th>
<th>Max. liability for present value of an annuity contract</th>
<th>State Guaranty Association Phone Numbers</th>
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<tr>
<td>Alabama</td>
<td>$100,000</td>
<td>(205) 879-2202</td>
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<td>Alaska</td>
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<td>(907) 243-2311</td>
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<td>$100,000</td>
<td>(602) 364-3863</td>
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<td>Arkansas</td>
<td>$300,000</td>
<td>(501) 378-2961</td>
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<td>(323) 782-0182</td>
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<td>Colorado</td>
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<td>(303) 292-5022</td>
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<td>(614) 442-6601</td>
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<tr>
<td>Oklahoma</td>
<td>$300,000</td>
<td>(405) 272-9221</td>
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The Reverse Mortgage Annuity Sale

A "reverse" mortgage is a loan against your client’s home that they do not have to pay back as long as they reside in that home. They can be a dream come true for the client that has a lot of equity in his home, but little in the way of other assets.

Often agents come across prospective clients who desperately want to change their financial situation because they need more income. But when the house is the client’s only asset, there is seemingly little the agent can do.
Reverse mortgages are not only another powerful tool that agents can use to help their clients, but they can also be an extremely effective way to market their annuities.

Here is what one successful producer says about how she uses reverse mortgage to help her sell annuities.

“I first became familiar with reverse mortgages when I helped my mother get one several years ago.

“When I saw how relieved my mom was when she was able to increase her income without being forced to leave the home she and my father had lived in for almost 40 years, I knew that reverse mortgages would be a great solution for a lot of people.

I started talking about reverse mortgages with all my clients and during my seminars. Pretty soon I was inundated with referrals. Strangers were calling me up and telling me that they got my number from someone who was a friend of one of my clients or from someone who attended one of my seminars.

Usually I just meet with the people who are interested to tell them how a typical reverse mortgage works. If they want more information I often will personally take them to meet with a loan officer with whom I have been able to develop a relationship.

I don’t get involved with any other part of the process until after a reverse mortgage is funded. Once the client has the check, I set up a meeting to discuss putting a portion of the money in an annuity either providing immediate income, growth, or a combination of the two depending on the clients needs and circumstances.

Because I currently get so many referrals I no longer need to put on seminars or do any other prospecting activity.
Reverse Mortgage Basics

The reason that clients find reverse mortgages attractive is that they allow the homeowner to turn the equity in their home into cash without having to move or to repay the loan each month.

Most agents who work with reverse mortgages want their clients to take the loan proceeds in the form of a lump sum payment but there are other options as well. For example payment can be received as a:

- lump sum payment;
- regular monthly cash advance;
- "credit line" account that the client can tap when needed;
- or a combination of the above.

Your clients must own their home, occupy it as their principal place of residence and generally be age 62 or older to be eligible for most reverse mortgages.

With a reverse mortgage, your client's loan balance or the amount of debt increases when they get money from the lender and as interest accrues on the outstanding loan balance. Unlike conventional mortgages, this debt goes up because generally the borrower doesn't make loan repayments. This is why they are referred to as reverse mortgages.

The Cost Of A Reverse Mortgage

Some state and local governments offer reverse mortgages to their residents. If available, these will generally be the best value for your clients. They often don't charge a loan fee or if a fee is charged it is usually very low. Interest rates are often below those of a commercial lender as well.
As with most commercial loans their can be a variety of costs associated with a reverse mortgage offered by the private sector. These can include:

- an application fee;
- a credit report;
- loan origination fee;
- closing costs;
- and a monthly servicing fee.

These fees and added costs are generally paid advances from the reverse mortgage. Your clients should be aware that these fees and any interest will be added to the loan balance.

The interest rates and initial costs of reverse mortgages are generally much higher than what your clients would pay for a conventional mortgages.

If your state or local governments do not have a reverse mortgage program, then a Home Equity Conversion Mortgage (HECM) will likely be the best value for your clients. HECMs are private sector reverse mortgages but because they are federally insured, they will almost always be the least expensive reverse mortgages after those provided by state and local governments. A HECM loan is backed by the U.S. Department of Housing and Urban Development (HUD). They are generally offered by mortgage companies or banks.

Clients must be careful that they understand the details of any reverse mortgage that they might be considering. Some contain provisions referred to as equity-sharing or appreciation-sharing features. These provisions allow the lender to share in a portion of the future appreciated of the home when it is ultimately sold. This can mean that 50% or more of any appreciation can end up going to the lender.
The typical person who obtains a reverse mortgage is a senior who has most, if not all of their wealth “locked up” in the equity of their home. Unlocking this equity can invite some unanticipated problems if the person ever tries to qualify for Medicaid.

By reading the chapter titled “The Medicaid Annuity Sale” you will learn that a person must spend down their assets before Medicaid will pay any of their nursing home expenses. One exception to Medicaid’s spend down requirements has to do with a person’s primary residence.

In effect, a person can retain their home for as long as they or their spouse lives in it. This provides a degree of protection for the equity that is “locked up” in the home.

However, assume that you have a client who obtains a reverse mortgage and uses it to access a large amount of equity that is in his home. After the loan is completed and he has his money, assume that he suffers a stroke and needs care in a nursing home.

It is possible that Medicaid could force him to spend almost all of the proceeds that he received from the reverse mortgage to pay his nursing home bills. Had the reverse mortgage not been taken and the money instead remained as equity in the home, there might have been a greater opportunity to protect it from Medicaid spend down requirements.

*The Medicaid Annuity Sale* chapter provides additional information on this topic along with methods for protecting these assets.

**The “Rates Are About To Go Up” Annuity Sale**

Because of interest rates that are at or around their historical lows, and the increased volatility of the stock market, many seniors don’t know what to do with their savings. There is an enormous amount of money many seniors have set aside in money market funds and even checking accounts while they wait for interest rates to go up.
Having this money “sitting on the sidelines” earning little interest has forced many conservative-minded savers to make dramatic adjustments in their standard of living.

One of the most powerful arguments an agent can make in favor of products like indexed annuities is their potential for increased rates of return without risk of market losses. However, regardless of their appeal, many safety-minded savers delay purchasing indexed annuities because they hope that banks will soon start paying more interest on CDs.

Overcoming an objection to wait for any reason has always presented a challenge to the salesperson. Here is how one top annuity producer gets many of his prospects to take action immediately:

“I am always prepared for the client who wants to wait and see if his bank CD doesn’t start paying more interest before he will buy my annuity. As soon as I hear a person say this, I know that I am going to have to show this person how much money it could cost them to wait.

“I do this by first showing the immediate cost which I calculate on a daily basis. For example, let’s say the person has $100,000 in a money market account that is currently paying 1%. Ignoring daily compounding this would mean his money earns $1,000 a year or about $2.75 a day.

“Now let’s assume that I can make the case that it would be reasonable to expect that an indexed annuity might conservatively average 6% a year. On a $100,000 balance, that equals $6,000 annually or about $16.45 a day.

“So it would be reasonable to assume that the difference equals about $13.70.

“I haven’t even gotten in to the real cost of waiting but for many clients, this is all they have to see to motivate them to start an annuity right now.

“There will still be people who will look at that $13.70 daily cost and will still want to wait to see if government bonds or banks won’t start paying more.
“I will ask these people if they are prepared to wait another 73 days.

“Most tell me yes but want to know why I am asking about 73 days.

“I tell them that at $13.70 a day they will lose $1,000 in only 73 days.

“At this point in my presentation I flip to a chart that I always keep in my presentation book. This chart shows two accounts accumulating over 10, 20 and 30 years.

“Account “A” starts with $100,000 and grows at a rate of 3%. The earnings from this account are currently taxed and deducted from the balance each year.

“Account “B” grows at a rate of 6%. The earnings from this account are tax deferred, but I illustrate the after-tax balances after 10, 20 and 30 years.

“There is one additional key difference in my chart between account “A” and account “B”. Where the starting balance of account “A” is $100,000, account “B” starts off at an amount of $101,000… or $1,000 more.

“Of course, Account “B” is going to project out to a much larger amount because of three factors:

it starts off with an extra $1,000;

it earns 3% more interest;

and the taxes on the earnings are deferred.

“These factors account for a substantial difference in the ending balances of these two accounts.

“After making sure that the client understands that this chart is totally hypothetical and that the projections aren’t an indication of anticipated indexed annuity returns, I go through the numbers with the client.
“First I cover up account “B” with a sheet of paper and I say something like this …

“Ok, so let’s say you wait for interest rates to go up and after 73 days you are proven correct. At that time you can put your savings in a bank CD that will pay you 3%. Of course, you have to pay taxes each year on the earnings, so here is what your account balance will be after 10, 20 and 30 years.

“Then I remove the show him account “B” and explain that I am showing that starting off with an extra $1,000 because that is what it would have earned (assuming the hypothetical rate) for the 73 days he waited. I then show him how much more money he has because he didn’t wait!

“When a prospect sees the total cost of waiting even a few months, and as long as he understands the other benefits of annuities he will see that there really isn’t an advantage to waiting for interest rates to go up.”

Annuity Surrender Charges … No Problem!

Many annuity salespeople find that surrender charges are often a major obstacle that stand in the way of increased annuity production.

How do you overcome annuity sales charges that can be 10%, 12% or even more... and for periods as long as 10 years, 12 years or even longer?

If you’ve ever lost an annuity sale because the client balked at the contract’s surrender penalties, the insights of two multi-million dollar annuity producers may prove to be both interesting and profitable.

Is the Glass Half Empty or Half Full?
The more I have associated with successful salespeople, the more I have come to believe that attitude is one of the key factors in their success. This becomes apparent when you listen to this top annuity producer’s comments regarding annuity surrender charges:

“The single most important element that helps me when dealing with surrender charges is my attitude regarding the value of annuities.

“Most of my clients have two basic goals with regards to their savings. First, they want a high degree of safety. Second, they want to earn at least a little more then they can with bank CDs and T-Bills.

“I like to think of myself as a student of investing and investment products. I subscribe to all of the major financial publications and I usually read at least one book each month on investing or financial planning. The more I learn, the more convinced I become that annuities are without question one of the best products available to meet my senior client’s needs.

“In my opinion, if an agent does not share this attitude regarding the value of annuities, then he or she should be selling some other product or service.

“Also, I think that it is important to make sure that a client never puts money into an annuity unless they are willing to maintain a large emergency fund. I tell people that they must have at least six months income set aside in a liquid account. This account may pay little interest, but it will always be available in case of some emergency.

“When a client follows this advise, then there is less chance that they will need to access annuity funds prematurely and so there is less chance that they will be affected by surrender provisions.

“I never use the term “surrender charges” or surrender penalties” with clients. Instead I refer to them as the contract’s “surrender provisions.”
“It’s not unusual to have a client ask about an annuity’s liquidity during the course of my presentation.

“I believe that one of the biggest differences between how I deal with a contract’s surrender provisions and how other agents deal with them can be compared with the old question of whether a glass is half empty or half full.

“Most agents present surrender provisions in such a way that a client can only be expected to see the glass as being half empty. I try to present surrender provisions in a way that the clients will see the glass as being half full.

“When a client asks about liquidity, the first thing I do is to relate the possible need for money to unexpected home repair expenses. The reason that I do this is because I want the client to think of a realistic need for money, as opposed to some vague idea that might be floating around in their minds.

“For example, most clients will never need to take $100,000 out of their annuities so I try to talk about accessing funds in more realistic amounts that people can easily relate to. This is important because it puts the proper perspective on the amounts of money the client might really need in the future.

“I will say something like this to a client who is starting to get hung up on surrender provisions …

“Let’s say that you transferred $100,000 into this indexed annuity that we have been discussing. And, for a moment, we’ll say that the index has been going up in an amount equal to it’s historical average for the next several years. Let’s assume that your account has been credited with an average of 6% or 7% interest over these years, so that the balance in the annuity at some point in the not too distant future has grown to $121,000.

“(I am assuming that agents understand compliance issues concerning making projections and making sure that clients understand that this is just a hypothetical example.)

“Now, one rainy night you find that your roof starts leaking like a sieve.
"After a visit by the roofing contractor you call me up to say that you need $10,000 right away. The advice I would likely give you is to tap your emergency funds, but let’s assume that you just spent all of that on a trip around the world.

"Even though that wasn’t the purpose of your emergency fund, it’s ok, because with this annuity I could have a check for $10,000 in your hands within 48 hours. And there would be no charges against this withdrawal.

"Now, let’s suppose that after the contractor has your roof all torn up, he tells you that in addition to fixing the roof you also need to get all new rain gutters. That little surprise is going to cost you another $2,000.

"You’re still ok, because the company will send you another two grand and again it won’t cost you a penny in charges.

"Finally the contractor finishes the job, but he was pretty sloppy and got tar all over the front of your house. The painting contractor says you need a new paint job. That will cost you another $5,000.

"You can still get this out of your annuity, but now there is going to be a charge. Let’s say that it’s a real high charge, like 10%.

"So let’s add up where you are. It was $10,000 for the new roof. Another $2,000 for the rain gutters. And $5,000 more for painting the house. You took out a total of $17,000 and the surrender provisions say that you only had a charge of $500.

"It’s really isn’t a very big cost when you think about it. Wouldn’t you agree?

"Assuming they do agree, that’s all I need to start completing an application.

What Surrender Penalties?
Here are some comments from another top producer regarding the importance of having the proper prospective when dealing with the issue of surrender charges.

“I use a Multiple Bucket approach to develop a lifetime retirement income plan for my clients. This normally results in me making a recommendation that my clients put a good portion of their savings into annuities.

“I usually recommend indexed annuities. This product can have rather high surrender penalties that typically last longer than 10 years.

“Long ago I learned that it was a mistake to try to hide from this issue. Today I always make certain that my clients understand these charges early on in the sales process.

“Since interests have dropped to an all-time historical low, I find that it is much easier to deal with surrender charges. Most of my clients are people who have their money in bank CDs as opposed to mutual funds or equities. My approach to dealing with surrender charges is to make sure that the client understands the penalties associated with owning a CD, and then to contrast those to the annuity’s penalties for “early withdrawal.”

“But, I believe that the only way that such a comparison can be accurate is if I also bring in to the discussion the other advantages of annuities.

“I show a client that there are three penalties involved with owning a CD. And, if I still can’t close the sale I will also show a fourth penalty as well.

“First, I explain that the bank charges an early withdrawal penalty if you withdraw your funds prior to maturity. This penalty is in the form of a loss of interest earnings. Because compounding is increasing the CD’s earnings, this penalty can actually get larger the longer the client owns the CD.

“I contrast this to the annuity’s decreasing charges.”
“Second, I make sure that the client understands that the CD also has a built-in tax penalty. I show the client the value of deferring the tax until the annuity’s earnings are withdrawn. I have a chart that shows the difference between two $100,000 accounts when one grows with taxes deducted currently, while the other account grows tax-deferred. This chart uses the same interest rates to project the growth. And, it compares the balance in both accounts after all of the taxes have been paid.

“Third, I show the CD’s biggest penalty of all… the low earnings penalty. I explain that this penalty is kind of hidden, but it is nonetheless very real and extremely destructive. Of course I am referring to the low interest rates that CDs currently pay. I don’t have to spend much time on this, because clients are already aware of the small amount of interest that CDs, iBonds, T-Bills and all other similar vehicles pay. I spend a lot of time making sure that my clients understand that indexed annuities provide earnings that are potentially much greater, but without increasing the risk of losing their principal… as long as they keep their annuity for its full term.

“The people that I typically deal with are already pretty disgusted with the low interest rates that they have been earning. It is not difficult to show them that they are paying a penalty every day that they keep their money in a CD.

“I always ask my clients this question …

“Do you feel more comfortable paying the low earnings penalty that you know will be charged every year that you have your money in a CD, or a penalty that would only be charged if you surrendered your annuity prematurely?

“The CD’s low earnings is the one penalty you can’t escape no matter what. While the annuity’s penalty is easy to avoid … just don’t surrender it before it matures.

“I make the client answer that question before I continue. Depending on how the client responds, my presentation will almost always proceed in one of two directions.
“If the client indicates that the annuity is better, then I take out my applications and assume that I have a sale. However, often the client will say something that indicates that while he may see the logic in avoiding the low earnings penalty, he continues to have a problem with the annuity’s surrender charges. When this happens, I discuss two things before attempting another close.

“First, I make sure that the client feels comfortable with the amount of money that I recommended for their emergency fund. If I have allocated enough money to the emergency fund, then the client can see that the reasons for accessing the funds in their annuities will be reduced.

“Second, I talk about the 10% penalty-free withdrawals that the annuities allow. If I am recommending that the client puts $300,000 in annuities, I make sure that they understand that this means they would have access for $30,000 a year or more depending on earnings. (I make sure that they understand that this amount would periodically reduce if they consistently took 10% of the balance each year.)

“At this point I try another close by saying something like this…

“So here is the bottom line. We’ve got $35,000 allocated to your emergency fund, and there is another $30,000 that you could withdraw without any penalty. Wouldn’t you feel pretty secure knowing that you could always get your hands on $65,000?

“Many clients agree that this would make them feel secure.

“So I start completing the application.”
Are Indexed annuities a risk-free opportunity for your clients to earn superior rates of return?... Or, are they a product whose potential and appeal have been lost by participation rates and caps set so low and asset fees set so high that the potential for double digit returns are a thing of the past?

If you sell indexed annuities and wish you could return to the days when you were able to tell prospective clients about your product’s exciting upside potential... you need to know about the new generation of indexed products.

Since their introduction in 1995, more than $30 billion in indexed annuity sales have occurred.

Many top annuity producers have built their entire practice around indexed annuities... and prospered beyond their wildest expectations.

The reason for the success of this product? ...

The promise of a great upside potential without risk of market losses addresses the fundamental needs and desires of a broad base of consumers.

The product was a dream come true for the many clients who experienced the 10%, 20% or even higher returns back in the late ‘90s.

Unfortunately, as interest rates have declined in recent years and because market volatility has increased, the cost of the call options that are the foundation upon which this product is built have soared in price. To compensate, participation rates and caps went down and yield spreads or asset fees went up. This forced some of the older, higher-potential indexed annuity products to leave the market.

These original, once lucrative contracts were replaced by products that greatly limited a client’s opportunity to earn double-digit returns.
Happy days are here again!

Some companies have been hard at work designing products for the current interest rates and market conditions, and agents are about to see a rush of new index products that will allow them to once again offer their clients the potential for double digit and better returns.

To realize this potential many of these products will use a new interest-crediting strategy referred to as a Monthly Cap Indexed Interest Strategy.

Do not make the mistake of thinking that these companies have only moved around some of the parts and come up with something that only looks different. Products using the Monthly Cap Indexed Interest Strategy are of a radically new design. In fact, before these products could be developed, an entirely new call option had to be created and accepted on Wall Street.

There is one very important reason why you need to understand the Monthly Cap Indexed Interest Strategy… products using this design can provide your clients with a greater upside potential. And with greater upside potential, these products are simply easier to sell.

To appreciate this greater upside potential, I will provide an illustration of an indexed annuity design that uses a monthly cap indexed interest strategy to calculate and credit gains.

As I mentioned earlier, this strategy has recently been incorporated into several indexed annuity products currently available. However, please keep in mind that what follows is a general illustration and is not meant to provide an example of any specific indexed annuity product.

You should carefully review the terms, conditions, and crediting methods of any specific indexed annuity product that you intend to offer your clients.

An indexed annuity product that uses a monthly cap indexed interest strategy would measure the percentage change in the index each
month. In other words, it would measure the percentage change in value as of the close of the S&P 500 Index on the first day of the month as compared to the index closing value on the last day of the month.

The percentage change could be a negative number, a positive number, or it could be zero depending on the percentage change in the index value over the course of the month.

Any positive percentage change is limited by the product’s cap. For example, a product with a cap of 2% will ignore any positive percentage changes that occurred over the course of the month that are in excess of 2% in its interest-crediting calculations.
When discussing this strategy’s cap, it is important to recognize that the amount of the cap pertains to each month’s positive percentage change. I have not seen any products that cap any negative changes.

A product with a 2% monthly cap could potentially offer clients an opportunity to have a maximum of 24% interest credited during a 12-month term.

We are not suggesting that 24% is what clients should expect to earn… only that 24% is the maximum that they could earn if the index performed in a specific and very favorable manner.

Compare this potential to the many current products on the market that offer low participation rates, low annual caps and high asset fees. With many of these products, your clients can never realistically expect to earn more than 7% or 8% regardless of how well the index may perform.
Now let’s calculate the amount of interest credited to a product using a **Monthly Cap Indexed Interest Strategy** during a hypothetical period of changing index values.

### Example of Interest Credit Calculation

(2% Monthly Cap, One-Year Term)

<table>
<thead>
<tr>
<th>Anniversary</th>
<th>900</th>
<th>Month 1</th>
<th>875</th>
<th>-2.78%</th>
<th>-2.78%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month 2</td>
<td>890</td>
<td>1.71%</td>
<td>1.71%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month 3</td>
<td>915</td>
<td>2.81%</td>
<td>2.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month 4</td>
<td>920</td>
<td>0.55%</td>
<td>0.55%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month 5</td>
<td>935</td>
<td>1.63%</td>
<td>1.63%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month 6</td>
<td>965</td>
<td>3.21%</td>
<td>2.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month 7</td>
<td>985</td>
<td>2.07%</td>
<td>2.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month 8</td>
<td>990</td>
<td>0.51%</td>
<td>0.51%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month 9</td>
<td>1010</td>
<td>2.02%</td>
<td>2.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month 10</td>
<td>980</td>
<td>-2.97%</td>
<td>-2.97%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month 11</td>
<td>975</td>
<td>-0.51%</td>
<td>-0.51%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month 12</td>
<td>985</td>
<td>1.03%</td>
<td>1.03%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Interest Credit is the Total of Capped Monthly Gains:** 7.17%

Referring to the table above, you can see that we are assuming that the index value at the close of the first day of the first month for our contract was **900**. On the last day of that month we will assume that the index’s closing value was **875**. This represents a **negative** of **2.78%**

The **full** value of any negative percentage changes will be used in the calculations for these products.

Because this is a **monthly** cap indexed interest strategy, we calculate the percentage change for **each month**, and then total them together over the term that the product uses to measure the overall percentage change.

Assume that the close of the index on the last day of the second month was **890**. The percentage change of that closing value compared to the **875** value at the beginning of the second month is a positive **1.71%**.
Because it is less than the cap, we will use this entire amount to determine the interest credited at the end of the term.

A closing value at the end of the third month of **915** would represent a positive change of **2.81%**. Because this amount exceeds the cap, only **2%** (the amount of the cap) will be used in our calculations.

To calculate the amount of interest credited, based upon the monthly index changes in this example, we simply add together each month’s percentage change (subject to the maximum 2% cap). The total in this example equals of **7.17%** for this 12-month term.

We are using the word **term** to indicate the measurement period used in the calculations, not the term of the contract itself.

You’ll find that contract terms for products using the monthly cap indexed interest strategy are similar to the traditional indexed annuity contract terms. You can expect the contract terms to range from nine to fourteen years… generally speaking.

The term or period of time used to measure the monthly percentage changes is typically **one, two, or three years** or perhaps even longer.
Again, many new products using the monthly cap indexed interest strategy can be expected to be released in the near future. You can expect that companies will find reasons to structure many different cap percentages, terms, and other variations.

A product that uses a **term of one year** would total all of the monthly percentage changes during that one-year term to determine the amount of interest credited at the end of that one-year term.

![Year 1 | Year 2 | Year 3](image)

On the other hand, products using a **term of three years** will total together all of the 36 month’s percentage changes that occurred during these three years to determine the amount of interest credited at the end of that period.

Once the term has ended, whether it’s one, two or three years, the interest (if any) is credited, and a new term begins.

One very important aspect of products using the monthly cap indexed interest strategy is that once interest is credited from any term, it is **locked in** and **cannot be reduced** should a subsequent term end with a total percentage change, which is negative.
For example, the hypothetical scenario that we just presented resulted in an interest rate of 7.17% being credited at the end of this product’s one-year term. If the initial premium was $100,000, the value after this interest was credited would be $107,170. If the total of the 12 monthly percentage changes over the second year’s term was negative, the worse that happens would be that zero interest would be credited, and the balance at the end of the second year’s term would remain $107,170.

This illustrates two important safeguards for your clients. Their principal is always guaranteed against market losses. And, once earnings are credited from any term, they are locked in and cannot be affected by subsequent adverse index performance.

In evaluating indexed annuities that are based on the monthly cap indexed interest strategy, you can see that it will be important to consider the amount of the monthly cap and the term, or period used to measure the monthly percentage changes in the index.

Generally speaking, you can expect that the amount of the monthly cap will be greater the longer the term used to measure the monthly percentage changes. So, a product using a one year measuring term might cap the monthly earnings at 2%, whereas a product using a three year measuring term might have a greater monthly cap of say 4%.

Keep in mind that these are caps on the monthly percentage change in the index, not an annual cap. This can make a great deal of difference in the upside potential of the product.

We can illustrate this point by comparing hypothetical indexed annuity products using a more traditional interest crediting strategy to hypothetical products using the monthly cap indexed interest strategy.

The comparison becomes more relevant if we base performance on actual S&P 500 results.

We will do this by using the periods of 1990 through 2002.
<table>
<thead>
<tr>
<th>Year Beginning</th>
<th>2% Monthly Cap</th>
<th>4% Monthly Cap</th>
<th>7% Cap Monthly Averaging</th>
<th>2% Fee / 12% Cap Monthly Averaging</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>1991</td>
<td>4.09%</td>
<td>14.17%</td>
<td>7.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>1992</td>
<td>0.88%</td>
<td>4.63%</td>
<td>0.01%</td>
<td>0.00%</td>
</tr>
<tr>
<td>1993</td>
<td>5.28%</td>
<td>7.00%</td>
<td>4.07%</td>
<td>2.07%</td>
</tr>
<tr>
<td>1994</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>1995</td>
<td>18.91%</td>
<td>29.58%</td>
<td>7.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>1996</td>
<td>9.93%</td>
<td>16.86%</td>
<td>7.00%</td>
<td>7.49%</td>
</tr>
<tr>
<td>1997</td>
<td>2.71%</td>
<td>16.71%</td>
<td>7.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>1998</td>
<td>0.00%</td>
<td>12.24%</td>
<td>7.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>1999</td>
<td>1.50%</td>
<td>13.17%</td>
<td>7.00%</td>
<td>6.25%</td>
</tr>
<tr>
<td>2000</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>2001</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>2002</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

Please keep in mind that past performance does not promise similar future results, but it can be helpful for the purpose of comparing different indexed interest strategies over the same periods.

The calculations in the table above assume that all products were issued on January 1st of each year.

Note that due to the persistently poor performance of the index over the years 2000, 2001 and 2002, none of the products would have registered a positive return. Of course, with all products, the worst that can happen is that zero interest is credited.

The highest annual results were achieved with the monthly cap indexed interest strategy in 1995. The traditional product with the 7% cap would have credited 7%. The traditional product with the 12% cap and 2% fee would have credited 10%. A product using the monthly cap index interest strategy with a 2% cap would have credited 18.91%, while the one with the 4% cap would have credited 29.58%.

Consider that a prospective client might consider this to be a pretty impressive upside potential.
There is one question that is usually asked when explaining the monthly cap indexed interest strategy:

"Why does the monthly cap apply only to the monthly gains but not the monthly losses?"

It’s an important question. The short answer is that by not placing a cap on the monthly losses, the product can provide much higher potential interest earnings. The whole point of this strategy is more upside potential with a downside of no worse than zero.

We can see how the product provides greater upside potential by again looking back on the 1995 results from the previous table. Consider the marketability of a product with a 2% cap that might have enjoyed a return of 18.91%, compared to the more traditional product that capped the return at 7% and thus never has an opportunity to enjoy anything more.

Products using the monthly cap indexed interest strategy weren’t always better than the products using the more traditional strategies, but they did produce results that were quite impressive in several years.

The conclusion is really quite simple; for an extended period where the market is generally rising, the monthly cap indexed interest strategy has much more upside performance potential.

Products using this strategy just may be the best indexed annuities for the next bull market.

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**The Big Annuity Prospecting Secret**

Since 1987, when I started developing insurance and annuity sales aids, I have made it a point to ask every customer that I speak with to tell me the prospecting methods they use.

My goal was to learn the secret techniques used by the most successful producers. And after questioning hundreds of annuity producers, here is the most important thing that I learned about prospecting:
Any method will work ... if you know how to work it!

I have talked to top producers who have told me that direct mail stinks, but newspaper ads work great. Then I talk to someone else who swears that newspaper ads get them horrible responses but direct mail works like a charm.

I have one customer, Eugene Smart of Houston, Texas who spends about $3,500 a month mailing postcards. This and his other marketing efforts have allowed him to rank as the #1 annuity producer for the insurance company he represents for the past ten years. But I also have had dozens of very smart and successful annuity producers tell me that the results they get from postcards was horrible.

I have a customer who has purchased thousands of our Indexed Annuity video presentations and then uses radio advertisements to offer them to prospects. For the past five years he has averaged spending $10,000 a month on radio ads. He “cherry-picks” from the 50 leads a week his ads pull and ends up selling about $10 million of annuity premium a year. But I also have had many others tell me that they wasted a small fortune on radio ads.

I firmly believe that for every annuity prospecting method that has been tried and discarded by hundreds of annuity producers, there is at least one agent somewhere who is using that method to make a fortune.

The reason that others don’t generate the same success probably has more to do with the agent not giving the method an adequate opportunity to succeed.

The postcard program that Eugene Smart uses is a good example.

Most agents who have tried postcards or other direct mail often have an expectation that there will be a direct and immediate link between the prospecting activity (mailing the postcard) and the result that they are trying to achieve (selling an annuity).

They send out a few thousand postcards, get a couple of inquiries and possibly a sell or two if they are lucky. When they compare the immediate results to the effort and expensive of the mailing, many conclude that it was not worth it and they move on to some other prospecting method.
The expectations that Eugene has for his postcard program are entirely different.

"I view prospecting for annuity clients like I use to see ships hunting for submarines in the war movies I watched as a kid. The ships wouldn't know where the subs were, they just knew that they were down in the ocean somewhere. Then something would happen that caused the sub to give away its location. Maybe it would raise its periscope and a ship would spot it or make some kind of noise that the ship would hear. Once the sub was detected, then all hell would break loose. The ships would start dropping depth charges all over the place hoping to score a hit.

“This is the same attitude I have regarding the marketing of annuities. I know that there are plenty of annuity prospects out there, I just don't know where they are. When someone calls me because of the postcard I sent them it’s the same as raising their periscope. Now that I know where they are I am start “dropping stuff” on them. I send them company promo stuff, mail them videos, invite them to seminars and generally keep after them until they either buy or they die.

“Every once in a while I get a sale directly from mailing a postcard, but that doesn't happen often. Usually the sale doesn’t happen until months or even years later. You would likely be surprised by the number of people who call me after receiving my mailers for several months and come right out and say that they are ready to buy. When I have an appointment it’s almost always going to end up being a sale. This isn't because I am such a great salesman. Instead it is because after the client watches my video and keeps reading my postcards and other material, if they are motivated enough to pick up the phone and call me, they are usually pretty close to already being convinced that they want an annuity.

Most annuity producers believe that postcards don’t work, yet Eugene can’t understand why more agents don’t use them. The point is that because Eugene has different expectations, he views his postcard mailings as very successful. Because this is his attitude, he has mailed a good number of postcards almost every month for many years. By experience he has learned the most effective way to talk to people who
respond to his mailings. He knows how to squeeze every ounce of potential from his prospects. He knows that if he stopped his mailings to pursue some other prospecting activity, he would need to go through a new learning curve and it might be years before he figured out how to master that system.

The same can be said for seminars, newspaper ads, radio ads and almost any other prospecting method you can think of.

The real secret to annuity prospecting success is that... **almost any method will work as long as you are committed to making it work.**

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**POPCORN PROSPECTING**

Today, prospects are more demanding then ever. Who can blame them? Daily they are bombarded with a never ending barrage of hype and solicitations. Mail boxes stuffed with flyers, discount coupons, and requests for donations to feed starving children or to save the planet. Newspapers are packed with more ads than articles. Watch TV and you’ll get two minutes of commercials for every 13 minutes of programming. There is simply not enough room in the prospect’s mind to hold even a fraction of these marketing messages.

The first step to prospecting success is to realize that you are in the middle of a pitched battle. You’re fighting a legion of marketers, armed to the teeth with the latest technology and techniques. And they will fight you tooth and nail for one simple prize ... just a tiny piece of the consumer’s mind.

As marketers, we all share the goal of having our offer, our solicitation, and our sales message **register** with the consumer.

How can you be certain that your methods will be noticed by a prospect?

Use a method that I call Popcorn Prospecting.
This is an approach that uses a combination of wave mail, a video, CD-Rom or booklet and a million dollar icebreaker that costs you only a few pennies to use… a bag of uncooked microwave popcorn.

Popcorn Prospecting is a powerful sales lead generation system that insurance agents and financial advisors use to get appointments ... not rejections.

Sales Trainer Tom Hopkins credits me as the innovator of Popcorn Prospecting In his book "Sales Prospecting for Dummies".

Thanks Tom, but the credit for this powerful prospecting system is only part mine. What I did was to take three proven prospecting methods and combine them together to create Popcorn Prospecting.

Al Granum’s Theory of 10-3-1

Some of the Popcorn Prospecting system is based on the classic insurance industry prospecting method known as the One Card System. This system was developed by Alfred Granum, CLU.

During Al's 28-year tenure, his group of agents out-sold everyone in the world.

Steve Nieman, editor of the "Building Life Insurance Clientele" (BLIC) series of books for National Underwriter, said "Granum developed his sales techniques at his own agency using a simple theory of 10-3-1":

Theory of... 10-3-1

3 will see you
for every 10 prospects

only 1 will buy

The theory says if you approach 10 prospects correctly, 3 will see you and only 1 will buy.
Most salespeople fight these numbers... and lose.

Instead of being satisfied with Granum’s numbers, most agents are on a never-ending search for some magic method that will net five or six appointments and three or four sales for every 10 prospects. And this is one reason most agents fail!

Granum knew that 90% of all agents would succeed, and succeed beyond their wildest dreams if they simply focused their efforts on finding... more prospects.

10-3-1 can easily become 100-30-10 or 1000-30-100

In other words, to get 100 sales, your focus needs to be on finding 1,000 prospects.

Granum developed and refined a system to accomplish this, and in the process he turned average salespeople into super-salespeople. Nieman said that... of 45 agents trained by Granum, 42 achieved Million Dollar Round Table status.

The Secret Is To Find A Painless Way To Get In Front Of A Large Number Of Warm, Targeted And Open-to-Buy Prospects

Granum proved that prospecting was the key to success in sales. But, the real secret is to find a painless way to get a steady stream of qualified prospects.

Cold calling is not the answer. It is simply too painful.

Fortunately, getting lots of prospects can be pretty simple, just...
Make the free gift offer good enough and prospects will phone you!

The best free gifts to offer are things like video cassettes, CD-ROMs and information booklets.

These are great gifts because it is reasonable to assume that when a person asks you for one, that they may be a prospect.

There are many ways to broadcast your free video or CD-Rom offer.

Using Postcards With Popcorn Prospecting

The following are samples of postcards that can be used to communicate an offer of a free video, CD-Rom or with modification a free information booklet.
Using Newspaper Ads With Popcorn Prospecting

The following are samples of newspaper ads that can be used to communicate an offer of a free video, CD-Rom, or with modification, a free information booklet.
CD or IRA Maturing?
Before Purchasing Another CD, You Should Consider Tax-Deferred Annuities
- Tax-Deferred Growth
- Competitive Current Rates
- Minimum Rate Guarantees
- Bypass Probate

Include disclosure statement supplied by your annuity provider

Douglas M. Warren, CLU
1-800-989-4888
WARREN INSURANCE
& Financial Services Since 1972
CALL NOW FOR A FREE VHS VIDEO OR CD-ROM

Stock Market Linked Returns With Principal Protected From Stock Market Losses
Learn About Index Annuities
- Stock Market Linked Returns
- Principal Guarantees
- Tax-Deferred Growth
- Bypass Probate

Include disclosure statement supplied by your annuity provider

Douglas M. Warren, CLU
1-800-989-4888
WARREN INSURANCE
& Financial Services Since 1972
CALL NOW FOR A FREE VHS VIDEO OR CD-ROM

Probate costs can be as high as 10% of the value of your estate.

Money that otherwise could have gone to your beneficiaries.

The Living Trust is a failproof way to pass your estate on to your heirs while avoiding the unnecessary expense and delays of probate.

Douglas M. Warren, CLU
1-800-989-4888
WARREN INSURANCE
& Financial Services Since 1972
CALL NOW FOR A FREE VHS VIDEO OR CD-ROM
Using Radio Ads With Popcorn Prospecting

The following are samples of radio ads that can be used to communicate an offer of a free video, CD-Rom, or with modification, a free information booklet.

>:30 SAMPLE DEFERRED ANNUITIES RADIO OFFER

"If your money is being held hostage by today's low interest rates, you should learn more about deferred annuities.

Every day, safety-minded savers who are tired of low interest rates are turning to deferred annuities.

Now there is a simple way for you to learn about deferred annuities in the privacy of your home.

Doug Warren, president of Warren Financial Group, is giving away a limited number of copies of his popular educational video presentation "Annuities: The 21st Century Solution."

If you would like to learn more about the tax advantages, guarantees, and safety and competitive current rates paid by today's deferred annuities call (800) xxx-xxxx, that's (800) xxx-xxxx, and Doug will send you a free video or CD-ROM on Deferred Annuities.

Call (xxx) xxx-xxxx, any time, day or night. Member: Better Business Bureau. Call (800) xxx-xxxx, that's (800) xxx-xxxx for details."
Getting Appointments, Not Rejections, Is Simple Once You Understand The Power Of “Drip Mail”

So let’s assume your postcards, newspaper, or radio ads are a success and you have hundreds of prospects requesting your free video, CD, or information booklet. The key question is, how to turn them into face-to-face appointments?

Mail these three letters along with your video or CD to those who answer your advertisements, and you’ll turn cold leads into hot prospects.

First Mailing... immediately mail the prospect a brief letter that notifies them that the video or CD is on its way.
Dear Don and Cheryl Jones,

Thank you for your interest in receiving my video presentation on tax-deferred annuities. There is no charge to you for this video, and, of course, you are under no obligation. The video should arrive by mail in the next few days.

(Optional) In the meantime, I have taken this opportunity to enclose a flyer which highlights just some of the benefits of tax-deferred annuities.

After you have had a chance to review the video, I will be in touch to answer any questions that you might have.

Sincerely,

Agent

(Optional but extremely effective.) P.S. Over the course of the 8 years I've been doing business in this community, I have established a varied clientele. Perhaps you know some of them? Attached are a few names of local people who would be happy to talk to you about my services.

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Second Mailing... Two days later, mail the prospect the video or CD, a cover letter, and a small bag of uncooked microwave popcorn.
The popcorn is a powerful "icebreaker" that costs just pennies per bag.

Dear Don and Cheryl Jones,

As promised, enclosed is a brief video to view at your convenience. It is designed to give a general overview of tax-deferred annuities and how they might be used to reduce current income taxes.

I will be in touch.

Sincerely,

Agent

P.S. I hope you enjoy the enclosed bag of popcorn.

Final Mailing... Two days later, mail the final letter telling the prospect that you will soon call for an appointment.
Dear Don and Cheryl Jones,

I hope by now you have had a chance to view the brief video that I mailed a few days ago. If you have, you probably have a better understanding of some of the benefits of annuities.

Also, do you know the following important facts about annuities?

Annuities have historically provided competitive interest rates when compared to other "safe money" products.

Annuities have a reputation for safety.

Annuities can provide significant tax advantages.

I would like to explain more about these exciting products. I'll contact you in a few days to arrange a brief introductory meeting.

Sincerely,

Agent

“Isn't This A Lot Of Trouble”? 

Popcorn Prospecting isn't easy... but it works! A well done video, CD, or information booklet will disturb the prospect. The multiple letters and popcorn provided make an impression on prospects and warm them up.
to the phone call you will soon make when you attempt to schedule an appointment.

Telephone Script... Two days after the prospect receives your final letter, it’s time to phone for the appointment. The script we recommend has been proven over time, so we encourage you to not cut corners or modify it in any way.

It is important that you practice this script until you can deliver it in a relaxed and comfortable manner. One of the keys to Popcorn Prospecting is that it should never put pressure on the prospect or yourself.
Use this approach consistently, and more than enough prospects will agree to allow you to stop by.

You Have Three Selling Opportunities With Every Prospect
Although results vary, agents have reported getting as many as one appointment for every three videos or CDs that they send to prospects.

Keep in mind that even the people who don't agree to your initial appointment request may still be good prospects. Many will allow you to stop by to retrieve your video or CD. This may present you with a second opportunity for an appointment.

When you pick up your video, you can ask leading questions that might ultimately lead to a selling appointment.
Leading Questions

When you are not able to schedule an appointment, try to arrange a time to retrieve your videos. Once you are in front of the prospect, you can use these leading questions to start a conversation and generate interest.

"Mrs. Prospect, would you mind telling me what it was that prompted you to answer my advertisement and request my video presentation?"

"Mr. Prospect, would you mind giving me some feedback regarding how to improve my CD-Rom presentation? (Assuming the prospect says "yes") In your mind, what questions were left unanswered, or which were the topics where more information should have been provided?"

"Mrs. Prospect, would you mind helping me improve my video presentation? (Assuming the prospect says "yes") Of the information presented, what did you find of least importance to you? And, what would you consider to be the most important information presented?

"Mr. Prospect, when we spoke on the phone the other day you didn't have any interest in learning more about how I help people address their financial concerns. Was that because you are too busy or because you don't believe there is any room for improvement in your situation?"

You should also maintain a database that includes the names of all prospects that requested a video but would not grant you an initial appointment. Three to six months later you should phone them with the offer of a presentation on another topic.
"Hello Mrs. Prospect, this is Doug Warren.

I'm the person that sent you that video on annuities, (pause) along with that little bag of popcorn.

Do you remember?

(People always remember receiving the popcorn.)

The reason I am calling is because I just got a new video that does a pretty good job of explaining Medicaid and I thought of you.

Could I mail you a copy?

I think you will find it very informative."

Popcorn Prospecting Summary

If you’re looking for a prospecting method that is simpler and involves less work, then this approach isn’t for you. But please keep in mind that while you may not be interested, there are a great many prospects who are interested in receiving a free video, CD-Rom or information booklet.
Wayne’s World – 100 Days With The World’s Best Annuity Salesman

If you read this book’s preface you know that from October 2002 through May 2003, I spent a good part of each working day following around one the top annuity producers in the country.

His name is Wayne Plemons and he lives and works in San Diego, California.

After spending over 100 days observing Wayne I am convinced that he just may be the best annuity salesman in the world.

I know that’s a pretty big claim. I acknowledge that there are other annuity producers (not many) who actually sell more annuities each year then Wayne does. And, I realize that if I spent the same amount of time with some of these other top annuity producers I might change my mind.

But let me tell you why I think I might be right about Wayne being the best.

In the 100 days that I spent with him he had a good number of closing appointments with prospects … and he never failed to get a sale!

He did have some preliminary meetings with clients that did not turn in to sales, but this was as often do to the fact that Wayne eliminated them as potential clients before ever giving them the opportunity to become a client.

What a batting average!… He was hitting 1,000 on closing appointments.

He is the best closer I have ever seen.

After 100 days of working with him I am convinced that if Wayne set his mind to it, he could personally sell in excess of $25,000,000 of annuity premium each year.
Instead he **ONLY** does about $8 to $10 million of annuity production a year.

This chapter is dedicated to letting you in on the **details** of how he does it.

---

**Overview**

Let me start by giving you an overview of Wayne and his operation.

Wayne started in the life insurance business as an agent over twenty years ago with Mutual of Omaha. He quickly established himself as one of their leading producing agents, and was soon given an opportunity as an agency manager. For several years, his agency lead the entire company in production.

Like many leading salespeople, Wayne gained his superior selling skills the hard way. He went on literally thousands of appointment and attempted thousands of closes.

He is extremely intelligent, so it wasn’t long before he figured out how prospects thought and what motivated them to buy.

About ten years ago, he became an independent producer and started selling annuities. He was one of the first producers to recognize the opportunities of approaching prospects to discuss the advantages of a Revocable Living Trust.

(See the chapter in this book titled The Living Trust Annuity Sale.)

At the height of his “Living Trust Marketing Phase” he had a system in place where he would conduct a seminar, six agents would do the preliminary ground work with the prospects, and ultimately bring Wayne in when it was time to discuss the new client’s investments. During this period, Wayne would consistently write $6,000,000 to $10,000,000 of annuities each year.

This was a great time, because most prospects had never heard of a Living Trust and once they learned about them they wanted one.
As good as business was, Living Trust marketing organizations were springing up all over, and Wayne could see that the day was coming when most of the affluent prospects that he targeted would already have a living trust.

So several years ago, he decided to move his family to San Diego and develop a new way of marketing annuities.

One of the first things he did after moving was to determine that from that point on, prospects would have to come to his office.

He leased a small but very nice office in a professional office building and spent $40,000 to furnish it with expensive furniture and artwork.

Wayne believes that image is an important element of success.

“When you go to a prospect’s house, they look at you as a salesman. When the prospect comes to your office, they look at you as an advisor. And when the prospect comes to the office that you spent $40,000 to furnish … they look at you as an expert.”

A prospect visiting Wayne’s office can’t help but to be impressed and not just because of the first-class surroundings.

Wayne shares his office with an estate planning attorney who is also a Certified Public Accountant.

It’s all very impressive. But it can also be discouraging to the reader. It would be difficult if not impossible for most producers to duplicate the image that Wayne’s office creates in the mind of the prospect.

But here is a fact I am convinced of… the nice office, the $40,000 furnishing, the attorney, don’t really matter!

Wayne could probably sell as many annuities, maybe more, if he didn’t have an office, and instead worked out of his house and conducted appointments in the prospect’s home.
He would just have to work harder and see more prospects.

How can I be sure of this? - because that when things are slow or when Wayne needs an extra $50,000 to have a cabana built next to the pool on his million dollar home, or so that he can take his family on a cruise, he will jump in his car, drive up to Fresno and visit some old clients. In a few days he’s home with a handful of annuity applications.

The Seminar

Once Wayne agreed to allow me to follow him around for a couple of months, he told me …

“I have a lunch seminar tomorrow and I am expecting about 30 to 50 people. Be at the restaurant by 11:00 because I want you to introduce me and my attorney.”

When I asked him what he wanted me to say he said …

“I don’t know but I will think of something.”

I have done plenty of public speaking in the past so it really doesn’t bother me, but I usually like to know what I am going to say so that I can have a little time to prepare.

Later in the chapter I will provide plenty of details regarding how Wayne promotes and runs his seminars. For now, I think it would be best if I tried to give you a feel for what went on in this seminar.

Wayne chooses to host his seminars in nice restaurant at locations likely to be familiar to his targeted prospects.

He starts his lunch seminars at 11:30. He tries to keep the length of the seminar at about 90 minutes. Food is served afterwards.
He tries to arrive at least an hour before the seminar is scheduled to begin so that he can make sure the tables are set up correctly, his equipment is working properly, and the restaurant staff knows what he expects from them.

He is very creative, so it is not unusual for him to wake up at 2:00 AM the day of a seminar and change twenty or more slides.

This particular day he was making last minute changes, so he didn’t arrive until a few minutes before the seminar began.

He handed me a rough draft of what he wanted me to say during my introduction and said, “Let’s get started.

My actual introduction that first day was pretty brief. Over the next 100 days, I did the introduction at about ten or more seminars. What follows is pretty close to what I said …

“No go ahead and get started. My name is Doug Warren and I would like to welcome you to Advanced Estate Planning’s educational workshop… The Seven Steps to Senior Security.

“Allow me to take a few moments and give you a little background information.

“First and foremost – it is extremely important for me to explain that AEP is a retirement planning firm. They are not a stock brokerage firm, insurance agency, or other entity that pushes a particular product. – They help their clients develop and implement a plan designed to meet the client’s objectives. Ladies and gentleman, that is the most important thing you need to remember about AEP.

“They are members of the Better Business Bureau.

“They have over 75 years of combined experience assisting people with their concerns in the areas of retirement, tax, financial and estate planning.
Their Corporate office is located right here in San Diego at the corner of Camino Del Norte and World Trade drive.

Over the years, while working with clients, AEP has become pretty familiar with their clients' top concerns. See if you don't share in some or all of them.

**High on the list is taxes.** Not just income taxes, but taxation of social security, capital gains tax, and estate tax.

**Having enough income.** Many seniors just don't have enough income so that they can enjoy themselves and do the things that they want to do.

**Safety.** Protecting savings from losses. Certainly important.

**Probate.** Not just the cost. But also the delays and loss of privacy.

**Investment losses**

Here is a big concern – **Catastrophic Health Care Cost.** How many of you are concerned with that?

**IRA or 401(k) tax and distribution mistakes.**

**Running out of money during your lifetime.** You know, believe it or not, this is a common concern of almost every senior, regardless of how much wealth they have. AEP has clients who are in their 80s and have $3 or 4 million in assets, but are still scared to death that they are going live longer then their money will last.

And, there is also the concern regarding the **loss of pension income at the death of a spouse.**

Now my guess is that there isn’t a person here today that doesn’t share in at least one of these concerns.
AEP’s workshop has been developed to show people the necessary steps that must be taken if these concerns are to be addressed. Let me quickly go through each step.

**First**, and this is more important then it may appear - You must know what it is that you want to accomplish. You must know what your goals and your objectives are. Have any of you ever taken a cruise? Great fun, right? But I will bet that you didn’t just wake up one day and say “Honey, let’s pack our bags, go down to the harbor, and hop on a cruise ship”, did you? Of course you didn’t. You first decided on a destination, then you planned and then you made the necessary arrangements.

I know that my cruise ship example sounds pretty silly. No one would ever think of approaching a vacation that way, but you know… it is a sad but true fact that most people spend more time planning a two-week vacation then they ever spend planning their future financial security.

**Step #2.** You must understand the impact of taxes. Income tax, tax on social security, estate taxes and all the other taxes combined will have the single greatest impact on whether or not you will be able to accomplish your objectives.

**Step #3.** You must prevent IRA and 401(k) tax mistakes. Many of you have a good percentage of your assets in these qualified plans. You must be certain that you avoid mistakes that can increase the taxes on your retirement plan distributions.

**Step #4.** You must protect against catastrophic losses.

**Step #5.** Protect your estate from probate fees, taxes, conservatorship and the poor judgment of your heirs.

**Step #6.** Avoid market risk, while improving returns. The last part of that statement is critical. After all, anyone can avoid risk. Just bury your money in a tin can. The key, though, is to avoid risk and improve returns.
And, **Step #7.** This is the most important step. You must be willing to make decisions and take action.

Now folks, these are the steps that you must take if you are to address the concerns that we spoke about earlier. There is no avoiding these steps. It is a process that you must all go through.

We think our workshop is a good place to start.

I would like you all to turn your attention to the gold-colored sheet that is in your information packet. After the workshop has concluded, your meal will be served. At that time, today’s speakers will come around the room to answer your questions and talk with you about the topics of interest shown on this sheet. The topics shown on this gold sheet correspond to the primary topics which will be discussed during the workshop. If you have a question, circle the related topic. That way, our speakers will know what you would like to discuss.

Now, I am going to ask you to all help me to get things started by welcoming Wayne Plemons, the president of Advanced Estate Planning.”

Wayne came to the front of the room. He was dressed in a pair of slacks and a short-sleeved shirt. I would describe his appearance as casual but neat. This is how he dresses for both his workshops and appointments with clients. In fact, I never once have seen Wayne in a suit or wearing a tie. Often during a seminar, he will point to the spot where a tie would be and say …

“If you think it’s more important what I have hanging around my neck here (then he would change the location of his hand so that it pointed to his head) then what I have up here, I don’t want you as a client.”

Once Wayne got started talking, he would continue at a machine gun pace for about an hour.
Unfortunately, I can’t give you a script because Wayne never works from one. But I have included all of the slides that he used for an entire workshop that he conducted in 2002.

Please Note: A PowerPoint presentation file containing the following slides is included with the Advanced Annuity Selling Strategies Marketing Toolbox. The file is titled “Financial Planning and Asset Protection Strategies Seminar.”

**Savings of $72,000**

You give me $1

and I give you $100

_HOW LONG WOULD YOU DO THAT?_

**Financial Planning and Asset Protection Strategies**

**Planning Is The Key!**

You need the _proper key_ to unlock the door to your financial security!

As each key is unique to a specific lock, your personal financial security can only be accomplished with “Proper Planning” to match your unique circumstances and concerns.
Planning With The “Right Professionals” Is Just As Important As The Planning Itself!

Who Pays The Top 10% pay \( \frac{2}{3} \) While 90% Only Pay One Third!

Top 10% of Taxpayers Should Nearly Two-Thirds of the Income Tax Burden

Your Tax Picture

Quote From Arthur Godfrey:

“I’m proud of paying taxes... the only thing is I could be just as proud for half the money!”
"There are 2 systems of taxation in our country:"

"ONE FOR THE INFORMED"  "ONE FOR THE UNINFORMED"

United States Supreme Court Justice Learned Hand (1872-1961)

TAXES
A review of the 1997 Tax Payer Relief Act

- Estate Tax Relief
- Capital Gains Tax Reform
- Personal Residence Exclusion

1997 ESTATE TAX CHANGES

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>$625,000</td>
</tr>
<tr>
<td>1999</td>
<td>$650,000</td>
</tr>
<tr>
<td>2000</td>
<td>$675,000</td>
</tr>
<tr>
<td>2001</td>
<td>$675,000</td>
</tr>
<tr>
<td>2002</td>
<td>$700,000</td>
</tr>
<tr>
<td>2003</td>
<td>$700,000</td>
</tr>
<tr>
<td>2004</td>
<td>$850,000</td>
</tr>
<tr>
<td>2005</td>
<td>$950,000</td>
</tr>
<tr>
<td>2006</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>

Estate Tax Relief

The capital gains tax was capped at 28% prior to the 1997 tax reform act.

Now the capital gains tax is 20% for most people.

(Planning can provide for a rate as low as 10% in some circumstances.)

Capital Gains Tax Reform

Personal Residence Exclusion

In the past, anyone over age 55 had a one-time exclusion of $125,000 on the sale of their personal residence, if they didn’t purchase a new home within two years.

The 1997 act exempts $250,000 for a single taxpayer, and $500,000 for married with no age minimum.

The “one time” exclusion was also removed from the code and replaced by a “once every two years” exclusion.

TAX ACT OF 2001

Page 208 of 242
**Death Tax Free? Really**

Estates with deaths occurring in the following years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Exclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>2004</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>2006</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>2009</td>
<td>$3,500,000</td>
</tr>
</tbody>
</table>

The top rate - reduces to 50% in 2002 and then drops one percentage point to 45% in 2007.

---

**Short Lived Relief?**

- The law eliminates federal estate taxes one year only - 2011... then law "sunset".
- Will cash strapped states see federal tax reductions as opportunity to fill the void?
- New law is written on paper not concrete.
- Will estate tax be replaced by capital gains tax?

---

**2001 Tax Law**

Starting in 2001 the unlimited cost basis step-up is lost.

<table>
<thead>
<tr>
<th>OLD</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Capital Gains Tax Due</td>
<td>Capital Gains Tax Due</td>
</tr>
<tr>
<td>Stepped Up At Death</td>
<td>NO Step Up At Death</td>
</tr>
<tr>
<td>$3.5 Million Value</td>
<td>$500k + $1.5 Million Limit</td>
</tr>
<tr>
<td>$500k + $1.5 Million Value</td>
<td>Capital Gains Tax Due</td>
</tr>
</tbody>
</table>

---

**New IRA or 401k Minimum Required Distribution Rules**

What are these new rules?

- When do they become effective?
- Do I have a choice?
- How do they help me?
- What must I do?

---

**The New Rules**

- Allows smaller mandatory withdrawals.
- One year pay-out at death may no longer be required.
- Allows someone who is now age 70 1/2 to change what was IRREVOCABLE
- Substantial tax savings

**With Proper Planning!**

---

**The New Rules Effective Dates:**

- IRA's - May start with your 2001 MRD
- Other Qualified Plans (Keogh's, 401(k)'s) - Plan amendment required

Many plans offer only one form of distribution at death!
**Taxes on Retirement Income IRA, 401K, TSA, 403B, & 457**

You have $1 Million Dollars in your plan...

Your child ends up with only a fraction!

**How Can You Prevent This From Happening?**

- Proper Custodian
- Plan Document Rules
- Distribution Customization

---

**Stretch Out Your IRA Distribution**

---

**Results New MRD Rules Can Have**

<table>
<thead>
<tr>
<th>Old MRD</th>
<th>New MRD</th>
<th>Difference</th>
<th>TAX</th>
<th>SAVED</th>
</tr>
</thead>
<tbody>
<tr>
<td>$49,027</td>
<td>$36,927</td>
<td>$12,100</td>
<td>$4,477</td>
<td></td>
</tr>
<tr>
<td>$552,291</td>
<td>$48,261</td>
<td>$464,030</td>
<td>$4,821</td>
<td></td>
</tr>
<tr>
<td>$57,892</td>
<td>$44,084</td>
<td>$13,808</td>
<td>$5,108</td>
<td></td>
</tr>
<tr>
<td>$62,441</td>
<td>$48,261</td>
<td>$14,180</td>
<td>$5,246</td>
<td></td>
</tr>
<tr>
<td>$67,744</td>
<td>$52,559</td>
<td>$15,185</td>
<td>$5,648</td>
<td></td>
</tr>
<tr>
<td>$72,910</td>
<td>$57,513</td>
<td>$15,397</td>
<td>$5,496</td>
<td></td>
</tr>
<tr>
<td>$78,379</td>
<td>$62,577</td>
<td>$15,812</td>
<td>$5,850</td>
<td></td>
</tr>
<tr>
<td>$84,147</td>
<td>$68,095</td>
<td>$16,052</td>
<td>$5,994</td>
<td></td>
</tr>
<tr>
<td>$90,189</td>
<td>$75,967</td>
<td>$14,222</td>
<td>$6,809</td>
<td></td>
</tr>
<tr>
<td>$96,545</td>
<td>$80,436</td>
<td>$16,112</td>
<td>$5,961</td>
<td></td>
</tr>
</tbody>
</table>

$712,588 $564,638 $147,950 $54,741

---

**The Power of the New MRD Rules**

**If You Take Action**

**Amount Passed to Heirs**

<table>
<thead>
<tr>
<th>Old</th>
<th>New</th>
<th>Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>$551,338</td>
<td>$1,325,715</td>
<td>$774,377</td>
</tr>
</tbody>
</table>

**Income Received by Heirs (Ages 48 - 70)**

<table>
<thead>
<tr>
<th>Old</th>
<th>New</th>
<th>Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,136,835</td>
<td>$2,999,284</td>
<td>$1,862,449</td>
</tr>
</tbody>
</table>
**When Heirs Reach Age 70**

<table>
<thead>
<tr>
<th>Old</th>
<th>New</th>
<th>Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50</td>
<td>$4,072,125</td>
<td>$4,072,125</td>
</tr>
</tbody>
</table>

With the same income stream to your heirs, funds received under OLD MRD depletes the account to ZERO at age 62.

**MMMM!!! Let me think which is better!**

**Break the Capital Gains Lock!**

With Proper Tax Planning

---

**Male: age 69, Female: age 65**

- **Asset Value:** $1,000,000
- **Cost Basis:** Zero

**Choices**

1. Pay $200,000 Tax
2. Remain Locked to Asset
3. Proper Planning

---

**Comparison - $1 Million Asset**

<table>
<thead>
<tr>
<th></th>
<th>Do Nothing</th>
<th>With Tax Exempt Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Income</td>
<td>$18,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Lifetime Income</td>
<td>$230,000</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Income Guarantee</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Capital Gains</td>
<td>$200,000</td>
<td>$0</td>
</tr>
<tr>
<td>Estate Tax</td>
<td>$500,000</td>
<td>$0</td>
</tr>
<tr>
<td>Heirs</td>
<td>$500,000</td>
<td>$1,900,000</td>
</tr>
<tr>
<td>Asset Protection</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Family Foundation</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Tax Deduction</td>
<td>$0</td>
<td>$159,540</td>
</tr>
<tr>
<td>Total Transfer</td>
<td>$500,000</td>
<td>vs. $2,500,000</td>
</tr>
</tbody>
</table>

---

**CASE STUDY**

- **Asset:** $1 million
- **Tax Exempt Trust:**
  - **Tax Deduction:** $159,540
  - **Total Personal Income:** $1,000,000
- **N.U.T.S. - Plan**
  - **$1,000,000 Tax-Free Cash**
  - **Total Personal Income:** $1,000,000

**N.U.T.S. - PLAN**

(No Unnecessary Tax Spent)

- **Increase Your Income**
  - (receive more tax-favored cash flow)
- **Reduce Taxes**
  - (income, capital gains, gift, and estate tax)
- **Leave More Tax-Free Wealth to Heirs**
**Do You?**
- Posses Highly Appreciated Assets
- Want Asset Protection
- Desire to Transfer Wealth to Heirs
- Have Concerns About Estate Tax
- Look for Ways to Reduce Your Income Tax Burden and Increase Personal Income
- Want to Leave...
  - a Legacy,
  - Some Legacy,
  - Proof You Were Here

"What man fears is not so much extinction, but extinction with insignificance."

---

**Trust, Trust, & More Trust**
- Living Trust, (A/B, QTIP)
- Wealth Transfer Trust
- Generation Skipping Trust
- Charitable Remainder Trust
- Qualified Personal Residence Trust (QPRT)

---

**The Living Trust**

---

**What Is Probate?**
Probate is a legal procedure that supervises the administration and distribution of an individual's estate (assets) after death.

---

**Your Estate Will Be Probated When You Die... With Or Without A Will**
A Will Is An Engraved Invitation

What do you do in the probate court?
- Provide a forum for contesting the will
- Prove the will is legal
- Pay off creditors
- Appraise and inventory your assets
- Distribute your assets
- Change the property title to the beneficiary

Why Should We Avoid Probate Court?
- Probate Can Be Very Costly
- Probate Creates Long Time Delays
- Probate Is A Gross Invasion Of Your Privacy

PROBATE DIAGRAM
(To Future Value)

Without Estate Planning
- Gross Estate $1,900,000
- Second Death
- Probate Fees $72,000
- Beneficiaries $1,828,000

With Estate Planning
- Gross Estate $1,900,000
- Second Death
- Beneficiaries $1,900,000

Federal Gift And Estate Tax Exclusion = $1,000,000

3 Million Dollar Estate Using $1,000,000 Exemption

YOU OWE $780,800!

Will I Still Have Full Control Of My Assets Once I Transfer Them To My Trust?
- Yes, you maintain full control of all your assets.
- Anything you can do now, you can do after you have a trust (buy, sell, encumber, or trade).
- The agreement can be amended, altered or revoked at any time during your lifetime.
**PROPER USE OF TRUSTS**

- Can Avoid The Unnecessary Expense Of Probate
- Can Eliminate The Unnecessary Time Delays Of Probate
- Can Maintain Your Privacy
- May Help Solve Capital Gain Tax Problem
- May Help Reduce Or Eliminate Federal Estate Taxes
- May Help Provide Peace Of Mind

---

**CONSERVATORSHIP**

1. **WHAT IS IT?**

   This is an expensive and time consuming legal procedure to protect your assets if you become incapacitated. The estate MUST be placed in conservatorship and the court appoints another individual to act on your behalf in the management of your personal and business matters.

   *It may be necessary to petition the court in order to handle all transactions on behalf of the person incapacitated.*

---

**Problem Solving Using the Tax Code**

Mike and Janet Wannemuehlers are ages 64 and 63 respectively. They own the following assets:

- **Personal Residence** $440,000
- **Cabin and Land** $430,000
- **IRA's** $355,000
- **Stock** $150,000
- **CD's** $100,000
- **Mutual Funds** $71,000
- **Personal Property** $31,000
- **Life Insurance** $50,000
- **Money Market** $31,000

**Total Estate** $5,741,000

---

As stated earlier, Mike and Janet have an estate valued at $1,715,000 and the exemption will, more than likely, be greater than this amount by the time the second spouse dies.

---

**Estate = $5,500,237**

Will the exemption be greater?

- **6%**
- **20 years**
- **Female Age 63 Life Expectancy = 20.49 years**
Mike knows he will pay income tax on his IRA distributions

He didn’t know that the IRA might be taxed two more times!
• Estate Tax - 0 to 55% (depending on year of death)
• Income Tax as Received

**One Possible Result: Over $300,000 Tax on IRA**

With proper planning...

All estate tax could be avoided.
Saving $834,704 to $1,565,930

The IRA tax deferred may be continued under the new RMD rules.
Saving over $300,000

No capital gains tax on the sale of the cabin, stocks and mutual funds.
Saving $120,000

Janet would not have to worry about the nursing home expense.
Saving $4,000 per month

What it took a lifetime to build can be destroyed in a few short months without proper planning.

Improper Planning
Cost Mike and Janet Between $834,704 and $1,565,930

Possible Other Problems?

Their son Adam was a happily married young man when Mike and Janet had their living trust drafted. But as time went on...

Adam and his wife Sue grew apart and began to have problems.

Sue had an uncle who was a divorce attorney.

They filed for half of everything including the $1,567,153 Adam received from Mike and Janet.

Divorce, Lawsuits, Creditors, and the IRS?

• What if a divorce can take what you left for your heirs?
• What if you leave everything outright to them and they are sued for $250,000 and lose the suit?
• What if your child starts a business that fails and the creditors come after them?
• What if the IRS comes after them?
• Is there a way to protect your heirs from this ticking time bomb?
Yes there is with proper planning.
The question you should ask yourself NOW...

"Do I have anything in common with Mike and Janet Wannapaytax."

Where Most Advisors FAIL Their Client!
Most advisors put a plan together based on your financial statement and how the numbers fit.
Thay then wonder why you do not implement the plan.
While we see how the numbers fit, we DESIGN YOUR PLAN based on your beliefs, values, and concerns.

First we take care of #1...You!
We complete an income tolerance test on your estate based on your current situation and desires.
This will make sure you have enough income to last you for life with built in cost of living adjustments.

Then we do an income tolerance test with the recommended plan to make sure you still have enough income to last you for life.

The Important Thing Is “You Must Plan”
Most People Don’t “Plan To Fail” They Simply Fail To Plan

Why should you pay half of what you worked a lifetime for to estate tax, capital gains tax, or income tax on your IRA?

The Four Beneficiaries of Family Wealth
• The First is You
  From the remaining three, you can choose ANY TWO!
• Your Heirs (Inheritance)
• Government-Directed Social Capital (Tax)
• Self-Directed Social Capital (Charitable Gifts)
  Keep more of what you earn
  Leave more of what you keep
  CONTROL the part you CAN’T KEEP

<table>
<thead>
<tr>
<th>Qualified Personal Residence Trust (QPRIT)</th>
<th>Using Your Unified Credit Today</th>
<th>A/B Revocable Living Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wealth Transfer Trust</td>
<td>Pension, 401K, &amp; IRA Distribution Planning</td>
<td></td>
</tr>
<tr>
<td>Properly Structured Giving Plans</td>
<td>Tax Deductible Methods To Remove Assets From Your Estate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Family Foundations</td>
<td></td>
</tr>
</tbody>
</table>

Strategies we use for “Proper Planning”
Please Note: A PowerPoint presentation file containing the following slides is included with the **Advanced Annuity Selling Strategies Marketing Toolbox**. The file is titled **“Financial Planning and Asset Protection Strategies Seminar.”**

While Wayne was blowing through these slides, I couldn’t help but to think that there was no way that the audience could understand or remember any of it.

I questioned him about this later. His response was …

="It doesn’t really matter how much they know by the end of the seminar. The only thing that is important is that they realize how much I know!"
Getting the Appointment

There are a lot of annuity producers who are able to put on a good seminar. Maybe even some who can do a better job than Wayne. But, what determines the success of a seminar is how many appointments you get. And here is where Wayne is an absolute master.

First, it’s important to understand that everything that Wayne does during the seminar contributes to creating an impression in the prospect’s mind that they were truly fortunate to have an opportunity to listen to Wayne and the attorney.

Every seminar attendee is given an opportunity to have a one-hour free consultation. The assumption is that everyone will want to take advantage of this, so Wayne tells his audience that he has taken the liberty of setting prescheduled appointments. In the packet of information that each attendee receives is a sheet that contains the date and time when each person is scheduled to receive their free one-hour consultation.

At the end of the seminar Wayne directs the prospect to check the “Confirmation Box” on the form if they wish to keep the prescheduled date and time. He directs them to check another box on the form if the prescheduled date and time are not convenient. He tells them that someone from his office will call and confirm an alternate time depending on his schedule. There is also a spot on the form where the prospect can indicate if he or she does not want to take advantage of the free consultation.

Wayne believes that powerful psychology is working for him with this approach.

“The prospect has something of value - an already scheduled consultation with two experts who have agreed to take an hour out of their busy schedule and giving it to the prospect for free. By pre-scheduling the appointment, I put the prospect in a position where they must decide if they want to “throw away” something they have that is of value.”
Most people have a difficult time making up their minds. So it is not surprising to learn that a lot of people don’t do anything with the form at this point.

Once lunch is served, Wayne will go around the room to answer questions.

He has an extremely broad range of knowledge on most financial topics, but you will rarely hear him directly answer a question. His only objective at this point is to get them to come into his office, so he often responds to the prospect’s question with one of his own.

Here is an example of a typical exchange …

Wayne – “OK young lady (to a woman in her seventies), what burning question do you have that is more important then any other?”

Prospect jokingly – “When is the stock market going to start going up again.”

Wayne – “Why does that matter to you? You don’t have your money in stocks, do you?”

Prospect – “Well, yes I do.”

Wayne – “Oh no. How much have you lost over the last three years?”

Prospect – “Well, I am not really sure but my mutual funds are about 20% lower.”

Wayne – “You’re one of the lucky ones then. More and more, I am having people come to me after losing 30% or 40% of their savings.”

Then he will pick up the sheet with her prescheduled appointment and say something like …

Wayne – “We probably should get together as soon as possible. Let’s see, we have you scheduled for next Wednesday at 11:00.”
ADVANCED Annuity Selling Strategies

Prospect – “I can’t make it then, that’s my golf day.”

Now, most producers would go for another day. Not Wayne. Remember, his attitude is that an hour spent in his office is extremely valuable.

Here is the kind of thing Wayne would say …

Wayne – “So you always play golf on Wednesdays?”

Prospect – “That’s right, I never miss it.”

Wayne – “Well let me ask you this. Do you have any children?”

Prospect – “Yes, I have a son who lives in Oregon.”

Wayne – “If your son was going to be in town this coming Wednesday for only a few hours would you cancel golf to see him?”

Prospect – “Yes, of course I would.

Wayne – “Why?”

Prospect – “Obviously because my son is more important to me then playing golf with my friends.”

Wayne – “Do you plan on leaving your estate to him once you’re finished with it?”

Prospect – “Yes.”

Wayne – “Including your mutual funds that have been shrinking in value?”

Prospect – “Yes.”

Wayne – “Well, if your son is more important to you then golf… doesn’t it make sense for you to come see me this Wednesday so I can show you how to conserve as much of your estate as possible for the benefit of your son?”
Consider how difficult it would be for the prospect to say “no” to this question.

After watching him schedule dozens of appointments with people who were somewhat resistant to the idea, I have come to the conclusion that it isn’t so much the words he uses, instead, his success has more to do with his attitude.

I can sum this attitude up best like this…

He believes that no one can do more to help a person accomplish their goals better than he can. He is very busy. He places a very high value on his time. And he is not going to spend a lot of time trying to get a prospect to understand this.

The Free Consultation

Immediately after the seminar, letters will go out to all of the people who have appointments.

The letter confirms the time and date of the appointment and contains a map to the office. It also explains that if the prospect finds it necessary to reschedule the appointment, they must provide 24 hours advance notice if at all possible.

Wayne has few “no shows.” People do call to reschedule or cancel their appointment and most do it well in advance of the date of the appointment.

Upon arrival the prospect is ushered into a small conference room. Wayne (and sometimes the attorney) will soon join them.

After some brief small talk Wayne will start the interview by asking the prospect why they wanted to see him.

Some prospects will voice a particular concern they have or issue that they want to deal with. More often the prospect will indicate that they want to learn more about how Wayne might help them.
Regardless of what the prospect says, Wayne will usually proceed by telling the prospect that he needs to find out more about what is important to them. To help him discover this, he will ask the prospect to rank each of the following:

<table>
<thead>
<tr>
<th>1 = Not Important To Me</th>
<th>10 = Very Important To Me</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Income Taxes</td>
<td>Provide More Current Income</td>
</tr>
<tr>
<td>Lower Taxes Paid On Social Security Income</td>
<td>Protect Assets From High Long Term Care Cost</td>
</tr>
<tr>
<td>Passing IRA or 401k In The Most Tax Favored Way</td>
<td>Never Lose Any Money In Investments</td>
</tr>
<tr>
<td>Protection of Assets I Leave Heirs</td>
<td>Loss Of Pension Benefits At Death Of A Spouse</td>
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<tr>
<td>Providing For Grandchildren</td>
<td>Make Gifts During My Life</td>
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<tr>
<td>Provide For A Charitable Cause</td>
<td>Avoid Estate Taxes</td>
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<tr>
<td>Make Gifts During My Life</td>
<td>Avoid Capital Gains Tax</td>
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<td>Avoid Estate Taxes</td>
<td>Disinherit Someone</td>
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<tr>
<td>Avoid Capital Gains Tax</td>
<td>Provide For Children Of Prior Marriage</td>
</tr>
<tr>
<td>Disinherit Someone</td>
<td>Provide For Handicapped Beneficiary</td>
</tr>
<tr>
<td>Provide For Children Of Prior Marriage</td>
<td>Keep My Financial Affairs Private From Heirs</td>
</tr>
</tbody>
</table>

Most prospects will indicate that at least a couple of the items on this list are of great concern to them. This allows Wayne to direct his focus on the issues that disturb prospects the most.

Wayne talks in very general terms about some of the techniques that might be used to solve a particular problem. But he will seldom talk about specific solutions or products at this point.

He will deflect any request by a prospect for more details by saying that he has no way of knowing what the best solution might be to a
prospect’s **specific concerns** until he knows more about the prospect’s **specific situation**.

The exchange might go something like this …

*Wayne – “You indicate that lowering taxes on Social Security is of great concern to you. You should know that this is not a terribly difficult problem to solve. After reviewing a client’s tax return we calculate the amount of “Threshold Income” that the IRS uses to determine the percentage of Social Security which is taxed. Then we look for ways to change the “character” of the income that is adding to the “Threshold Income” until the tax on Social Security is reduced or eliminated.”*

*Prospect – “How do you change the character of the income?”*

*Wayne – “That depends on your specific circumstances… what investments you have, what your income needs are, and your overall planning objectives. The point is, I am confident that we could help you with this concern but to know for sure, and before I will make a specific recommendation, I would need more information.”*

At this point Wayne will usually obtain the prospect’s agreement to have him review her situation and come up with some specific recommendations.

If the client agrees (and the majority do) she completes the form below.

---

**CONFIDENTIAL PROFILE**

Name Client: ______________________________________________________
Name Spouse: ______________________________________________________
Client Age: _____ DoB ___/___/___  Spouse Age: _____ DoB ___/___/___
ASSETS:
Residence: Value $________
Mortgage Balance $________ @ _____%  Yrs Remaining _____  Basis $________
Other: _______________ Value $________
Mortgage Balance $________ @ _____%  Yrs Remaining _____  Basis $________
Other: _______________ Value $________
Mortgage Balance $________ @ _____%  Yrs Remaining _____  Basis $________

LIQUID DOLLARS:
Checking:  $________ @ _____%
$________ @ _____%
Money Market  $________ @ _____%
Account:  $________ @ _____%
CD's:  $________ @ _____%
$________ @ _____%

INVESTMENT ACCOUNTS:
Stocks: $________ Cost Basis $________
Mut Funds:  $________ Cost Basis $________
Mut Funds:  $________ Cost Basis $________
Annuities:  $________ @ _____%  Cost Basis $________
Annuities:  $________ @ _____%  Cost Basis $________
Bonds:  $________ @ _____%  Cost Basis $________

RETIREMENT PLANS:
Husband:  401k $ _______  IRA $ _______  Taking Distributions?  Percent?
Pension Income:  $ _______ Per Month  Continues At Death?  Percent?
Wife:  401k $ _______  IRA $ _______  Taking Distributions?
### LIABILITIES:

Current Debts  | Amount Owed $  
--- | ---  

### INCOME:

| Husband’s Social Security: $ | Spouse’s Social Security: $ |
| Husband’s Pension: $ | Spouse’s Pension: $ |

Combined Total Gross Monthly Income: $  
Income Needed Each Month: $  

### INSURANCE:

LTC Insurance:  
Life Insurance:  

| John Death Benefit Amount $ | Mary Death Benefit Amount $ |

### Children:

### HEALTH STATUS:

Husband:  
Spouse:  

### NOTES:

After collecting this information, Wayne will have his assistant schedule the second meeting with the prospect.  

He will also give the prospect the list shown below with any items that he wants the client to bring in the office for his review:
Items Needed From You

Name: _____________________________

Please Return Checked Items To Us As Soon As Possible

___ Tax Returns
___ Client Questionnaire
___ Copy Of Trust
___ Copy Of Will(s)
___ Copy Of Statements From Existing Accounts

Other

________________________________________________________________

Once all of the prospect’s information is collected, it is time to put together a plan that will address the client’s concerns.

The Client File Summary

The first step in developing a plan is to prepare a “file summary” that contains the prospect’s financial situation and concerns. This summary is prepared after an initial review of the fact finder, account statements, and tax returns. Often it contains notes regarding issues where additional client information is needed.

Below is an actual example but with the prospects’ names changed.

Bill and Betty Prospect
(File Summary)

NET ASSETS

Home Equity- Residence Fair Market Value = $500,000. Tax return indicates mortgage interest deduction of only $1,632.

Liquid Dollars- It appears that there is closer to a total of $77,000 (instead of the $56,256 that the client indicated on fact finder) in the
XYZ Credit Union. $20,400 is in checking and $56,255 is in six-month CDs. Statement shows recent yield on CDs was 2.9%. Fact finder indicates yield of 2.5%. CD matured on 10/13/02. It would appear that all balances can be moved with little if any penalty.

**Investment Accounts**- They have a total of $100,340 in non-qualified investments.

- AARP/Scudder Growth and Income (ACDGX) $53,657
  Statement indicates **cost basis of $64,012**
  Acct# 88-888999 (see Morningstar printout)

- Vanguard CA Tax-Exempt (VCITX) $30,165
  Statements do not indicate cost basis.
  Acct# 88-8888888 (see Morningstar printout)

- Vanguard 500 Index (VIVAX) $8,158
  Statements do not indicate cost basis.
  Acct# 99-00000000 (see Morningstar printout)

- Vanguard Value Index Fund (VI VAX) $8,359
  Statements do not indicate cost basis.
  Acct #66-55555555 (see Morningstar printout)

  **Total** $100,340

**Retirement Plans**- They have a total of $132,045 in three qualified investments.

- 457 Deferred Compensation (Bill)* Hartford Life $45,466
  Statement indicates **cost basis of $58,842**
  (No Morningstar report)

- **ROTH IRA (Bill)***
  AARP/Scudder Pathway Conserv Port-CL AARP $59,975
  Statements do not indicate cost basis.
  Acct#77-3333333 (see Morningstar printout)

- **ROTH IRA (Betty)***
  AARP/Scudder Growth and Income $26,604
  (see Morningstar printout)
Statement indicates **cost basis of $41,738**
Acct#33-8888888 (see Morningstar printout)

**It appears that both ROTH IRAs were converted from regular IRAs back in 1998 (???)**. Their 2001 tax return shows IRA distribution (line 15b) of **$25,776**. Their AGI is under $100,000 in case we want to recommend that they roll their 457 plan to an IRA and then convert their IRA to a ROTH.

**INCOME**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest from Credit Union</td>
<td>$3,257</td>
</tr>
<tr>
<td>Dividends from Mutual Funds</td>
<td>$1,323</td>
</tr>
<tr>
<td>Income from Pensions</td>
<td>$41,530</td>
</tr>
<tr>
<td>(taxable $39,925)</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>$14,707</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$60,817</strong></td>
</tr>
</tbody>
</table>

**PLAN CONSIDERATIONS AND POSSIBLE DESIGN**

**Consideration 1 - Top 7 Planning Priorities**
- Lower Income Taxes – 10
- Lower Taxes of SS – 10
- Passing IRA and 457 Tax Favored – 9
- Risk Free Returns – 9
- Avoiding Estate Taxes – 9
- Avoiding Capital Gains Tax – 9
- Protecting Assets Leaving to Heirs – 8

*(No other planning priority was given a higher score than five.)*

**Consideration 2** – Problem reducing the amount of SS that is subject to income taxation **due to amount of income from pension**. Adding ½ of SS income ($7,353.50) to the pension income ($41,530) would put them over the $44,000 threshold.

**Consideration 3** - Consider conversion of Bill’s 457 plan to an IRA and then to ROTH. Changing 457 to ROTH appears consistent with
their planning priorities. Furthermore, the fact that they were willing to convert approximately $100,000 IRA to ROTH in 1998 and pay the conversion tax is an indication of how strongly they felt about the value of the ROTH.

**Consideration 4 - Health problems** for both Bill and Betty would indicate short plan duration. His age is 69 (he has high BP and high Cholesterol). She is 64 (lung cancer in remission). 15 year plan duration might be reasonable.

**Consideration 5** - Bill will be age 70 ½ in 2/13/2004. MRD from 457 plan at this time.

**Consideration 6** – Bill and Betty have taken substantial losses over the past three years. Except for their Credit Union and Tax-Free Bond fund (total of approx. $100,000) all other investments were in stock funds ($230,000 today’s value).

---

**Wayne’s Recommendations**

It is not possible to provide specific details on how Wayne conducts a closing interview. Each appointment is different because every client is different.

However, there is one thing that Wayne usually says at the beginning of each closing interview…

“Over the past week, I have spent several hours reviewing your file. I took a long look at how you currently have your money invested and then I carefully considered the concerns you said that you had and what you listed as your goals and objectives. After this review I have come to some pretty specific conclusions about your present situation. I know that you came here today to hear my conclusions. But first, I have to ask you a question. Do you want me to be diplomatic or do you want me to be honest?”

Of course, every client chooses “honest”. And, Wayne is honest. Sometimes he can be brutally honest.
Based upon his analysis of the information collected on Bill and Betty’s fact finder, Wayne believes he can make three general recommendations that will help these clients achieve their financial objectives.

**Recommendation #1**

Wayne always advocates that all of his clients maintain a large emergency fund. He knows from years of experience in working with seniors that sooner or later they might need to quickly get their hands on a great deal of money.

**Wayne recommends that Bill and Betty establish an emergency fund of at least $35,000.**

**Recommendation #2**

From his discussions with these clients, Wayne knows that while they have confidence in the long term potential of equities, they are no longer willing to accept the shorter term losses that they know are a part of owning stocks. They have gotten to a point where they are not comfortable with any mutual funds, but because interest rates on CDs are so low, they don’t know what to do with their money.

In addition, one of the clients’ top objectives was to reduce current income taxes.

An indexed annuity would be perfect for these clients. It would allow the opportunity of having earnings that were linked to the future performance of a stock market index, and at the same time, it would eliminate losses associated with stock market risk. Plus, by repositioning their funds into an indexed annuity, they would defer current income taxes.

**Wayne recommends that they transfer the majority of their investment assets into indexed annuities.**
Recommendation #3

Another concern of these clients was to minimize the taxes on the qualified plan money that would be passed on to their heirs.

Wayne talks to them about “rolling” the 457 Deferred Compensation plan into an IRA and then converting that IRA to a Roth IRA. He tells them that they can convert a portion of the IRA to a Roth IRA each year until the entire balance is converted to the Roth IRA. By spreading the conversion over multiple years the client can spread the conversion tax over these years as well. He then shows them some conservative projections of what the balance in their Roth would grow to by the end of 10, 15 and 20 years. He explains that the balance in their Roth IRA will pass to their heirs income tax-free. The clients really like this idea.

He also believes that an indexed annuity would be appropriate for the Roth because the clients feel very strongly about protecting this money for their heirs.

Wayne recommends converting the 457 plan to an IRA, then gradually converting the IRA to a Roth IRA with the money being placed into an indexed annuity.

Presentation Technique

Wayne always spends a great deal of time analyzing and thinking about a client’s situation prior to meeting with them to make his recommendations.

Sometimes he will prepare an extensive written plan with many supporting documents and use them in the client presentation. Other times, the only presentation aid he uses is a yellow pad and pen.
With this particular client, Wayne developed a written plan using a “Multiple Bucket Retirement Plan” strategy.

(For more information on this strategy, please refer to the chapter in this book titled “The Multi-Bucket Annuity Sale.”)

---

Outcome

Bill and Betty followed all of Wayne’s recommendations. This resulted in the sale of annuities in a total amount in excess of $250,000. This amount is roughly what Wayne averages for each annuity sale.

---

Closing Technique

Like so many great salespeople, Wayne never pressures people into doing something they are not certain they want to do. Instead, he is so tuned in to a client’s concerns and objectives and he uses such logic in explaining his recommendations that he makes it very easy for clients to agree with him.

However, Wayne also understands that it can be difficult for people to make a decision so he is very good at helping them along.

Here is one of his all-time favorite closes that works 90% of the time for him…

“We have covered a lot of ground this morning and you have already agreed that my recommendations address many of your concerns. But over the years I have learned that helping my clients is a lot like cooking a big dinner with a lot of different courses. Some courses may cook slowly and you put these on the stove’s back burner. Some courses are faster to prepare and you usually cook these on the front burners. The goal is to have everything cooked just right and to have all the courses hot and ready at the same time. In looking over your
entire financial situation I see some “back-burner” issues that maybe don’t need to be addressed right away. But I also see some “front-burner” issues like the amount of risk your money is exposed to. Don't you agree that this is a “front-burner” issue and that it needs to be resolved immediately?

I am not exaggerating when I say that more than 90% of the time his clients say “YES”!

Processing and Tracking Business

One of the biggest differences that you often find between struggling annuity producers and industry leading producers like Wayne is the attention they pay to their pending business.

Wayne’s first rule is… never depend on the insurance company’s transfer department to stay on top of any money transfers. If money is being transferred directly from a mutual fund, bank CD, or other account into the annuity Wayne will have an assistant (or he will do this himself) phone the company where the money will come from and he will ask two questions:.

1). “Do you require a Signature Guarantee on this type of transfer?”

2). “What address should I use if I am sending you a Transfer Request Form via overnight mail?”

The last thing he wants to have happen is to send the insurance company the application and Transfer Request Form, have them sit on it for a few days (or weeks) until they send in to the company with the funds, have that company sit on it for a few days (or weeks) until ultimately they return it because it doesn’t have the required “Signature Guarantee.”

You also need to confirm the correct address to send the Transfer Request Form to, because it can be different then the address on the client’s statement.
Wayne makes certain that he has every form that’s needed and completed precisely as required before he sends it off.

Every application, with transfer request forms, is sent via overnight mail directly to the insurance company issuing the annuities. (He would send the Transfer Request Form directly to the company with the funds but that is not allowed.) He includes detailed instructions requesting that the insurance company’s transfer department immediately sends the Transfer Request Form via overnight mail to the address that he obtained.

Two days later he or an assistant will phone the insurance company and confirm that they received the forms. He asks if the Transfer Request Form was sent per his instructions. If the answer is “not yet,” he asks when it will be sent. He takes down the name of the person he spoke with and the date that person said it would be sent.

He will then phone back on the day after the promised date and ask the same person if the form was mailed as promised. Wayne will be all over the person if it hasn’t. He will give them a second chance but heaven help the person if they drop the ball a second time.

Wayne’s style isn’t to scream or use profanity but it isn’t a pretty sight to see how he handles these situations. He has been known to get the president of a company on the phone and tell him exactly what he thinks about his company’s “commitment to excellence.”

What is almost humorous is that Wayne has also been known to spend 30 minutes on the phone consoling a company secretary whose cat just died.

He is a very nice person to work with… just don’t screw up his business.

He uses the form below to keep track of his pending business. He normally checks this form at least once every three days.

|--------|-------|-----|---------|-----------|----------|--------|----------------|-------|---------|

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### ADVANCED Annuity Selling Strategies

<table>
<thead>
<tr>
<th>XXXX</th>
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**TOTAL** $74,735
Wayne makes a lot of money, and he loves annuity products that pay high commissions… but commissions are one of the last things he looks at when he is evaluating a new annuity that he is considering selling.

I once sat in on a meeting when a marketing VP from an insurance company came to Wayne’s office to tell him about a new product that was soon to be released. It had a unique commission structure and the VP kept trying to explain it. Wayne consistently interrupted him with questions that related to everything else but commissions.

Finally, after Wayne was convinced that the product …

*was good for his clients,*

*and was marketable,*

only then was he interested in learning about the commissions.

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**The Top Gun Club**

Because top producers know that one good idea can lead to million dollars in commissions, Wayne formed… **The Top Gun Club.**

This club consists of a handful of super annuity producers who live in different parts of the country. They get together for a two-day meeting, two of three times a year. These meetings are strictly for the purpose of exchanging ideas.

The club is very exclusive. While there are no stated requirements for membership, I doubt if a person would be invited to become a member unless he or she was doing at least $6,000,000 of annual annuity production.

In January 2003, I was invited to sit in on one of the Top Gun Club meetings being held in Las Vegas.

I will try to describe what took place at this meeting because I believe that forming similar (perhaps less exclusive) clubs or groups would prove
to be a tremendous benefit for any annuity producers who wanted to reach that next level of production.

The Top Gun Club operates informally, but there are a few rules and procedures that the members agree to follow.

**The first rule** is that they will not allow any insurance company or marketing organization to set the agenda or in any way control the meeting. They might invite a company representative (usually the president) to address the group for a limited period of time, but that will be the extent of the company’s involvement.

The members have been to plenty of meetings sponsored by annuity companies and marketing organizations. Most believe that 80% or more of the time spent at these meetings is a waste.

Companies drool over the opportunity to get in front of a handful of producers who collectively produce in excess of $40 or $50 million in premium each year. Many would gladly offer to underwrite the entire cost of the meeting… rooms, meals, airfare and all. But the members simply are not interest if it means losing control of the meeting’s agenda.

These super-producers take valuable time out of their schedules to hone their annuity marketing skills. They know that the best ideas are going to come from their fellow members!

**The second rule** is that none of the members are allowed to profit from the business that fellow members might do. Specifically, a member cannot recommend that the other members sell the annuities (or other products) of a particular company, and then get an override commission on the business that the other members place with that company.

The purpose of the Top Gun Club is to profit from the exchange ideas, not to profit directly from the other members’ business.

This is a very important rule, because if a member was allowed to earn an override commission, then the other members wouldn’t know if a
company or product was being recommended because it was truly great, or because a member might profit by making the recommendation.

Each member takes turns at organizing and moderating upcoming meetings.

Wayne happened to be in charge of the January meeting that I attended.

Usually the person in charge will reserve a large suite at the hotel for the purposes of hosting the meeting. Extra chairs are brought in, and the members casually sit around the room.

One of the first things that surprised me about the meeting was how many attorneys were in attendance. It seemed as if every member brought along one or more (one member had three) attorneys who either worked directly for the members or had some sort of mutually beneficial relationship with the member.

Every member had a lap-top computer and a couple of ZIP disks. The purpose of the ZIP disks were to allow the coping and exchange of computer files.

For the next two days there was a free flow of information and ideas.

Wayne had set seminar selling as the theme of this particular meeting. Every member was asked to bring their seminar PowerPoint presentation, invitations, handouts, promotional material and anything else that related to their seminar activity.

Each member would speak for an hour or two about his or her seminar activity. They would talk in length about all of the techniques they used to build their business through seminars. They discussed the various things they had tried that had worked and the things that had failed.

Every time someone would mention an invitation, slide, handout, form, letter, etc. that they used with success, the ZIP disks would be handed to the speaker (or their assistant) and copies of the item would be made for everyone.
Hours were spent discussing the smallest of details, for example, seminar invitations. Someone would say I tried a wedding style invitation and I got these results. Someone else would say I did the same thing but then I had the outside of the envelope stamped with this message and I got about 6% more RSVPs. Someone else would say I did the same thing but my results stank. Someone else would say did you include preprinted tickets? I found that by adding tickets I got …

It went on and on like this for hours.

During the breaks, I made it a point to speak with almost everyone in attendance and I asked them what they liked most about these meetings. The typical response was that they always came away from each meeting with dozens of ideas that they were confident would make them a lot of money or save them a lot of time. Plus, they knew that if they “borrowed” another member’s technique but didn’t get the results that they were expecting, they could always pick up the phone and ask the originator of the idea what it was that they were doing wrong.

Here I was, in Las Vegas, surrounded by people who were all making high six-figure incomes (at least two members net over one million dollars a year), so I was wondering when the partying was going to start.

The meeting broke for dinner that day around 6:00 PM but almost everyone was back in the room by 8:00 PM and the discussions continued until late into the evening. That’s how it went for the entire two days.

These people came to work, not to play.

As I mentioned earlier, to get in to the Top Gun Club you have to have a track record of selling annuities in amounts in excess of what the vast majority of agents sell. But there isn’t any reason why a group of agents who annually sell $500,000, or $1,000,000, or $3,000,000 of annuity premium couldn’t form their own clubs.

Most agents would find it extremely valuable to periodically discuss their marketing efforts with a group of like-minded peers.
Wayne’s World Summary

One of the things that drove me nuts while I was working with Wayne was how he changed things.

For every series of seminars he conducted, he made substantial changes in the slides. I don’t believe that he ever sent out an invitation where he didn’t make at least minor changes hours or sometimes minutes before the printer arrived. He even made dramatic changes in how he conducted his appointments.

I believe that there are two reasons why Wayne is always changing things …

First, he is very creative, so he constantly has new ideas that he wants to try. And, he usually continues to use the things that work exceptionally well.

Second, in my experience it is not unusual for creative people to get easily bored. Wayne knows he can sell $10,000,000 or more of annuities annually. Posting big production numbers is just not that much of a challenge for him anymore. I think he keeps changes his operation just to keep from getting bored.

I know that during the months I spent in his office I was never bored for a minute.

The Accidental Annuity Sale?

Even though I don’t know you, I sincerely believe that you can sell annuities (if you aren’t already selling them) or that you can sell more annuities (if you are currently selling them).

How can I be so sure?

Since 1987, thousands of annuity producers have called my company to learn more about our multimedia presentations. I have had individual conversations with scores of producers who sell annuities in every state in the union.
It is important for my business to find out everything I can about the techniques that they use to market their products. So I constantly ask questions and dig for as much information as a person is willing to share.

I have been around successful insurance and annuity producers all my life (my father started selling insurance when I was 12 years old) so I am confident that I can tell the difference between the “talkers” and the “big hitters.”

One conclusion that I came to from all of these conversations and the other research that I did for this book is that there is no single profile that fits the top producer.

There are sophisticated men and women who specialize in using analytical approaches to sell annuities to high-asset prospects. And there are agents you could categorize as “country folk” who are equally successful selling annuities at the “kitchen table.”

The market for annuities is extremely broad because the appeal of the product’s features and benefits are universal.

After getting to know many top annuity producers, I have too much respect for their skills then to go so far as to say that selling annuities is easy. But I also know that selling an annuity isn’t always difficult. Let me tell you a quick story about what has to be one of the easiest annuity sales that anyone has every made. The agent did so little “selling” that you could argue that he did not deserve the commission he was paid. I should know because I was the agent. Here is how it happened…

In 1995, many insurance companies first introduced indexed annuities. This influx of new products became the source of a great amount of new business for my multimedia production company. We were kept very busy producing both agent training and client video presentations. The insurance companies who contracted for our services realized that indexed annuities were so unique that it would be a challenge for agents to first understand them and then successfully explain them to their clients. Many of these companies decided that the entire training and marketing process could benefit from having videos produced that they could distribute to their agents.
We were fortunate in that more than a dozen of these companies turned to us to develop their presentations. From 1995 to 1999 we developed 26 different video presentations on indexed annuities for our clients.

Each one of these presentations required a voice-over narration. We have used the same narrator for every presentation that we have developed since 1989. His name is Keith and he is an independent contractor. When Keith first started doing narrations for us he was a relative unknown. Over the past ten years he has become very successful. You can hear his voice in a number of national television and radio commercials.

In 2000, I got a call from Keith. He said that he had just finished recording the script from another one of the indexed presentations that we had been working on for a client. He told me that he had a rather sizable amount of money in his SEP IRA which was currently invested in mutual funds. He was concerned about the volatility of the stock market and that he want to switch his entire SEP IRA balance to an indexed annuity.

I said OK, and the sale was made.

You see, Keith had recorded dozens of indexed annuity scripts that essentially contained the same message …

Stock market linked returns, without the risk of market losses.

He know that that was what he wanted. And because he had said it so many times during his recording sessions… he had sold himself!

I believe that any agent can sell annuities, and in great volumes, for one simple reason… annuities have unique features and benefits that clients want.

Dedicate yourself to explaining these features and benefits to your prospective clients and you can’t help but to sell more annuities.

Please let me hear about your successes.

Doug Warren, CLU
doug@salesart.com
www.SalesArt.com