Variable Annuities - Fixed Annuity or Fool's Gold? (continued)

How much does a VA cost? Let's add it up![1]

Variable Annuity Fees:		Guaranteed Minimum Benefit Fees:	
M&E Fee	1.21%	Death Benefit	.10 - .35%
Investment Mgt	.96%	Income/Annuitization	.30 - .75%
Administrative	.14%	Accumulation	.30 - .75%
Distribution	.02%	Withdrawal to Principal	.35 - .75%
Base fees		Withdrawal for Life	.60 - .90%
Before guarantees	2.33%	Base + One Rider	2.43 – 3.23%

[1]National Association for Variable Annuities, 2005 Fact Book

By adding just one rider, the variable annuity can cost as much as 3.23% each and every year. Should the investor choose to add more guaranteed benefit riders, they could easily see costs escalate to nearly 4% or more annually.

Perhaps the most popular and costly of these "Guaranteed Benefits" is the Guaranteed Minimum Death Benefit Option. Our research indicates the annual cost of this benefit can be as much as 2.30% per year. More importantly, this benefit has strings attached. If the client accesses their funds, the total value of the Guaranteed Death Benefit can be reduced.

But more than this, the IRS is weighing-in on the topic with regard to Variable Annuities that hold IRA or other qualified funds. After age 70 ½, an IRA owner must make required minimum distributions (RMD) allowing the IRS to begin collecting taxes during the taxpayers lifetime. The required minimum amount to be withdrawn is based on the account value on December 31st of the prior year. This creates unique problems within a Variable Annuity but the problem is now even greater and more complicated than it has been.

According to Milliman, an industry leading actuarial firm, the "*...new IRS regulation will impact calculations of RMDs from variable annuity contracts starting January 1, 2006.*" The regulation now requires that the potential death benefit be included as part of the IRA value. In most cases, we believe this will increase the required minimum distribution (RMD) and cause the IRA owner to deplete their retirement account much faster.

Imagine how a market downturn after December 31st would reduce the cash available to pull a RMD from. Next, consider the impact of a higher requirement due to the "Death Benefit" promised in the future. This is a double whammy against the tax payer and is just another reason people should move to safety and security during times of required distribution.

Don't let your clients be fooled by products that have phantom costs and offer phantom safety-oriented features. Only fixed indexed annuities offer a unique combination of benefits that most retirement-focused Americans want and need; life-time income payments, family protection, guaranteed fees, and features and strategies that help protect against the eroding effects of inflation without exposing your principal or past gains to market risk.