March 2012

Dear Clients and Friends:

I've heard insurance agents say, "No one has ever lost money on a fixed annuity policy." That sounds good, but it's not true.

When we say your policy offers guaranteed benefits, we mean the benefits are an obligation of the company itself. If the company fails and your policy was issued in this state, the California Life and Health Insurance Guarantee Association steps in to back the policy, but you may still have a loss.

On all fixed annuity policies sold in California, the program will reimburse 80% of the first $250,000 you are owed. In other words, you may have to absorb a 20% loss, and no matter how much you are owed by the bankrupt company, the association won't reimburse more than $200,000, which is 80% of the maximum $250,000 figure.

Let's say John has two fixed annuities with Plummet Life Insurance Company worth $200,000 each, for a total value of $400,000. He thinks the annuities are "backed by the government" in case the insurance company fails, so he hasn't kept tabs on the company's rating. Now Plummet goes under and he discovers he'll only receive $200,000, a loss of half the total account value.

If you wonder about the safety of your own fixed annuity policy, feel free to give me a call. Policies can be exchanged on a tax-deferred basis, and there are a number of strategies to reduce your risk. For questions and answers about the insurance guarantee association, go to www.califega.org/faq.cfm.

Regards,

Chuck

Charles M. Shackelford