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Dear Clients and Friends:

Years ago I wrote a newsletter advising clients to bring in any fixed interest annuity policies they had bought from other insurance agents. It's time to renew the offer. Now that most of these contracts have reduced the crediting rate to the guaranteed minimum, which is typically 3%, investors should have their policies analyzed.

This includes all fixed interest annuities, whether used as an after-tax investment or for an IRA or 403(b) account.

I have a perfect illustration. One of my clients recently brought me an annuity policy for review. Her elderly mother bought the annuity in July of 2004 from a well-known life insurance company, paying a one-time premium of $45,000. As an inducement, the company added $5,000 to her account value and paid a combined interest and bonus rate of 15.6% the first year. Sounds pretty good so far, right?

Here's the catch. The surrender charge, which is not waived at death, starts at 25% in year one and gradually decreases to zero over fifteen years. In the meantime, the annual interest rate on the policy has been reduced to the guaranteed minimum of 3%.

There may be a large withdrawal penalty on the mother's death, so the solution is to annuitize (withdraw the full account value) in periodic payments over a five-year period, which the policy allows without any surrender charge! If the owner were in a high tax bracket, we could avoid taxes by sending the payments to a new annuity with a smaller and shorter surrender charge and a higher interest rate. But since she is in a low tax bracket, this is a great time to take out the earnings with a minimum of tax.

If you own a fixed annuity of any type, let me analyze it for you and I'll give you a report. You may be pleasantly surprised when you hear your options.

Regards,

Chuck

Charles M. Shackelford