Financial Foresight

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Buyer Beware

The smiling faces, exotic vacations and impressive charts shown on annuity brochures prompted me to do some investigating. I'd like to share my findings on one of the most deceptive "Investments" I have seen in my thirteen years in the business.

Since the stock market correction back in 2000-2002 Equity Indexed Annuities have become quite popular with their promise of the upside potential of the market without the downside risk. The slick ads and the very well compensated sales agents reel you in with the 10% bonus money, tax deferral, potential growth and perceived safety. Essentially how these products work is your initial investment along with the "bonus" money grows at a rate that is tied to a percentage growth of a stock index, with the S&P 500 being the most popular. At the end of each year the gains and/or losses are added up. If the result is a negative return, the annuity company will adjust it up to 0%.

The Annuity Reality

Your money is subject to penalties for at least nine years and you are at the insurance companies' mercy for up to twenty years.

Annuity companies I researched can lower the index participation rate down to 1% at will.

You'll pay penalties of up to 15% for cashing out early.

Gains are taxed at a higher rate than stocks and do not receive step-up in cost basis.

You do not qualify for dividends paid by S&P companies.

Upon annuitizing, you are likely to be paid a less than competitive rate on your money.

In one brochure I read, a hypothetical $100,000 is shown to grow to $217,404 from 1996-2005. The performance was based on a monthly cap of 3.5%. This means if the market was up 4% in January, you would receive credit for 3.5%. (This company may also take the discretion of lowering this cap annually to 1%.) While the company caps the up months, there is no limit to your loss during each month. If the market then went down 4% in February your values would also go down 4%.

Assume that ten years have passed and you call the company, asking for your $217,404. Imagine your surprise when they tell you your full redemption of $101,547 is on its way. That's right - that is what you get if you do not "annuitize" (take annual level payments over the next ten years). The "bonus" is gone, the index participation is gone. For ten years you have earned a total of about $1,547 on your $100,000 investment. The sales agent made about $10,000 for "helping you out", and the insurance company certainly made its share. At this point most people would choose to annuitize as opposed to cashing out so as to not lose all that money. Annuity companies know they have you, so what kind of payout do you think they will offer you for the next ten years? Certainly not a competitive rate given that if you cash out, they keep the extra $115,857. If you decide to annuitize, the company does not keep the $115,857. Therefore, they will likely pay you a less than competitive rate for the next ten years to recoup this lost opportunity. This is when it sinks in that your ten-year safe investment just turned into a twenty-year poor investment, all so you could avoid volatility in the stock market.

Let's look at some of the other negatives associated with this product:

- Even though you bought into an S&P Index type investment, you do not qualify for dividends, which over time have averaged about 2% a year. Dividends are probably the most secure and predictable aspect of investing in stocks.
- Gains in annuities are taxed at the higher income rates, not the lower capital gains rate. Gains withdrawn before age 59 ½ may be penalized 10% by the government.
- Like other assets, annuities are included in you taxable estate. Unlike stocks and property that receive a "step-up" in cost basis, annuities do not.
- If you cancel your policy before ten years you are subject to early withdrawal penalties in addition to giving up the bonus and the index gains. If you cancel within a year, your $100,000 plus the $10,000 bonus is worth only $87,500.

Remember, billion dollar companies don't like to loose money either. Many investors purchase annuities to eliminate risk but end up with contracts that give the insurance company all the control. If you do not want market risk then I would suggest an insured CD or government bond. If you have faith in the stock market over 10-20 years then an even better strategy would be an investment that focuses on quality companies that pay and raise dividends every year.

Availability of Long-Term Caregivers is the Elephant in the Room

By Duncan A. Winton

On June 11, the U.S. Supreme Court announced a unanimous (9-0) decision regarding a home care worker and overtime. The Court said that home care workers remain exempt from minimum wage and overtime laws.

The existing shortage of qualified long-term care workers is projected to get much worse as baby boomers age. The Court's decision does little to encourage people to consider a career as a caregiver. Most of us want our professional long-term caregiver to be caring, competent, reliable, and pleasant. How can we as a society expect to attract people into this occupation if they can't even count on necessarily making minimum wage?

Since many people want to remain in their homes forever and hire home-based long-term care, below find tips to make finding quality professional home care easier.

Home Care Reality #1: Home caregivers want to work close to their own home since they are not usually paid for travel time. This means seniors whose homes are far away from caregivers may find it hard to reliably get the care they need. If other home healthcare clients live near you (or even in the same building), that can help.

Related Tip: It may be easier to get quality home care if you live in a highly populated place that has many elders. That kind of population attracts businesses and organizations that serve elders, and also is more likely to benefit from government programs and funding. If you are investigating retirement locations, and would like to add this to your list of criteria, you can find this kind of information at www.census.gov.

Home Care Reality #2: Live-in professional home care help can be more reliable than scheduling multiple people.

Related Tip: If you'd like this option, consider the logistics when you choose your retirement housing. You will need at least two bedrooms for this option to work well. Three bedrooms/two baths would allow a friend or child to comfortably stay when you have live-in home healthcare.

Home Care Reality #3: A geriatric care manger can help you hire and monitor any long-term care, including home care.

Related Tip: Many long-term care insurance policies have a care management or care coordinator benefit. That gives you expert advice in helping to find appropriate care, at no cost to you. If you don't have this benefit and need help, you can find a geriatric care manager to hire privately at www.caremanager.org.

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Properly Valuing Your Gems and Jewelry

By Kennon Young

A man, carrying 100 carats of flawless diamonds, walks through the desert dying of thirst. He comes across a man with water. How many diamonds, if not all, would he give for just one cup of water?

For every property, there are an infinite number of values. For example, a pearl necklace might sell for $50.00 at a pawn shop, $120.00 on eBay, $145.00 at auction or $250.00 at a retail store. These different marketplaces have different buyers, sellers, regions, time restrictions, policies and more- each of which play a direct role in the value of an item. Value, therefore, is defined through recorded transactions in the appropriate (properly termed "apposite") marketplace, with all other value bearing characteristics accounted for (i.e. quality). It is the appraisers job to take the purpose and intended use of an item (what the clients wishes to do with the item), find the apposite marketplace and report on recorded transactions inside this marketplace. The mean average or sometimes the mode of these recordings is considered to be and termed as "an appraised value". The only exception to this rule is the term "priceless," when there is no other item of like kind, therefore no market, and no value.

It is common knowledge that you should visit a mechanic before purchasing a vehicle, a real estate appraiser before purchasing a house or a financial investor before making an investment. Many of these professions have licensing and requirements which determine the eligibility of the consultant. Only real property appraisers, however, are required to hold a government issued license in order to value. It is up to the consumer to choose a qualified personal property appraiser.

"Out of 2000 companies, entities and individuals offering gems and jewelry appraisals in the United States, 100 are considered legitimate." –Cecelia Gardner, President, Jewelers Vigilance Committee, 2004 AGTA Tucson Gem show "Appraisal Pragmatics" seminar.

There are three requirements a qualified appraiser MUST have:

• Knowledge in the subject property, such as an art history degree, or a gemologists degree.

• Knowledge in valuation in personal property. An appraiser must have an education! Studies in valuation of personal property, markets, value bearing characteristics, etc.

• Objective neutrality. Seemingly the easiest aspect with which to conform is widely abused. Never get an appraisal from someone who sold you the item, or whom regularly buys or sells the item, or from someone who charges a contingent of the appraised value. Why pay high premiums on your property because your appraiser inflated its value? Imagine losing an engagement ring and not being able to fully replace it because your appraiser unvalued your item. Imagine purchasing an engagement ring for twice as much as you should have.

Your qualified appraiser is a financial tool, like your lawyer, banker, financial planner and accountant. Use him or her as such- before you purchase, before you sell and to make sure your property is fully insured.

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