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ANNUITY STRATEGIES

Tips for Buying the Right Annuity for YOU

**Case Studies • Examples • Points of Protection
Common Mistakes to Avoid • The J.D. Mellberg Difference**

These strategies can get you
**UP TO 33%
MORE INCOME**
than many other
retirement income vehicles

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FINANCIAL

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Fixed index annuities provide the guarantees of fixed annuities, combined with the opportunity to earn interest based on potential market index gains—without directly participating in the market.

* Annuities are contracts between you and an insurance company. Annuity product guarantees rely on the financial strength and claims-paying ability of the issuing insurer.

**Some fixed index annuities may have a lifetime income guarantee as part of the base policy; others may have riders available for additional premium that provide this benefit. Income riders are often optional, additional-cost features that can provide an alternative to annuitization while still providing lifetime income.

Increased income possible with JD Mellberg Annuity Strategies over using other strategies. This approach will follow a specific strategy suited to your financial goals and may require buying multiple annuities. Results will only be realized by working closely with your agent over an extended period of time to help make sure the strategies are used correctly. You will have to keep the annuity product(s) purchased for the full term, and your results could vary. These results are not possible in case of excess withdrawals or complete surrender, and you may incur penalties. Not appropriate for all retirees. Not available in all states. All interest is taxed upon withdrawal. If you have questions about your JD Mellberg Annuity Strategies, please contact your agent.

This report is meant to provide general information on issues that many people consider in making the decision as to whether or not they should buy annuities; and if they do decide to buy, which types of annuities and which annuity benefits and additional riders will best suit their goals and needs. This information is not designed to be a recommendation to buy any specific financial product or service.

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JD Signature Annuity Strategies Overview

In this report, we will explain to you how index annuities work. We will introduce you to the development of annuity features and benefits that may be of interest to you. We will also address how annuities may supplement or enhance your retirement income, even if you have a pension or 401(k) plan in place.

JD Signature Annuity Strategies include the exploration of hundreds of annuities, knowing the terms available suitable to our client's needs, how to leverage those terms and available options, or riders, to maximize the income and other benefits. Oftentimes the strategies involve the laddering of multiple annuities to get the highest benefit possible throughout one's retirement; and/or management techniques applied to optimize the benefit in a specific timeframe.

As you read through this report, bear in mind that we are describing examples derived from the purchase of additional riders as well as laddering and management techniques, allowing us to generate up to 33% more income than many other retirement income vehicles may provide using one annuity, alone.

Please note the examples herein are not company specific, they are concepts shown to give you an idea of how these products work. Contracts can change and not all annuity contracts and rider features may be available in your state.

How Index Annuities Work

Index annuities offer a low, guaranteed* interest rate plus potentially additional interest credits, based on a percentage of the gains of a specified stock market index such as the S&P 500® or other, less traditional, indexes. Index annuities give you the potential for additional interest crediting without risk due to market declines. One of the most attractive benefits of index annuities is that there is **no loss of principal** because of stock market declines.

No matter how far the stock market might decline to the downside, the insurance company's clients (including you and your family members who own annuities) are not affected, because your annuity premiums do not directly participate in the stock market or purchase individual stocks or mutual funds.

This protection from downside losses is one feature which distinguishes index annuities from variable annuities. With variable annuities, your funds purchase investments, called "subaccounts." For this reason, a variable annuity may have an opportunity to increase in value when the market rises, making them an attractive vehicle for some. In a rising market, variable annuities may have no loss of principal.

Index annuities carry a guarantee* of no loss of principal from market exposure, but they still come with certain limitations. As you have probably already learned in life, there are very few guarantees that are unconditional and everlasting. Whether you buy a new television, a car, or almost anything else, the guarantee that comes with it is likely to have a number of limitations and exclusions.

Let's take a look at the limitations on the guarantees* offered by index annuities.

A Closer Look at the Guarantees* and Limitations of Index Annuities

If you take an excess withdrawal from your annuity (a withdrawal that is more than a contractual right of up to 10% of the principal amount each year), this withdrawal could affect some of the guarantees. You may or may not find this to be restrictive. For example, if you have **\$200,000** in an annuity, you could, in many cases, withdraw 10% per year (\$20,000) without any penalties and without affecting the annuity guarantees.* How is that for liquidity?

Please note that withdrawals outside of the annuitization structure can reduce the death benefits of the contract and impact the amount of the income stream you receive. You should also be aware that taxable amounts (on earnings from the principal) withdrawn prior to age 59½ may be subject to a 10% IRS penalty in addition to ordinary income tax. Most annuities also have a surrender period for the first five to 15 years of ownership; early withdrawal will deplete your principal by the amount of the surrender charge still in force. Withdrawals and/or a full surrender of your index annuity contract during the surrender charge period may be subject to withdrawal charges and market value adjustments.

Over the course of ten years, you could withdraw virtually all your annuity without paying surrender charges. Most of our clients, however, have no intention of doing so. They would much rather enjoy the annuity's income stream or monthly withdrawals, depending on the contract terms and conditions, for the maximum amount possible. While your contract may have up to a 10% free withdrawal provision per year, taking withdrawals can impact the overall value of the contract.

Some annuities have a lifetime income benefit built in, and other annuity contracts have 10 or 20 years of income but can also be changed to lifetime income with the purchase of an additional rider. If you have this benefit, even if you lived to be 120 or older, your annuity would continue to provide you the income or withdrawals it promised,* each and every year! How many other financial vehicles can you think of that offer this benefit?

The **payout amount** for fixed index annuity income is determined by a **growth factor** based on the client's age, typical life expectancy, and **“Income Benefit Base.”** This term refers to the dollar amount upon which your guaranteed* income payments will be based, whether the annuity shown is a basic index annuity or a fixed index annuity with an income rider. Please keep in mind that the income benefit base is used to calculate income

and is not the same as the **accumulation value**. The income benefit base as a value is only available over time in annuity payments, not a value that can be withdrawn at will.

Income That You Can Turn On or Off as Needed

Fixed index annuities may also allow you to get money if needed, and to start receiving payments or start withdrawals if and when you want to receive them. You can turn your annuity withdrawals on and off at will. You know why you would want to turn the income on, but why might you want to temporarily turn the income off? Let's say that you received an inheritance, sold a piece of real estate, or took some money out of your stock market investments. You might very well have all the income you need for that year. You currently have no need for the extra income your annuity provides. Why not let the income stay in your annuity, so that it can potentially increase even more?

Many fixed index annuities offer riders** that can provide guaranteed,* **ever-increasing income for life**. There is an extra charge for riders. However, you may find that the extra charge is well worth the cost for the benefits you could receive. For that reason, several types of riders have become very popular, including the inflation rider. Just as its name implies, this rider offers a hedge against inflation. Since we are unlikely to experience a year with no inflation, a fixed index annuity with an inflation rider** will pay out a guaranteed,* income that increases each year to help you protect the purchasing power of your principal.

Please note that once you decide to turn on the income stream from your annuity, the income withdrawal percentage is locked in for life. The income withdrawal percentage can usually not be increased. ***However, there are cases in which your income can be increased if you need long-term medical or nursing care, provided you have purchased an inflation rider** or a confinement benefit rider.***** (Please note that the confinement benefit rider may not require confinement to a nursing home to pay a higher level of income. Under the terms and conditions of many confinement benefit riders, if you require long-term medical care or nursing care that you can receive in your home, you can still receive a higher income from your annuity. You need to carefully read the annuity contract and any riders you are considering to ensure that the benefits you want are provided.)

Another benefit offered by many fixed index annuities is specific control over how your money is paid out. You have an option for income payments made to yourself and/or another individual for a guaranteed period of time. (For example, you might want income

payments to be made for 20 years to one of your children or to a favorite charity.) Some parents are concerned that if they leave a great deal of money to their children in lump sums, the children (even adult children) might misuse it. Additionally, a child may need special care, or work in a high-satisfaction but low-income career. The fact that the annuity can space out cash distributions to help support that child over 20 years (or another selected period of time) gives these parents greater confidence in their child's financial well-being.

Crediting Methods and Cap Rates

We believe it is important to choose an annuity that locks in increases in value as often as possible. In annuity parlance, this is called “**ratcheting**” or “**ratcheting up**.”

Think of two different annuities where one ratchets every year and the other ratchets every two years. The longer it takes to lock in increases, the higher the probability of losing any increases due to market volatility. If your annuity ratchets every year, you will be able to lock in increases every year in which the stock market goes up. In a down year, you will not lose money. Thus, over each and every year, your annuity can only move in one direction if it doesn't remain flat: **UP**. If the linked index does not go up in value, it will **maintain** its current level. No matter what the stock market does, your annuity will not decline in value during any year if you have an annual lock-in of any increased value.

Compare this to an annuity that ratchets every two years. Let's say that in the first year the stock market goes up 15%. In the second year, the stock market declines by 16%. If your annuity only ratchets every two years, you would show no increase for this two-year period. However, with a **one-year ratchet**, you would have locked in increases for the first year and you would not have lost a penny of your annuity's value during the second year.

The potential for growth in your annuity will be based on some of the growth in the index to which it is tied. Some familiar indices are the S&P 500®, the Dow Jones Industrial Average, and the NASDAQ 100, although some fixed index annuities are tied to more “exotic” indices. Once you find a product linked with an index you want, you may also have options for the crediting strategy used by the insurer. From our research, we have concluded that there are two crediting methods that are the most successful. However, not all crediting methods produce the highest interest in all circumstances.

1. **Annual point-to-point:** This crediting strategy resets annually and compounds, but will not outperform the index in a big up year because of rate caps. Just as its name implies, a “rate cap” places an upper limit on just how high a percentage the annuity’s index crediting can be in a given year. This is a trade-off for non-exposure to the stock market—receiving the benefit of the annuity never losing money, no matter how much the stock market might decline. For example, in figure 1, the annual point-to-point rate cap is 6%, which means that this is the highest interest rate the annuity will be credited during a given year, regardless of how high the stock market might rise.

Some retirees wonder, “**How will I feel if the stock market has a spectacular year and I only make 6%?**” Obviously, if the stock market rises by 8% and you receive 6% crediting in your annuity, you probably won’t be too concerned. After all, you would have only missed 2% and you didn’t have to deal with all the volatility of the stock market over the course of a year. It can go from a gain of 20% to a loss of 40% in the same year. The 1990s had several years with even stronger gains. Retirees may be concerned about the stock market having a very stronger year and missing a bigger portion of those gains.

It’s important to remember, however, that fixed index annuities are not designed to compete with the stock market. Fixed index annuities provide the potential for higher interest crediting than traditional fixed annuities. The index only plays some part in determining the overall interest.

Figure 1 shows a hypothetical example of S&P 500 returns during a year where the starting value is 1,000. As you can see, the index gains 22.66%, but the consumer only gains 6% because of rate caps.

Figure 1

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Return
S&P 500	1,053	1,031	1,044	1,118	1,104	1,123	1,114	1,157	1,194	1,209	1,222	1,247	=22.66%
Gain	5.30%		1.26%	7.09%		1.72%		3.86%	3.20%	1.26%	1.08%	2.05%	
Loss		-2.09%			-1.25%		-0.80%						

This hypothetical chart was produced by J.D. Melberg Financial for demonstration of concepts only and the values do not represent any specific year.

Based on stock market history, this is the kind of return you might realistically expect to occur at least once every decade. Even during the Great Depression there were some very strong up years. For example, the S&P gained **53.99%** in 1933, **47.67%** in 1935, and **33.92%** in 1936. (<http://www.istockanalyst.com/article/viewarticle/articleid/2803347>.)

Please bear in mind that annualized gains of 22.66% are very rare. The good news is that with a fixed index annuity, you do not need to have the stock market rise anywhere near this much to benefit. In fact, during almost any year in which the overall stock market rises, the index your annuity is tied to could rise, too.

However, depending on how long you wait before turning your stream of income on, your Income Benefit Base can provide you more spendable income. In years during which the stock market has returns that are near its average return, the annual point-to-point crediting method could match or outperform the monthly point-to-point crediting method. Please note: sometimes to get a higher cap, it locks in less frequently (every 2 years or 4 years for example).

For the protection of your principal, fixed index annuities do not directly participate in individual stocks or the stock market. Rather, your annuity is credited with an interest rate based on the percentage gain in a stock market index or bond index. Fixed index annuities are not insured by the FDIC, but do have other protections, which we will discuss later in this report.

- 2. Monthly point-to-point:** The risk with the monthly point-to-point crediting method is that several months of bad performance can wipe out many months of gains. The cap or limit on gains is a monthly cap, but your interest is usually not locked in until the end of the year.

Figure 2 shows an example of this crediting strategy using a 2% monthly cap rate with a maximum 24% annual gain (2% x 12 months). To make a fair comparison between the annual point-to-point and the monthly point-to-point crediting methods, we used the same monthly S&P performance data. You will notice that in January, the S&P rose 5.30%, but the annuity was credited with only 2% interest because of the monthly rate cap.

Figure 2

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Return
S&P 500	5.30%	-2.10%	1.23%	7.10%	-1.20%	1.70%	1.90%	1.10%	3.17%	1.30%	1.10%	2.03%	=13.03%
Positive	2.00%		1.23%	2.00%		1.70%	1.90%	1.10%	2.00%	1.30%	1.10%	2.00%	
Negative		-2.10%			-1.20%								

This hypothetical chart was produced by J.D. Melberg Financial for demonstration of concepts only and the values do not represent any specific year.

As you can see, the sum of the gains and losses determine the percent credited to the annuity. In this case, given the same performance data, the monthly point-to-point method outperformed the annual point-to-point method (13.03% crediting vs 6% crediting). In theory, 2% per month for 12 months equals 24%; however, that is highly unlikely. But how great is it to get a positive crediting rate that is locked in, and no loss of principal because of stock market volatility even if the market goes down?

There are a number of other crediting methods which we would be happy to explain to you. Before you select an annuity, we will provide information on what your options might be at that time.

Remember that no one can predict what the stock market will do tomorrow, next month, or next year. For this reason, you may wish to work with two crediting methods and purchase two annuities—one with the annual point-to-point crediting method, and one with the monthly point-to-point crediting method. Then, if the stock market experienced one of those rare, very high return years, the monthly crediting annuity could do extremely well. However, if the stock market had more of an average year with steady (but relatively low) monthly gains, the annual crediting annuity could give you a higher crediting rate.

By diversifying between two crediting methods, you may avoid the challenge of trying to guess how the stock market will behave over the next year. ***No matter what the stock market does, as long as it rises in value.*** And, if it falls, you will not lose any money—all of your principal and interest crediting from prior years will be protected!

Income Riders**

Now that we have reviewed the base contract, let's discuss some of the benefits and limitations of income riders. These benefits include:

- The ability to retain access to the initial purchase value of your annuity
- The ability to turn the annuity's income stream on or off as desired
- The ability to withdraw an additional portion of your annuity's value every year without penalty

Some of the limitations:

- Each rider added to an annuity costs an annual fee that comes out of your withdrawal value.
- If the benefits of a certain rider are built into the base contract, the contract may balance that with a lower cap or other limits.
- Withdrawing excess money from your annuity value decreases the value of the annuity and the death benefit.

Withdrawals will, however, reduce the policy value and death benefit. Additionally, if you are under the age of 59½, you may have to pay a fee to the IRS, in addition to regular income taxes, for early withdrawals from your annuity.

In the past, when an annuity was annuitized (the income stream was started), the client lost control of the money in exchange for the guarantee* of receiving regular income payments from the insurance company. (The income stream could have been for a predetermined number of years, or for life.***) When the retiree passed away, some contracts also stipulated that all payments stopped. If there was money still left in the annuity, it stayed with the insurance company and did not go to heirs or beneficiaries of the annuitant. While annuities like that can still be purchased, a generation of fixed and fixed index annuities offers enhanced benefits that many retirees desire.

With some of the fixed index annuities, you do not lose control of your money. Instead, you now have the ability to **turn on income payments when you want them** and to turn them off when they are not needed. By turning off the income payments, you have a potential of reducing your taxes for a period while accruing more value in your contract. Then, whenever you desire, you can turn the income payments back on. (See each annuity contract for specific features and limitations.) Depending on the length of time the income stream is turned off—as well as the features, benefits, and riders of your annuity, when you turn on income payments again later in life—those income payments could be higher!

With almost all fixed index annuities, you now have the ability to have your annuity cover the lifespan of two people. After you pass away, your annuity could continue to make income payments to your spouse for as long as he/she lives. And if your index annuity also has an income rider,** you and your spouse might both have the ability to turn on or turn off the income stream as desired. When one of you passes away, the surviving spouse might be able to retain this ability to turn income on or off whenever needed. The exact features and benefits of income riders differ among insurance companies offering these annuities and riders. If this benefit is important to you and your spouse, make sure you read the annuity contract and rider language before you buy the annuity to make sure the income rider will have the benefit(s) you want.

We are happy to answer any questions you have about the exact benefits offered. When you work with us, we will show you annuities that allow the owner to receive a guaranteed* income stream and have the ability to take out a large sum of money if an unexpected need arises. If you take out a large sum, this may reduce the availability of future income rider withdrawals. A very large withdrawal could result in a termination of the rider and all future income withdrawal amounts. We will show you how to avoid this type of situation, and ways you might potentially get the maximum benefits from your annuity.

Another type of rider - an inflation rider - you may be able to purchase provides for an annual increase in your payout stream to help combat the effects of inflation.

Withdrawal Percentages

Earlier in this report, we discussed having an annuity that locks in increases as often as possible. This same idea can be applied to withdrawal percentages and income.

In most cases, you will benefit from owning an annuity that requires less time to increase your withdrawal percentages.

Consider an example where the product features for two annuities are exactly the same, with the exception of how often withdrawal percentages increase. One increases the withdrawal percentage annually, and the other increases the withdrawal percentage once every 10 years. Which annuity might be more suitable for you?

While the payout amounts are the same on both annuities for certain ages, the income amounts are higher for the years in which the withdrawal percentages show annual increase. Therefore, you will likely want to select the annuity that increases withdrawal percentages annually (if that annuity has the other features and benefits you want).

Figure 3 contains examples of the different **payout amounts**, at age intervals, we have seen for annuities.

Figure 3

Annuity		Payout Percentage By Age																														
		Note - Some annuities set Payout Percentages for 10 or 5 year age brackets, others increase Payout Percentage each year until a maximum is reached.																														
		Age																														
		60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90+
1		4.0				4.0				5.0				5.0				6.0				6.0				7.0						
2		4.0				4.5				5.0				5.5				6.0				6.5				7.0						
3		4.0	4.1	4.2	4.3	4.4	4.5	4.6	4.7	4.8	4.9	5.0	5.1	5.2	5.3	5.4	5.5	5.6	5.7	5.8	5.9	6.0	6.1	6.2	6.3	6.4	6.5	6.6	6.7	6.8	6.9	7.0

This hypothetical chart was produced by J.D. Mellberg Financial for demonstration of concepts only and does not represent a specific annuity product..

A retiree may want to take income at a “step-up age.” (This may be referred to in the annuity contract as an “optional reset” age.) There is no difference in payout for regular step-up ages between the annuities shown. If two people with any of these annuities wanted to start their income at age 70, the payout would be 5% per year. However, if the retirees wanted to turn on their income at odd ages—years other than those identified as step-up ages— there could be a big difference among the three annuities. Annuity 3 increases the payout amount annually. If a retiree wanted to turn on his/her income at an

interim age, he/she might benefit by selecting Annuity 3, **gaining thousands of dollars** of income over the retirement years.

There might be other differences between these three annuities that would lead you to select one over the other two. Even though each of them might have the same payout rate, one annuity might have benefits that might better help you meet your financial goals in retirement.

Examples of How Fixed Index Annuity Riders Work

Now that you know how an index annuity works, let's take a look at some features of fixed index annuities that we find to be very interesting.

Please note that unless otherwise stated, all examples shown are hypothetical; they are based upon facts and figures currently available. However, the features and benefits of any annuity can be changed for future contract issue by the issuing insurance company based upon changes in interest rates, stock market returns, and other economic variables.

Depending upon the annuity you select and when you decide to buy it, the income stream of your annuity may vary from the income streams shown in the examples provided here.

Figure 4 shows the possible income available in this example from a hypothetical fixed index annuity for a person who purchases an annuity with \$100,000 in premium. The calculation shows an increase in the income benefit base.

The income benefit base is increasing at a 7% compounding rate, and increases to 196,715 in 10 years. Keep in mind that the income benefit base is only used for the calculation of income and is not calculated for purposes of withdrawals or death benefit.

Taking a closer look at figure 4, you can see that if the annuity owner decides to turn on income stream at year 3, he/she will have \$6,493 annual income, or about \$500 per month. The longer he/ she waits to turn on income stream, the higher it will be.

Figure 4

End of Year	Income Benefit Base (compounds at 7%/yr)	Withdrawal Percentage	Income	Long - Term Care Doubler
Issue	100,000	5.00%	\$5,000	\$10,000
1	107,000	5.10%	\$5,457	\$10,914
2	114,490	5.20%	\$5,953	\$11,907
3	122,504	5.30%	\$6,493	\$12,985
4	131,080	5.40%	\$7,078	\$14,157
5	140,255	5.50%	\$7,714	\$15,428
6	150,073	5.60%	\$8,404	\$16,808
7	160,578	5.70%	\$9,153	\$18,306
8	171,819	5.80%	\$9,965	\$19,931
9	183,846	5.90%	\$10,847	\$21,694
10	196,715	6.00%	\$11,803	\$23,606

This hypothetical chart was produced by J.D. Mellberg Financial for demonstration of concepts only and does not represent a specific annuity product. Keep in mind that the income benefit base is only used for the calculation of income and is not calculated for purposes of withdrawals or death benefit. Payout percentages are aged based and may vary by state. Typically the older you are, the higher the withdrawal percentages may be.

Another annuity rider available for an extra charge with some contracts is the long-term care doubler.** For example, in year 5 of this annuity, the **guaranteed* annual income** is \$7,714. However, if he/she is confined (cannot perform some activities of daily living), the annual income will DOUBLE to \$15,428.

The annuity policy you will receive will have a specific list of ADLs that are considered, but some general examples are:

- Bathing
- Eating
- Dressing
- Walking
- Taking medications
- Getting in/out of beds/chairs

Please note that you do NOT have to be unable to perform all of these activities. Depending on the annuity policy selected, you may only need to be unable to perform two or three of the activities unassisted on the list to receive up to a doubling of your annual income.

Increases to Income

Earlier in this report, we discussed having an annuity that locks in increases as often as possible. This same idea can be applied to income.

In most cases, you will benefit from owning an annuity that requires less time to increase your income.

Consider an example where the product features for two annuities are exactly the same, with the exception of how often how often your income may increase. One increases annually, and the other increases once every 10 years. Which annuity might be more suitable for you?

While the payout amounts are the same on both annuities for certain ages, the income amounts are higher for the years in which the increase is applied annually. Therefore, you will likely want to select the annuity that increases annually (if that annuity has the other features and benefits you want).

There might be other differences between the annuities that would lead you to select it over the other. Even though each of them might have the same income amount, one may have benefits that better help you meet your financial goals in retirement.

How a Fixed Index Annuity Might Help Save You Money

Let's take a closer look at how a fixed index annuity might help you save some money.

Figure 5 shows that Annuity A offers:

-
- A withdrawal amount that increases every year;
 - With a higher beginning withdrawal amount; and
 - A higher income benefit base

This *combination of benefits* in one annuity may be worthy of your consideration.

For this case study, we will use a hypothetical example (as we do throughout this report). “John Adams” wants \$3,000 of monthly income, (\$36,000 annually), beginning with payouts in 10 years. John’s goal for this annuity is to provide that \$36,000 per year to supplement his Social Security benefits.

We spoke with John at length about all of his goals and dreams for retirement. We also went over his finances and his tax situation. (We do a thorough interview like this to make sure that an annuity is appropriate and suitable for someone before we recommend any annuity or any other financial product or service.) We determined that a fixed index annuity was a suitable way for John to reach his objective. Then we used all of the data collected to help him find an annuity that might best help him.

In this case, we found Annuity A and Annuity B as shown in figure 5 on the following page.

To enjoy a \$36,000 income in year 10, Annuity A required John Adams to pay \$370,551.07 in a lump-sum premium. Annuity B required John to pay \$502,562.21 to receive the same income in year 10. In other words, Annuity A could cost \$132,011.14 less and provide the same benefits as the other annuity in year 10 of the contract. In ten years, the income would be identical. Would you want to pay 35.6% more than necessary.

This example includes all fees, but it does not include taxes, as the tax rate for different individuals reading this report could vary significantly. In addition, your tax rate could vary from year to year in retirement depending upon whether you had outside employment (either full- or part-time), you sold stocks, bonds, or real estate during the tax year, and whether or not you had gains or losses on those sales.

Bear in mind that you do not have to pay taxes on a return of principal; you only have to pay taxes on those portions of annuity payments that represent interest received. Your annuity earns interest tax-deferred, meaning you don't have to pay taxes on the interest until you withdraw it. You should consult with your CPA or tax advisor to determine what taxes you might owe on the income you receive.

During years in which you let your annuity's value grow and do not take any distributions, you will not have to pay any taxes.

Figure 5

Account Details	Annuity A			Annuity B		
Premium	\$370,551.07			\$502,562.21		
End of Year	Income Benefit Base	Withdrawal Percentage	Income	Income Benefit Base	Withdrawal Percentage	Income
Issue	370,551	3.50%	\$12,969	502,562	3.00%	\$15,077
1	400,195	3.60%	\$14,407	532,716	3.00%	\$15,981
2	432,211	3.70%	\$15,992	564,679	3.00%	\$16,940
3	466,788	3.80%	\$17,738	598,560	3.00%	\$17,957
4	504,131	3.90%	\$19,661	634,473	3.00%	\$19,034
5	544,461	4.00%	\$21,778	672,542	4.00%	\$26,902
6	588,018	4.10%	\$24,109	712,895	4.00%	\$28,516
7	635,059	4.20%	\$26,672	755,668	4.00%	\$30,227
8	685,864	4.30%	\$29,492	801,008	4.00%	\$32,040
9	740,733	4.40%	\$32,592	849,069	4.00%	\$33,963
10	799,992	4.50%	\$36,000	900,013	4.00%	\$36,001
11	863,991	4.60%	\$39,744	954,014	4.00%	\$38,161
12	933,111	4.70%	\$43,856	1,011,255	4.00%	\$40,450
13	1,007,759	4.80%	\$48,372	1,071,930	4.00%	\$42,877
14	1,088,380	4.90%	\$53,331	1,136,246	4.00%	\$45,450
15	1,175,451	5.00%	\$58,773	1,204,420	5.00%	\$60,221

This hypothetical chart was produced by J.D. Mellberg Financial for demonstration of concepts only and does not represent a specific annuity product. Keep in mind that the income benefit base is only used for the calculation of income and is not calculated for purposes of withdrawals or death benefit. Payout percentages are aged based and may vary by state. Typically the older you are, the higher the withdrawal percentages may be.

Notice that in year 10 of Annuity B, John would receive \$36,000 in income for his \$502,562.21 premium. With Annuity A, he could hypothetically receive \$36,000 in income for the lesser premium of \$370,551.07.

At J.D. Mellberg Financial, we examine more than 200 different annuities each year in our search for the ones we believe fit into the JD Signature Annuity Strategies. At this time, annuities like Annuity A (a fixed index annuity) generally outperform other annuities in the income benefit base increase guaranteed* by the insurance company. The lower initial annuity premium, higher crediting rate in the income benefit base, and higher withdrawal amount in Annuity A have the possibility of translating into more money in your pocket.

By purchasing a fixed index annuity with the benefits you want, including a higher income stream, you can feel more financially confident in retirement. This is true regardless of the premium amount of this fixed index annuity; it offers you the possibility of maximizing your income stream for each premium dollar placed in the annuity.

Ways JD Annuity Signature Strategies May Provide You with More Income per Premium Dollar than One Annuity Alone

John Adams opted to buy index annuity (A) for a lesser amount to provide the income he wanted. But if he had decided to put the whole \$502,562.21 into Annuity A, Figure 6 shows the potential outcome.

Figure 6

Account Details	Annuity A			Annuity B		
Premium	\$502,562.21			\$502,562.21		
End of Year	Income Benefit Base	Withdrawal Percentage	Income	Income Benefit Base	Withdrawal Percentage	Income
Issue	502,562	3.50%	\$17,590	502,562	3.00%	\$15,077
1	542,767	3.60%	\$19,540	532,716	3.00%	\$15,981
2	586,189	3.70%	\$21,689	564,679	3.00%	\$16,940
3	633,084	3.80%	\$24,057	598,560	3.00%	\$17,957
4	683,730	3.90%	\$26,665	634,473	3.00%	\$19,034
5	738,429	4.00%	\$29,537	672,542	4.00%	\$26,902
6	797,503	4.10%	\$32,698	712,894	4.00%	\$28,516
7	861,303	4.20%	\$36,175	755,668	4.00%	\$30,227
8	930,208	4.30%	\$39,999	801,008	4.00%	\$32,040
9	1,004,624	4.40%	\$44,203	849,068	4.00%	\$33,963
10	1,084,994	4.50%	\$48,825	900,012	4.00%	\$36,000
11	1,171,794	4.60%	\$53,903	954,013	4.00%	\$38,161
12	1,265,537	4.70%	\$59,480	1,011,254	4.00%	\$40,450
13	1,366,780	4.80%	\$65,605	1,071,929	4.00%	\$42,877
14	1,476,123	4.90%	\$72,330	1,136,245	4.00%	\$45,450
15	1,594,212	5.00%	\$79,711	1,204,420	5.00%	\$60,221

This hypothetical chart was produced by J.D. Mellberg Financial for demonstration of concepts only and does not represent a specific annuity product. Keep in mind that the income benefit base is only used for the calculation of income and is not calculated for purposes of withdrawals or death benefit. Payout percentages are aged based and may vary by state. Typically the older you are, the higher the withdrawal percentages may be.

As figure 6 shows, Annuity B still provides \$36,000 income in year 10. But the same amount of premium in Annuity A provides **\$48,825** in year 10. *That's \$12,825 more for the same amount of premium.*

This increase in income does not necessarily have to be a one-time event. Rather, there is a possibility that your income could be higher in most years, depending on when you turn on your guaranteed* income stream!

To enjoy a guaranteed* increasing income every year requires the purchase of an inflation or similar rider,** which is available for an extra cost. However, the example above includes the cost for the rider. That is, the \$502,562.21 used to purchase the annuity included the price of the rider, so in this example there was not an ongoing additional fee. There is nothing else to buy or pay for, as this is an all-inclusive, one-time premium. You will never receive another bill for this annuity and you do not have to pay any annual fee to continue to receive all the benefits this fixed index annuity offers.

For all of the above reasons, regardless of the amount of money you have with which to purchase an annuity, you may want to seriously consider using some of your assets to purchase a fixed index annuity.

Fixed Index Annuity Income Riders: The Big Picture

We have had many people from around the country contact us to get second opinions on annuities they are considering purchasing. Many of the people who call or email us believed they have found the annuity that fits their needs best after comparing a few different ones. They frequently bring in annuities that offer features that seem very appealing such as no rate cap or a higher income benefit base crediting rate. They are likely to ask, “*Can you beat this?*”

However people locate annuities, the bottom line on how helpful they will be is *evaluation* and comparisons between annuities are complex. There are many factors to consider. In this section, we will examine an annuity on which a pre-retiree asked for a second opinion—an annuity that has growth of the income benefit base (the income basis, not available to cash out) credited at 10% per year. *Please note that we will be discussing two hypothetical annuities that are different from the ones presented in figures 5 and 6.*

“Jane Robinson” wants an annuity that produces immediate income. She has **\$100,000** for annuity premium. As you can see in figure 7, **Annuity P** offers a 9% crediting rate and **Annuity Q** offers a 5.5% crediting rate.

In this case, Jane Robinson inquired if we could beat the 9% crediting rate in Annuity P. After doing our research, we presented Annuity Q, which “only” has a 5.5% crediting rate. Why would we suggest an annuity with lower crediting rate? See for yourself.

Figure 7

Account Details	Annuity P			Annuity Q		
Premium	\$100,000.00			\$100,000.00		
Income Benefit Base Crediting Rate	9.00%			5.50%		
End of Year	Income Benefit Base (9%)	Withdrawal Percentage	Income	Income Benefit Base (5.5%)	Withdrawal Percentage	Income
Issue	100,000	3.00%	\$3,000	100,000	4.00%	\$4,000
1	109,000	3.00%	\$3,270	105,500	4.00%	\$4,220
2	118,810	3.00%	\$3,564	111,303	4.00%	\$4,452
3	129,503	3.00%	\$3,885	117,424	4.00%	\$4,697
4	141,158	3.00%	\$4,235	123,882	4.00%	\$4,955
5	153,862	3.50%	\$5,385	130,696	5.00%	\$6,535
6	167,710	3.50%	\$5,870	137,884	5.00%	\$6,894
7	182,804	3.50%	\$6,398	145,468	5.00%	\$7,273
8	199,256	3.50%	\$6,974	153,469	5.00%	\$7,673
9	217,189	3.50%	\$7,602	161,909	5.00%	\$8,095
10	236,736	4.00%	\$9,469	170,814	6.00%	\$10,249

This hypothetical chart was produced by J.D. Mellberg Financial for demonstration of concepts only and does not represent a specific annuity product. Keep in mind that the income benefit base is only used for the calculation of income and is not calculated for purposes of withdrawals or death benefit. Payout percentages are aged based and may vary by state. Typically the older you are, the higher the withdrawal percentages may be.

Despite the fact that Annuity P offers a higher income benefit base crediting rate, **Annuity Q** could produce more income from the very first year the contract was in place and for every **year thereafter**. Whereas Annuity P paid \$3,000 income in the first year, **Annuity Q** paid **\$4,000** in income that year, which is **33% more than Annuity P**, starting from the very first year ($\$1,000 \text{ increase} / \$3,000 = +33\%$).

As you can see, Annuity Q pays a higher level of income each and every year than Annuity P. In the 10th year, Jane Robinson would receive an additional **\$780** from Annuity

Q than she would from Annuity P. Annuity Q offers a 8.24% increase in income in year 10 as compared to Annuity P ($\$780 / \$9469 = +8.24\%$).

How is it possible that an annuity with a lower crediting rate could produce more income than an annuity that offers a higher crediting rate? The answer is in all of the other features and benefits offered by the two different annuities.

What other factors can lead to an annuity producing more income?

The annuity that produces more income might have offered:

- No rate caps
- Lower fees and expenses
- Or a combination of these benefits with other benefits

When researching annuities, we focus our attention in two areas:

1. Finding the products that can best help our clients reach their individual financial **goals**. Since financial goals are as varied as our clients, we recommend different annuities to different people.
2. Finding the most suitable products that produce the highest income for our clients for premium paid, for the time period desired.

As you learned in Jane Robinson's case, finding an annuity with the highest possible crediting rate might not guarantee that you enjoy the highest level of income in retirement.

Many factors need to be considered when comparing one annuity to another. It is often difficult to make an "apples to apples" comparison between annuities because insurance companies offer so many different features and benefits on various annuities. Some of these features and benefits may also change over time. As you can see in figure 7, the withdrawal **percentages** for both Annuity P and Annuity Q change over time. Other terms and conditions, such as surrender charges, also change over time. (One annuity may have higher surrender charges to begin with, but a shorter time period till

the surrender charges drop off. The 10-15 year surrender period is one reason to consider purchasing any annuity as a long-term commitment.)

If you would like some help in objectively evaluating different annuities, to find the annuity or annuities that might best help you reach your financial goals, we invite you to call our office. We have full-time professionals on our staff who devote all of their energies to thoroughly researching all of the features and benefits available on different annuities. We only recommend annuities after carefully reviewing and analyzing all of the features and benefits of those annuities to make sure that the **combination** of features and benefits offered will have a high probability of helping you reach your financial goals in retirement.

With a Fixed Index Annuity, Your Principal Is Protected

When you purchase stocks, bonds, mutual funds, real estate, gold, silver, or most other investments, your principal is usually not protected. The values of your investment can gain or lose value at almost any time (including loss of principal). Investments have a much greater potential for growth than fixed products, as well as a much greater potential for monetary losses.

When you purchase an immediate, fixed, or index annuity, your principal usually **is** protected as long as you do not withdraw more of its value than the contractual terms allow.

Variable annuities have an investment feature and they also have a greater potential for growth than fixed products. Unlike fixed annuities, however, most variable annuities do not protect your principal unless you purchase a special rider** at an additional cost.

As you know, most annuities do have some type of surrender charges or early withdrawal penalties. Normally, these charges decrease steadily over a set number of years and eventually disappear. A surrender charge does not mean that you cannot access a portion of your money in the early years of your contract. Most of the annuities discussed in this report allow you to withdraw about 10% annually without penalty. (Before age 59½, an IRS penalty may be imposed for withdrawals over 10%.) When the contract allows, you can withdraw that 10% from your annuity each and every year for

any reason whatsoever. The withdrawal process is simple and you should receive your money relatively quickly.

If you withdraw more than the prescribed amount during the penalty phase of your annuity, there may be a surrender charge. Once the surrender charge period is over, you can usually withdraw as much money as you would like from your annuity without any penalty. All withdrawals of interest will typically incur tax liabilities, of course, and reduce the amount or length of annual annuity income; or it may reduce the death benefit. Withdrawal of principal is not taxable.

We previously mentioned that the principal in variable annuities is usually not protected unless you purchase a rider.** A primary benefit of **fixed annuities** (such as index annuities) is that you cannot lose your principal no matter how much the stock market declines in any year.* With fixed index annuities, protection of principal is **built in** to the base contract. You do not have to buy a rider to receive principal protection with any fixed or fixed index annuity.

Is Your Retirement Well Funded?

For many decades, a pension from a large Fortune 500 company often guaranteed a fairly comfortable retirement. More recently, however, with the bankruptcy of several major corporations as well as increasing instances of under-funded pension funds, some long-term employees have seen their pension incomes significantly reduced. In some cases, they are receiving only 10 cents or 20 cents of every dollar that was initially promised to them. A record-breaking number of failed pension programs have been turned over to the government-run Pension Benefit Guarantee Corporation (PBGC). As a government entity, the PBGC pays on pensions when possible, but payments are often only a portion of the amount originally expected by the pensioners.^{2,3,4}

If you were retired in 2014 and age 65 at the date of plan termination, PBGC pays a monthly maximum of \$4,943.18 monthly. Americans whose pension plans have gotten into trouble may be surprised by how little they receive from the PBGC. (<http://pbgc.gov/about/who-we-are.html>) Many retirees who thought they had a “guaranteed” retirement of a certain amount may have to alter their lifestyles or continue working to help cover expenses.

Employees of some small and mid-size companies have long been more responsible for their own retirement savings than employees of large companies. Many small companies have never had any type of pension plans in place. If a person has a retirement program at all today, it is likely to be a 401(k) or a similar program. These **types of retirement savings plans** may be unprotected from stock market volatility.

Many we have talked to who are approaching retirement feel they do not have enough money saved and it is subject to stock market volatility. If your financial stability in retirement is important to you, and if you would like to purchase principal-protected vehicles with your retirement assets, our insurance-licensed agents who focus on retirement income planning can help you.

Our goal is to help as many U.S. workers as possible enjoy greater financial confidence during their retirement. A fixed index annuity may be part of a good strategy for you. As you have seen, fixed index annuities offer guaranteed* income benefits, potential for interest accumulation based, in part, on a select index without exposure to the stock market, and protection of principal.

No matter what the stock market does, no matter what financial challenges your employer faces, and no matter what your pension plan or 401(k) offers, when you own an annuity suitable to help meet your financial needs and goals, you will have greater assurance that your retirement money will last as long as you do.*

Some companies that have gone bankrupt: ^{6,7,8,9}

1. Lehman Brothers, 2008
2. General Motors, 2009
3. WorldCom, 2002
4. Pacific Gas & Electric Co., 2001
5. Enron, 2001
6. Refco Inc., 2005
7. IndyMac Bancorp, 2008
8. Delta Airlines, 2005
9. Trump Entertainment Resort, 2004/2009
10. Delphi, 2005
11. Radio Shack, 2015
12. Quizno's, 2014
13. American Airlines, 2011
14. Border's, 2011
15. Blockbuster, 2010

JD Signature Annuity Strategies: **The Services Offered by J.D. Mellberg Financial**

J.D. Mellberg Financial is one of the largest firms in America focused on retirement income planning and people come to us from across the country. Our strategies are designed to offer guaranteed* income –income that will not be impacted by stock market crashes, real estate losses, or cuts in pensions.

Whether you work for the government or for a private company, we can potentially help you make up for the pension reductions that have been enacted and those that are being proposed. If you have a 401(k) plan or an IRA, we may be able to help you secure a guaranteed* income with annuities to supplement your withdrawals from your 401(k) or IRA.

Some of the people who come to us for help in designing personal retirement income strategies do not have any type of retirement income plan.

Whatever your retirement situation, the current retirement income strategies available through annuities like the fixed index annuity can help not only make up for shortfalls in your pension or 401(k) plans, but may even help you enhance your retirement income more than you think.

Call us today if you want assistance in protecting your retirement nest egg, turning some of your savings into guaranteed* income for life, and living more of the retirement of YOUR dreams.

1-877-801-9860

By contacting us, you may be offered insurance products for sale.

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