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# MARCH 2015

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## *It's Time to Dump your Variable Annuity*

In the past few weeks I have been reviewing clients' variable annuities. Despite the overwhelming evidence and testimonials against this type of plan, many people still have them. Some are still buying them. In my opinion this product is the **WORST** retirement funding vehicle ever assembled. In the current market climate, it is a product that is dangerous to hold. Still, some very smart people continue to misunderstand their variable annuities. As Suze Orman once wrote, "variable annuities were created for one reason, to make the advisor and the insurance company money".

Analyzing a recently issued variable annuity, I pondered the effectiveness of some of the features. I listed costs and fees and options on several variable annuities. I colleague of mine who has sold variable annuities did the same. When we compared results, they were eerily similar. Fees, investment charges, costly riders, potential losses and a paucity of

## *It's Time to Dump your Variable Annuity (cont)*

'guarantees' that would defeat the immutable laws of discounted future values. Most Variable Annuities are sold with a 'high water mark' rider. This fig leaf feature says that if the market reaches a certain high point, the death benefit and/or income value is tied to that 'high water mark' of the annuity's value.

This is a riddle most advisors do not understand or comprehend. Using 2008 as our example, a variable annuity with a 'high water mark' value of say, \$200,000 is frozen at that level. The market crashes. The investor's values are depleted by not just the stock market plunge, but also burdened with the carrying of the addition 5-8% in fees that accompanied the Annuity. Therefore a 20% loss becomes a 28% loss.

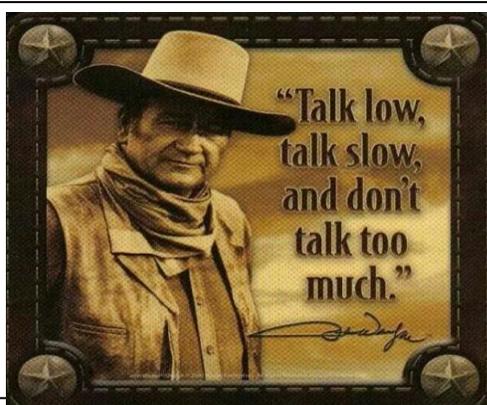
Now let us consider a market recovery that begins **5 YEARS** after the correction. Many advisors tout the 'high water mark'. (continued on pg. 2)

### TABLE OF CONTENTS

1. **It's Time to Dump Your Variable Annuity**
2. **It is a Challenge to Succeed**
3. **Tools for Thought**
3. **Embracing Adversity**
3. **Doing the Remarkable**



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"The just man shall flourish like the palm tree., like a cedar of Lebanon shall he grow. They that are planted in the house of the Lord shall flourish in the courts of our God. They shall bear fruit, even in old age; vigorous and sturdy shall they be, declaring how just is the Lord, my Rock, in whom there is no wrong."  
Pslams, 94,IV 13-16

## **A FAMILY DISASTER PLAN IS NECESSARY!**

A family disaster plan is your personal plan for how you and your family will deal with an emergency situation if one arises. It's important that every member of your family understands your family disaster plan and is ready to implement it, perhaps at a moment's notice.

### **Suggestions for your family disaster plan include:**

- • Understand the types of natural disasters that are most likely to strike the area where you live (hurricanes, tornadoes, earthquakes, flooding). Agree on what each family member will do in the event of one of those disasters.
- • If you have to remain in your home, identify the safest places to stay.
- • If you're advised to evacuate, plan your escape route in advance. Be prepared to listen to local radio for shelter locations.
- • What if family members are separated? Agree on two alternative meeting places, one near your home and the second outside your immediate area.
- • Make sure your children know how and under what circumstances to call 9-1-1.
- • Have a plan to protect your property in the event of a disaster. For example, know where your utilities are and how to turn them off. Depending on the threat, remove small outdoor items, close window shutters, etc.
- • Request information on your employer's disaster plans, as well as those for your children's school and/or childcare center. Be sure they have your emergency contact information and you theirs.
- • Identify a family member or friend living in another area...someone your children can call if the need arises.
- • Ensure that your home is safe: periodically test smoke alarms, carbon monoxide detectors and fire extinguishers to make sure they are working, identify any potential hazards and remove them, be certain that all family members know how to evacuate your home in the event of fire.

*You who are mortal cannot change the infallible, unwritten laws of heaven. They did not begin today or yesterday, but they are everlasting & none can tell the hour they saw their birth. I would not, from fear of any human edict, incur the God-inflicted penalty of disobeying divine law.*

*Antigone to the Legislature: Sophocles*

### **It's Time to Dump Your Variable Annuity (cont)**

The advisors brag to their clients: 'See the market crashed, and your income account is still intact. And when the market goes higher you will get another high water mark.'

The facts are this: when the market goes down, the value of the plan collapses, along with the additional fees required to support riders, 12b1 fees, mortality and expense, broker fees, and on and on. The other problem with this approach is when the market goes down, and remains down for a period of years, that 'high water mark' **loses purchasing power** because of inflation and the time value of money. If we look at a moderate rate of inflation (I'll use 3%) over a 5 year period (2008-2013) **the purchasing power of that \$200,000 declined by 15%!!!!**

Who would sign up for that?

By contrast, take the same \$200,000 in an indexed annuity with a compounding income rider. Assume there is no premium bonus and the company is only offering a 4% compound income rider. Unlike the Variable Annuity's 'high water mark', this income account increases by 4% over the same time. This means (using the same 3% inflation rate) the purchasing power of this plan **INCREASES BY 20%!** Subtracting the inflation factor, the net increase is 4%, **which means the indexed annuity outperforms the Variable Annuity by 19%!**

When I show these numbers to the owners of variable annuities, the light goes on. They ask me why their advisor would sell them something so inappropriate. The answer is simple; that's what they were trained to do. The big investment houses are not going to take any risk. Their products are simply pass through. The variable annuity is simply another device to pass through funds to investments that produce fees. There is no one standing next to you taking risks with their money and yours. Do indexed annuities make money for their companies? Yes they do! A prudently established retirement risk management plan will have one. As Suze Orman says: "Don't lose money, ever!"

## **EMBRACING ADVERSITY FOR ACHIEVEMENT**

by Chris Widener

*Success in life depends upon being strong people with clear goals and indomitable spirits.*

*Unfortunately most of us aren't born that way. We grow that way. And that growth can either come from us entering willfully into situations that will cause us to grow or from the way we react when circumstances come upon us without our consent. The latter is what we call adversity. Most of us spend our lives trying to avoid adversity, and I guess that is just as well. We shouldn't pursue adversity, but when she arrives, we should welcome her as a foe who, though our interaction with her, will make us into better people. With that in mind, here are some thoughts on adversity, and how it can help you to succeed in every area of your life and achieve your dreams. Adversity brings out our resources. Horace said, "Adversity reveals genius, prosperity conceals it." When everything is going well, we coast. But when adversity comes we begin to draw upon each and every resource that we have in order to conquer the circumstances at hand. Adversity then, keeps us sharp. Adversity brings us together with others. Sure a team can have their problems with each other, but when they step on the court, when they experience the adversity of facing another obstacle, they pull together. One for all and all for one, as they say. The next time you experience adversity of some kind, keep your eyes open for how it can bring you together with your family, your coworkers or your team. Adversity makes us better people with stronger characters. Never underestimate the power of adversity to shape us inwardly. How will courage, discipline and perseverance ever flourish if we are never tested? Adversity makes life interesting. John Amatt said, "Without adversity, without change, life is boring." How true. Have you noticed that while we are in the middle of adversity, we only long to get out of it, but we then spend a lifetime recounting it to anyone who will listen? Imagine how boring life would be if everything always went well, when there was never a mountain to be climbed.*

## UPCOMING EVENTS:

**Client Appreciation Event.** 630PM March 27<sup>th</sup>.  
Firehouse Grille, New Market MN.

**Retirement Planning Workshop,** The Depot Restaurant,  
Faribault, MN, March 17 and 19, 6PM.

**Retirement Planning workshop,** April 16 and 30, 6PM  
Oakdale Golf Club, Hutchinson

**Social Security Education Workshop,** April 21 and 23,  
6PM, Hutchinson Community Center.

**To Register for the Dinner Seminars, Please call (800) 451-6117, and for Client Appreciation Event, please call (800) 428-5113, Social Security, ( 800) 530 1402**

## Tools for Thought

*❖ Next month I will observe 22 years in the Financial Business. In 1993 I was working in a factory in Detroit. I was still in the Army Reserves, drilling at South Bend, Indiana. A friend of my Dad's had his agency there. On lunch break one day he came over to see me. We talked for a while. He offered me a position as a Field Agent for the Knights of Columbus. My family had a long history with the Knights. It sounded better than shoving mattresses out the door. So I quit my job in a mattress factory.*

*John Stackowicz was my first trainer and teacher in the industry. He grounded me in two principles: (1) Don't lose the clients' money, and (2) always, always do what is in the clients' best interest.*

*Even though I didn't always appreciate John's passion for the Knights and his leadership, those two lessons were implanted in my professional DNA. Over the years I have developed a deep respect for the gift this man gave me. The chance to be a good Fraternal Agent isn't something a person gets to do in his lifetime. I got to do it for this special Catholic Fraternal Society.*

*The person who benefits most from John's teaching ability is my clients. I am determined to always make money for them, protect those gains and do 'what you'd do for your parents'. We should all thank John for his skills.*

## **DOING THE REMARKABLE**

by Jim Rohn

When it comes to meeting and conquering the negativity in your life, here is a key question: What can you do, starting today, that will make a difference? What can you do during economic chaos? What can you do when everything has gone wrong? What can you do when you've run out of money, when you don't feel well and it's all gone sour? What can you do?

Let me give you the broad answer first. You can do the most remarkable things, no matter what happens. People can do incredible things, unbelievable things, despite the most impossible or disastrous circumstances. Here is why humans can do remarkable things: because they are remarkable. Humans are different than any other creation. When a dog starts with weeds, he winds up with weeds. And the reason is because he's a dog. But that's not true with human beings. Humans can turn weeds into gardens. Humans can turn nothing into something, pennies into fortune, and disaster into success. And the reason they can do such remarkable things is because they are remarkable. Try reaching down inside of yourself; you'll come up with some more of those remarkable human gifts. They're there, waiting to be discovered and employed. With those gifts, you can change anything for yourself that you wish to change. And I challenge you to do that because you can change. If you don't like how something is going for you, change it. If something isn't enough, change it. If something doesn't suit you, change it. If something doesn't please you, change it. You don't ever have to be the same after today. If you don't like your present address change it — you're not a tree! If there is one thing to get excited about, it's your ability to make yourself do the necessary things, to get a desired result, to turn the negative into success. That's true excitement

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