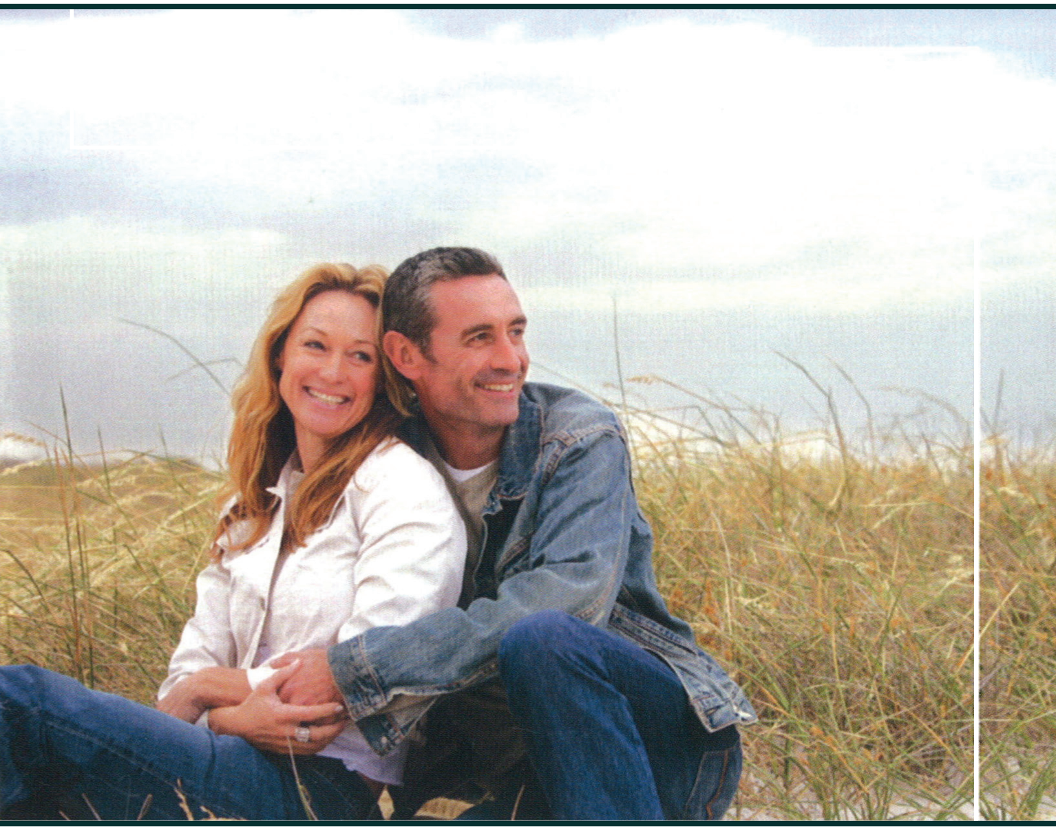
A Guide to Avoiding Common Annuity Mistakes



Tips and Strategies to Help You Make the Most of Your Hard-Earned Assets

This booklet authored by Personalized Brokerage Services and provided to you by Danial Fereydani.

**Annuities are designed to meet long-term needs for retirement income. They provide guarantees against the loss of principal and credited interest and the reassurance of a death benefit for beneficiaries. These guarantees are backed by the financial strength and claims paying ability of the issuing insurance company. Annuities frequently involve substantial charges such as administrative fees, annual contract fees, mortality and risk expense charges and surrender charges. Early withdrawals may impact annuity cash values and death benefits. Taxes are payable upon withdrawal of funds. An additional 10% IRS penalty may apply to withdrawals prior to age 59 ½. Annuities are not guaranteed by FDIC or any other governmental agency and are not deposits or other obligations of, or guaranteed or endorsed by any bank or savings association.*

***Note: This resource is not intended to provide comprehensive tax or legal advice, and it reflects the tax and legal rules and regulations in effect at the time of its publication.*

Annuities can be very powerful vehicles that can be used to address many individuals' financial needs. However, some annuity owners find themselves making mistakes that can undermine the effectiveness of their policies, and therefore, this booklet is provided to help you:

1. Have a clearer understanding of the annuity products and features available to you.
2. Learn strategies to potentially avoid paying unnecessary taxes.
3. Leave your loved ones more of your valued estate.
4. Potentially increase your retirement income by properly handling your annuity.
5. Avoid simple mistakes that could potentially cost you or your beneficiaries thousands of dollars.

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TIP # 1

Clearly define your needs before making your purchase.

In today's complicated financial world, one rule remains very simple - it's best to know what you're looking for before you actually buy.

There are a number of different kinds of annuities available, and each has its own unique features, capabilities, and benefits. Before sitting down with a financial professional to discuss whether or not an annuity is right for you, consider what the product would need to do in order to meet your personal goals or objectives. For example, ask yourself:

- What do you want to achieve with these assets?
- What access do you need to this money?
- What prior experiences may have influenced your future financial strategy?
- What foreseeable life events may be factors in determining the kind of product you purchase?

After reviewing your options with a financial professional, ask yourself if the given product matches up with your:

— Short-term financial goals & objectives

— Long-term financial goals & objectives

— Risk tolerance level

— Current and/or anticipated tax status

— Wishes for leaving a legacy to loved ones

In the course of your conversation, you are bound to have a number of questions about the product(s) you're considering. Don't leave any stone unturned - ask your financial professional to address any questions you may have, so that you may be assured that you have a thorough understanding of the product you're thinking of buying (or exchanging).

TIP # 2

Have a good grasp of the premium bonuses offered on annuity products.

Finding the best way to accumulate wealth for retirement can be challenging. Many individuals look to annuity products with premium bonuses to help their retirement savings. What does this mean? A 'premium bonus' is simply additional interest automatically credited to your annuity's value (per the conditions set by the issuing company).

For example, if you put $100,000 into an annuity with a 5% premium bonus, your account value would be credited with an additional $5,000 in interest. This bonus is credited by the issuing annuity company, and the crediting generally takes place in the first year. In some cases, any additional premiums you add to the annuity contract for a specified time period can also be credited with this bonus.

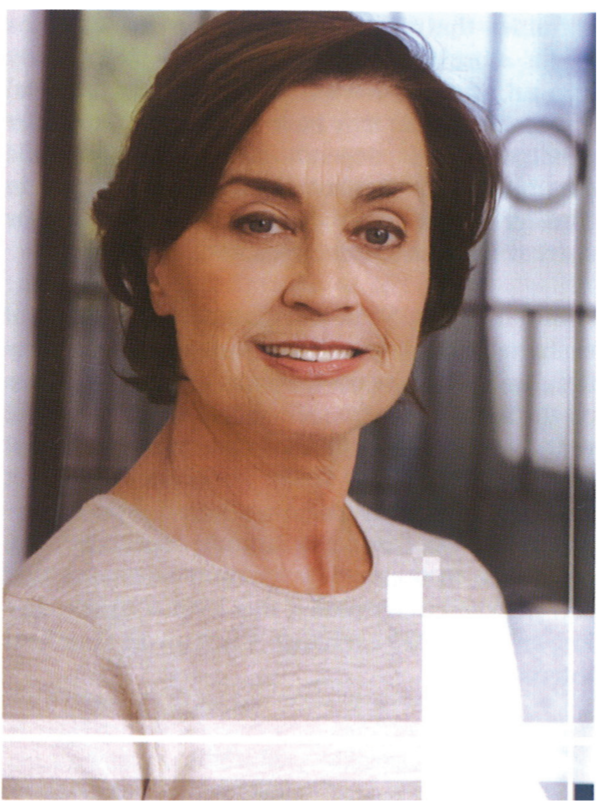
Initial Premium Paid:	**$100,000.00**
Premium Bonus:	**5%**
Interest Credited to Account Value:	**$5,000.00**

(• This hypothetical example is provided for illustrative purposes only.)

What's important here is that you understand the company's specific rules and guidelines as they relate to receiving maximum benefit of the premium bonus. For example, companies may require you to hold the annuity for a given length of time without 'cashing out' (also known as 'surrendering' your policy), or they may require you to take a specified payout option to receive the full premium bonus.

As you'd likely expect, the larger the bonus offered, the longer you may be required to hold the contract or take some form of income option. Bonus annuities may include higher surrender charges, longer surrender periods, lower caps, or other restrictions that are not included in similar annuities that don't offer a premium bonus. In many cases, the trade-off of the bonus for the longer term of the product may still be well worth it.

For instance, if your objective was to simply accumulate assets and pass them to beneficiaries over a period of time that aligned with the issuing company's requirements, the premium bonus offered by the annuity may be a very attractive added value. ■



TIP # 3

Pay attention to the renewal rate offered by your annuity.

Many insurance companies offer first year interest rates that are much higher than the 'going rate' of other vehicles. Following this first year rate, the rate thereafter (known as the renewal rate) may be considerably lower, but you may face several years of penalties or surrender charges if you cancel your contract or move your money to another annuity product.

Just be cautious here. If you see a rate that appears to be exceptionally high, do your homework. There are many factors that determine whether a particular annuity is suitable or 'right' for you, and a first year rate is not the only variable to consider. You'll also want to explore renewal rates, the length of term of the annuity, liquidity features (i.e. how you may access your money throughout the term), and other important factors.

Before buying a new annuity, investigate the interest rate protection features and look into annuities that give you the choice to 'lock rates in' for more than a single year. If you already own an annuity, have it reviewed by a financial professional. You may have passed any surrender penalties, and depending on your specific circumstances, it may be a wise decision to transfer to another product that better suits your current needs and objectives.

Many individuals never consider this idea of exchanging their existing annuities for new ones because they've heard they will have to pay taxes on the interest they've gained over the past several years. As long as you are following the rules set forth by the Internal Revenue Service, that's not true, and such an exchange may be possible -absolutely tax-free. An annuity specialist can assist you in reviewing important questions that can help you determine if this kind of exchange -known as a 1035 exchange - is truly in your best interest.

TIP # 4

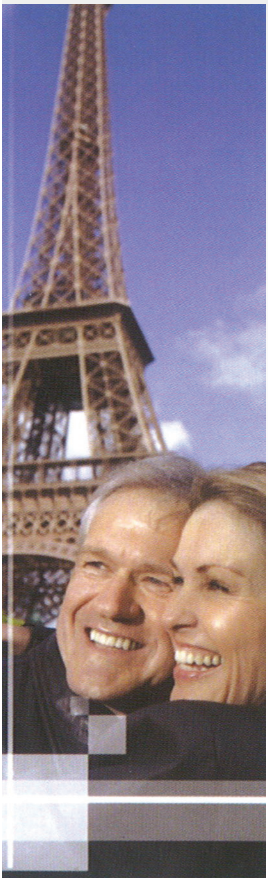
Avoid tax penalties when exchanging one annuity for another.

The 1035 exchange mentioned in Tip #3 refers to the section of tax code that allows individuals the flexibility to exchange one annuity for another without incurring any immediate tax liabilities. A 1035 exchange is most typically utilized when an annuity holder decides they want to upgrade one annuity to another, but they do not want to activate unnecessary tax liabilities that would typically be encountered when surrendering an existing annuity contract. Under IRC Section 1035, when one annuity contract is exchanged for another, the transfer is considered a nontaxable event if specific guidelines are met.

One such guideline is that you must keep the exchange 'like-to-like.' This means that you must be exchanging 'like products' and you must keep the owner and the annuitant the same during the transfer. (There are a number of additional limitations and restrictions associated with a 1035 exchange, and it may be in your best interest to speak with an annuity specialist and/or Certified Public Accountant to ensure all guidelines are met prior to officially making the exchange.)

Some individuals assume that a tax-free 1035 exchange is accomplished simply by signing over a check with the proceeds from their first annuity company to the new annuity company. This is not the case. Requirements for tax-free exchanges state that non-qualified funds must go directly from the current carrier to the new carrier. The same is true for what's known as partial 1035 tax-free exchanges. This means that if you surrender your policy and ask that a check be sent directly to you (with the hopes of speeding up the transaction to the new company), you will trigger a 1099 with the IRS, and you will be required to pay income taxes on the interest gained in the first annuity.

•Significant fees and charges may be incurred when transferring out of an annuity, including the possibility of paying front-end fees when purchasing a new annuity.



TIP # 5

Designating a trust as the owner of your annuity may not be the best solution.

It is a fairly common practice to name a trust as the owner of one's annuity. Though this may be a wise move for some individuals, it may greatly limit the options and flexibility for others. For example, if a trust owns a husband's annuity and he passes away, his wife may not be able to directly assume ownership of that annuity at his death, continuing deferral of taxes and maintaining control of the product as though she were the original owner. Instead, she may be forced to pay taxes on the gains of the annuity - a choice she may not have wanted to make at that time.

Depending on your unique financial situation, it may also be wise to seek the counsel of a certified estate planning attorney or tax advisor. This type of specialist can assist you in creating a strategy to potentially reduce the estate taxes owed when you pass away. This is a frequently overlooked aspect of many families' financial strategies. Sadly, they spend years, if not decades, accumulating estates, only to lose significant portions of those estates to state and federal taxes. It is not uncommon to see combined estate taxes in excess of 40-60%, and in some cases, they can range even higher.

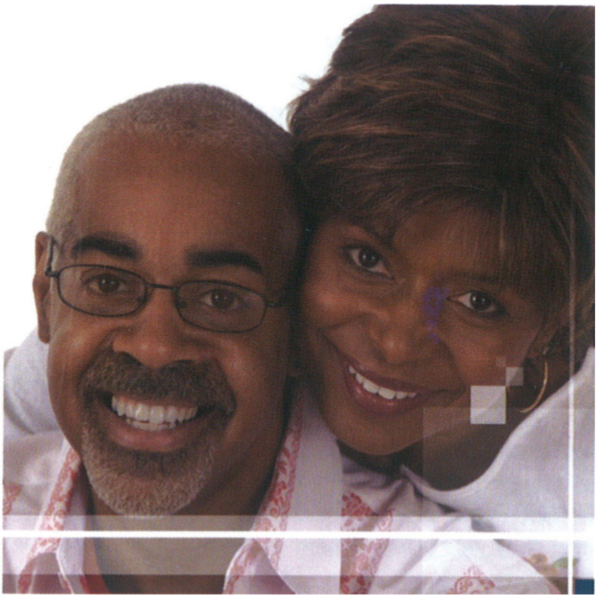
What does that mean? That means that after the IRS levies a 60% combined estate tax on a $1 million estate, the beneficiaries of that estate are left with a mere $400,000! This isn't the kind of legacy most individuals work a lifetime to leave their loved ones, and with an appropriate strategy, you may be able to dramatically reduce the estate tax burden at your passing.

TIP # 6

Understand the options your beneficiaries have for settlement.

Many individuals assume that their beneficiaries will want to receive proceeds of their annuity settlement as a lump sum of money. That may not be the case in many situations. For instance, a large percentage of beneficiaries may rather take the funds in the form of a prolonged annual payout once they are shown how the income is distributed over time and how much income taxes may be reduced.

Several of today's annuities - especially those with larger premium bonuses - require that the settlement (or death benefit as it's often referred to by insurance companies) be received as an income payout. This may limit some of the beneficiaries' options, but it may not inherently be a bad thing. In addition to potential tax advantages, forced income payout plans also provide a 'legacy' that is stretched out over a period of time, which may fall closer in line with the wishes of some individuals leaving money behind for children or grandchildren. Like it or not, once a beneficiary receives a lump sum inheritance, that money can be spent very quickly, and some individuals would prefer to 'stretch' the inheritance they leave over a period of several years.



TIP # 7

Stay up to date with all beneficiary designations.

One of the more common and costly mistakes made by annuity owners is the failure to update their beneficiary information. This may seem trivial, but in many cases, beneficiaries are set at the time a contract is initially signed, and they are never reviewed again. Changing circumstances such as marriage, divorce, birth of additional children, death of an existing beneficiary, etc., can all create potential changes to your current beneficiary designations.

Consider these possible situations if beneficiary designations are not updated:

1. A wife names her husband as her sole beneficiary on her annuity. He predeceases her, and since he is not available to receive the proceeds of her annuity at her death, it becomes part of her estate. This means it goes through probate, and her wishes for the proceeds may not be fulfilled.
2. A grandfather has three grandchildren, and he names them as equal beneficiaries of his annuity. One of his daughters has twins a few years later, and the beneficiary designations are never updated to include these two additional grandchildren. At his passing, the proceeds are dispersed as instructed to the first three grandchildren, and the twins never receive an equal portion.
3. A woman designates her husband as her primary beneficiary, and because they have no children, she elects no contingent beneficiaries. After a bitter divorce, the woman remarries but forgets to ever change her beneficiary designation. At her passing, her first husband receives the proceeds of her annuity because the forms were never updated.

These are all outcomes that could have been avoided by simply monitoring beneficiary designations. Several annuity specialists and attorneys suggest that you have ‘back-ups’ in mind for both your primary and contingent beneficiaries and that you review them at least every few years.

Sometimes, individuals plan to leave the proceeds of their annuities to children or grandchildren. However, in many cases, state laws can tie up the proceeds of an annuity if a minor is the named beneficiary. In these cases, minors don't have the legal capacity to execute a contract, and they can't exercise policy-ownership rights, request annuitization, or make withdrawals.

There are possible solutions for this dilemma. For example, you may be able to:

— Set up a trust for the children or grandchildren naming the trust as the recipient of the contract's proceeds

— Name a trustee to receive and manage the annuity's proceeds

— Provide instruction to the insurance company on how to distribute or pay out the proceeds

**Note: Setting up a formal trust will generally come at a cost, but it may be a wise move depending on your situation. If you're dealing with a sizable amount of money and you have very strong wishes to distribute those funds to a beneficiary that is currently a minor, it may be worth your time and money to set up a trust, and doing so may be accomplished by consulting an attorney.*

TIP # 8

Be informed before naming minors as the beneficiaries of your annuity.

TIP # 9

Annuitization may not be your only option – explore the possibilities.

In many older annuities, the primary method of accessing your money was known as 'annuitization.' In simple terms, this simply meant that after years of saving or accumulating in your annuity, you turned on the spigot and started an irrevocable stream of income from your annuity. Once you had turned that spigot on, it could not be turned off. This was particularly concerning in situations in which the owner of the annuity elected a 'lifetime annuitization' because in those cases, if there was anything remaining in the annuity after the individual's death, the balance was kept by the insurance company that issued the contract.

Another drawback of annuitization was that you lost control of your money. Once you annuitized, you generally could not go back and increase or decrease the amount of your monthly, quarterly, or annual payment. This could pose a serious issue if you needed more income than your annuity was providing or if the annuitization payment was not keeping pace with rising inflation.

Increased scrutiny, regulation, and company innovation have led to many more consumer-friendly products that don't require this traditional "annuitization" to access your money. Understand your options here. Some newer annuities offer options called systematic withdrawals which allow you to set up a schedule of monthly, quarterly, or annual income that can be adjusted along the way. Should you pass away, the remainder of your annuity's funds can go to your stated beneficiary rather than being lost to an insurance company or passing through the lengthy process of probate. (These systematic withdrawal options, often available in the form of policy riders, may come at an additional cost and may come with certain additional limitations and restrictions which you will want to fully understand as a policyholder.)

■ "Required Minimum Distributions" are the distributions, defined by the Internal Revenue Service, that you must start taking annually from qualified retirement accounts by April 1st of the year following the year you turn age 70 ½.

What's at stake if you don't take your Required Minimum Distribution (also known as an RMD)? The IRS will automatically penalize you a 50% tax on the amount of the RMD not taken. This can obviously vary depending on the amount of RMD you were to take, but for example, if you failed to take a $15,000 required distribution, you would be penalized $7,500 in taxes simply for failing to take the mandated amount.

An annuity specialist can assist you in calculating your Required Minimum Distributions each year to ensure that you avoid these unnecessary penalties and taxes. There is absolutely no reason to suffer these consequences, and a financial professional can easily help you meet the IRS' annual RMD stipulations. ■

TIP # 10

Be sure to take the "minimum distributions" required by the Internal Revenue Service.

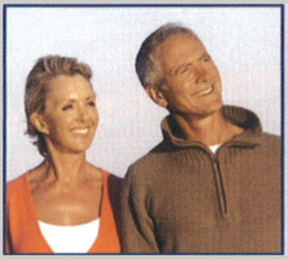
In Summary

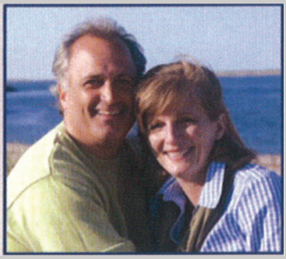
As a reminder, this guide is not meant to provide comprehensive tax or legal advice. It is simply meant to deepen your understanding of simple annuity tips and help you make more informed decisions as a consumer. For more information on the different types of annuity products available to you, contact the financial professional listed on the outside cover of this booklet.

Danial Fereydani, the President and founder of Pendo Insurance Services, Inc. is a licensed independent insurance advisor and a registered investment advisor. With offices in Beverly Hills, CA, and clients nationwide, Mr. Fereydani specializes in income, liquidity and tax-efficient estate planning.

He focuses on helping clients achieve their long-term financial goals by understanding their specific situation and implementing a strategy that positions them for guaranteed retirement income with principal protection, minimizing taxes and leaving a legacy for loved ones.

Mr. Fereydani, who studied economics at the University of Texas, Austin, and continues his economic education through a Harvard University program, ranks among the top 1% of insurance advisors in the country. He is a four-time winner of the Los Angeles Daily News Reader's Choice as Favorite Insurance Agent and an approved member of the National Ethics Bureau.





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With so many options in the financial marketplace, who has the time and knowledge to know what is best for you?
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Top Options for Your Financial Needs and Goals

1. Best Selling Fixed Index Account—Safe Growth Option
- 100% guaranteed principal
- No fees
- Protect against rising inflation with returns up to 9.5% tied to S&P 500
- Up to 10% immediate annual liquidity; fully liquidate after 6 years

2. Best Selling Fixed Index Account—30% Signing Bonus
- 30% bonus added to your account income immediately
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- 100% guaranteed principal
- 6-7% average annual return

3. Great for Guaranteed Future Income—8% Income Roll Up
- 8% income roll up guaranteed for 10 years
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4. Tax-Free Legacy Conversion From IRA Accounts
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- No additional cost to you
- See case study #3 on reverse side

See our case studies on the reverse side then call 800-445-7198 for more information!

Client Case Studies

Custom Financial Solutions for Individual Client Needs and Goals

As a full-service financial advisor, PENDO offers stocks, bonds, CD's, annuities and life insurance. What makes us different is that we do not sell on product, we solve problems. Every client we work with has a specific situation that requires a solution tailored to *their* financial needs and goals. The real life examples below show how our solutions-based advice, coupled with our team of estate attorneys and tax experts, make us uniquely qualified to add value to our client's financial plans, by understanding the problem then finding the best solution.

1. Inflation could erode half of Joe's $1 million in CDs over time

Joe, age 70 just retired. Half of Joe's $100,000 planned retirement income is from an account that will be depleted in 10 years. We prepared a custom Pendo Financial Analysis utilizing our proprietary income planning software for Joe which showed that while he has an additional $1 million in CDs earning 1%, if he stays the course, over time inflation will erode about 50% of his asset base.

Solution: Outpace inflation and pay no fees with a safe growth annuity so that he earns a reasonable rate of return to ensuring his income plan outpaces inflation over time. Moving the CDs to an annuity with a large A+-rated insurance company with 100% principal protection, no fees and an average annual rate of return of 9.5% ensures Joe's income plan stays on track. He can take out up to 10% annual income at any time without eroding his principal and will have full liquidity in 6 years.

2. Low IRA Earnings Eating Away at Lucille's Principal and Her Daughter's Legacy

Lucile is 78 and has $380,000 in an IRA account. Her goal is to only take out her required minimum distribution of $17,480 per year and leave the principal to her children. However, her account is not earning enough at 3% per year to take out her RMD's without tapping into her principal.

Solution: Roll over the funds to an annuity with a 30% signing bonus--giving her an extra $114,000 upfront--that guarantees her principal, has no fees and earns an average of 6-7% per year. Now Lucille can comfortably take out her RMD's and leave behind the principal intact for her children.

3. Archie Worries He Will Run Out of Money During Times of Market Volatility

Archie age 62, has a $684,000 IRA account fully invested in the market and is looking to retire in 4 years but is concerned about outliving his money. Due to recent volatile market conditions, he now wants to protect his principal from market loss while getting $4,000 a month in guaranteed lifetime income to supplement his Social Security.

Solution: Provide Archie with a monthly guaranteed lifetime income stream of $4,311 starting at age 66 by rolling over the IRA into an annuity with a 5.5% signing bonus with a feature that increases his income value by 7.5% compounded each year. Plus, he can now provide a death benefit for his spouse and protect his principal 100% from market loss.

4. Taxable IRA Distributions Create Tax Burden for Alfred, Mary and Their Daughter

Alfred, 72, and Mary 65, have a $790,000 retirement account split between them. Since Alfred is over age 70 ½ he is forced to take and pay taxes on his required minimum distributions, as will Mary in another 5 1/2 years. But since they also have a large monthly income from their teacher's pensions they don't need additional income and plan to leave their retirement savings to their daughter down the line.

Solution: Convert their taxable retirement account into a tax-free benefit for their daughter by setting up a guaranteed after-tax income stream of $4,550 from their retirement account and using the "extra" income to pay for a $2,000,000 tax-free life insurance policy which allows them to access up to $1,000,000 of that death benefit for long-term care costs. Now they can truly leave behind a lasting legacy without the worry of funding long term care expenses.