

NO RISK??? – LOTS OF REWARD!!!

In visiting with a client several days ago (he owns a company where we manage the 401(k) plan), we discussed our meetings with his employees in which we reminded them that low prices in the stock market are the best time to buy. This is a time to increase one's 401(k) contribution so that one can take advantage of current pricing. But he then asked about a personal situation in which he had invested several hundred thousand dollars in 1999, had seen his values increase by over 20% in the first year, but has experienced nothing but decline since then so that he is now about 35% behind. We agreed that in his present situation, he is locked in to having to wait for the recovery in values that will come... we just don't know how quickly.

"But isn't there something out there," he asked, "where I could invest money with no downside risk and still benefit from the market rise when it happens?"

"As a matter of fact, there is such a product," I responded. 'It's called an Equity Index Annuity or EIA."

There are many formats for EIA's. In essence, they are fixed or guaranteed products issued by insurance companies that guarantee your principal but allow you to participate in any rise in the market based upon the performance of a stock market index such as the S&P 500. Here's how it works...

- You invest your money now and are guaranteed a nominal gain over a fixed period such as seven years. As an example, a guarantee might state that for every \$100,000 you invest, you will be worth a minimum of \$110,000 after seven years. That works out to about a 1.5% annual interest rate, but you cannot lose.
- The type of EIA I favor will value your account each year on a stand-alone basis on the contract's anniversary date. If the market is down, you've not lost anything. If the index is up, your formula is either a participation in the gain, such as 70% or 80% of the gain with no cap (the insurance company keeps the other 20% or 30%) or a 100% participation up to some cap such as 14% or 18% (the insurance company keeps any excess.)
- Each year's results are locked in. There can be no losses. After 7 years, you can be worth no less than 110% of your investment.
- These annuities will have surrender charges if you try to remove funds during the seven years. Some of the annuities will permit the annual removal of up to 10% of your value at no charge.
- As with all annuities, your gain is tax deferred until you remove funds. At the end of the seven years, you can do a tax-free rollover to a new annuity. *(Note: Any funds that are removed are considered to be gain first. Such gains are subject to ordinary income tax, with an additional 10% penalty tax due if the withdrawal takes place prior to age 59 ½.)*

For more information, contact us at 1-888-PLAN AHEAD or at info@vbcorp.com.