Insured Retirement Institute

Insight

REGULATIONS Q&A on the state of U.S. insurers with NAIC CEO Dr. Therese Vaughan 2

COMPLIANCE Understanding the impact of Revenue Ruling 2008-24 on partial exchanges of nonqualified annuities 6

EDUCATION Debunking variable annuity myths in light of today's market 8

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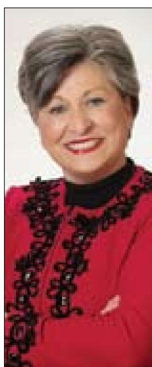
View from the President

by Cathy Weatherford

Welcome to the first edition of the *IRI Insight*—the Insured Retirement Institute's educational news service that we hope will help financial advisors better convey the benefits of insured retirement strategies to their clients as they look for more guarantees and less stress in this post-crisis world.



"This crisis has left millions of people desperately wanting answers on how to protect themselves and some hope of a secure retirement."

Many of you may be hearing of the IRI for the first time. (You may recognize us from our former name—NAVA, the Association for Insured Retirement Solutions.) As you will soon see, IRI is the comprehensive resource for insured retirement strategies for consumers and advisors, and the first-choice source for distributors and financial advisors who handle those strategies.

Why are we talking directly to you now? Because we all have to do everything we can to help Americans find financial guarantees and prepare for the future.

American households just saw $12 trillion in net worth disappear almost overnight. The Dow Jones has suffered its biggest loss since 1931. Managed assets diminished by 30 to 40 percent. Consumer confidence has hit the lowest level since they started measuring it over 40 years ago. These are more than numbers. We saw people we know—family and friends—suffer unimaginable anxiety and financial devastation.

And people don't know what to believe anymore. They had been told that the stock market would never fail, that diversification is equivalent to safety, that you should hold all your cards and wait out the bad times because you'll get it all back and then some. Those firmly held beliefs were washed away along with a big chunk of their nest eggs. This crisis has left millions of people desperately wanting answers on how to protect themselves and some hope of a secure retirement.

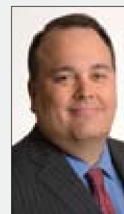
We would have been remiss if we did not take a hard look at ourselves as an industry in the aftermath of this crisis and figure out how to better reach advisors and consumers with our message. So now here we are—and we are starting to see the light at the end of the tunnel.

And there's a good sidebar to the bigger story of the economic crisis—the fact that leading insurance companies held up extremely well through the downturn, kept their ratings high and their reserves conservative and strong. And now people are realizing that there are indeed guarantees in life and they come from the historically strong and sound companies that manufacture and distribute insured retirement strategies like annuities.

So please take some time to read through the following pages. We worked hard to provide you honest, accurate information that will better educate you and, through you, the clients that trust you with their financial futures.

Parting Thoughts on a Year Well Spent

by Mark S. Casady, LPL Financial



When I accepted the position of NAVA chair a year ago, none of us could have foreseen the events of the next several months or the profound impact they would have on our industry. And while no one would have chosen the adversity of the last 12 months, I firmly believe that it has resulted in some very positive changes for organizations that were willing to adapt and anticipate the long-term needs of financial professionals and investors.

As I prepare to turn over leadership of the IRI board to the capable hands of my

continued on page 8

Restoring Retirement Confidence

by James A. Shepherdson, AXA Equitable

When IRI members gathered in Boston this September for our annual conference, we shared a collective sigh of relief that we made it through the last 12 months and survived the worst financial crisis since the Great Depression.

Many member companies date back to the 19th century and have weathered their share of past challenges. This year, once again, our industry persevered through adversity, proving to our clients and skeptics the value of insured retirement income protection products. In contrast to the millions of investors who watched their retirement assets tumble with last year's

continued on page 4

Q&A with NAIC CEO Dr. Therese Vaughan On the State of U.S. Insurers Today

What is the role of state guarantee funds?

Protecting policyholders and the general public against insurer insolvency risk is one of the primary goals of insurance solvency regulation. Regulators protect policyholders' interests by requiring insurers to meet certain financial standards, taking corrective action on insurers when necessary and establishing a backstop if all else fails (i.e., guarantee funds). For example, insurance regulators, along with state statutes, require insurers to meet certain minimum capital and surplus standards (e.g., Risk-Based Capital), comply with investment and reserve requirements, and maintain comprehensive financial reporting requirements, in order to limit insolvency risk.

When an insurer is troubled, the nature of the appropriate regulatory action varies depending on the circumstances. The regulator's main objective is to prevent or minimize losses and to provide protection for claimants, including policyholders. There are two major types of regulatory actions with respect to troubled companies: 1) administrative actions to prevent a financially troubled insurer from becoming insolvent (e.g., restrictions on activities and corrective action plans); and 2) court approved receivership (delinquency) proceedings for the purpose of conserving or rehabilitating an insurer to prevent an insolvency or liquidating an insurer that is insolvent. Regulators are also aware that precipitous regulatory actions would create an unnecessary "run on the bank," exacerbating an otherwise manageable problem. The state regulatory solution is to determine an appropriate intervention strategy given the circumstances surrounding the insurer, the information available and the constraints present at the time regulators must make a decision. Through well-chosen regulator action, many troubled insurers have been successfully rehabilitated and returned to a fully solvent financial position.

If state intervention and receivership proceedings do not fully address concerns and an insolvency occurs, state guaranty associations exist to protect individual policyholders, claimants and beneficiaries against financial losses. Fundamentally, the purpose of an insolvency guaranty law/association is to cover an insolvent insurer's financial obligations, within statutory limits, to certain policyholders, annuitants, beneficiaries and third-party claimants. All fifty states, the District of Columbia and Puerto Rico have guaranty funds for life insurance and annuity products. However, the protection is not absolute. The limits that apply to various forms of life insurance and annuities can range from $100,000 to $500,000 by states.

Overall, the state guaranty funds play an important component of the insurance solvency regulation framework by providing a backstop to policyholders, claimants and beneficiaries when all else fails.

How often do these funds actually need to step in to help pay claims when an insurer cannot?

Insolvencies have been few and far between for the life insurance industry. In 2009, three single state life insurers entered into liquidation from an active status and two insurers moved to liquidation from rehabilitation efforts that occurred since 2004 and 2008. This represents less than one percent of life insurers that report to the NAIC. Additionally, it is important to realize that a life insurer might be in liquidation; however, guaranty fund coverage is not always triggered as the regulator might have intervened in time to conserve sufficient assets and sell off blocks of business to settle all of the claims.

What kind of reserves do insurers have today in most states?

Reserves of various types exist. For example most life insurers maintain an Asset Valuation Reserve that is used to absorb fluctuations in asset values. However, the commonly understood reserves relate to obligations to policyholders. For life and health insurance, the main reserve categories are: (1) the so-called loss or claim reserves and (2) policy reserves. Aggregate net contract claims liabilities totaled approximately $18 billion for life business and $24 billion for accident and health business reported by insurers filing on the NAIC Life blank at year-end 2008. Life insurers held policy reserves totaling $2.03 trillion for life and $180.6 billion for accident and health business. Thus in total, claims and policy reserves are $2.05 trillion for life and $204.6 billion for accident and health.

Insurers do not segregate their reserves by state. In aggregate, the U.S. life insurance industry has capital and surplus of roughly $250 billion and holds assets valued at roughly $4.5 trillion for payment of future claims and benefits. The size and financial strength of insurers varies widely. For information on the size and relative financial strength of a specific insurer, one should go to their state insurance regulator or to the NAIC Consumer Information Source **https://eapps.naic.org/cis/** to review statutory financial statements.

Interestingly, the life insurance industry has remained fairly steady during the recent economic downturn. This can be attributed to the sale of fixed annuities as a result of recent retirees seeking a stable guaranteed

lifetime income and the poor investment returns from the stock markets leading to investors selecting more conservative investment products.

How has the recent financial crisis impacted the business models of U.S. insurers today? Have business models become more conservative?

The insurance industry has learned from the recent economic downturn and made some adjustments to its business practices as a result. For examples, insurers selling variable annuities have redesigned their products to make them more conservative, reducing the generosity of the guarantees and increasing the charges. Life insurers have also tended to increase their allocations toward investments that are more liquid and less subject to credit risk.

What concerns are you hearing from insurance consumers? Where can consumers learn more about solvency regulations in their state of residence?

Consumers these days are concerned about the safety and security of their investments. We hear about the flight to quality from investors and those advising them. Life insurance products and fixed annuities offer a stable and attractive alternative to investors; however they must be confident that their funds are safe when they chose an annuity over another investment.

Consumers can learn more about the health of the life insurance industry and how state insurance regulators monitor the financial health of insurers by visiting the NAIC Center for Insurance Policy and Research. Visit **http://www.naic.org/cipr_topics_page.htm**. Then click on Life Insurer Solvency in the list of topics.

How has the U.S. bailout of AIG impacted people's perceptions or misperceptions of the insurance marketplace in general? Are these perceptions fair?

Unfortunately, many people know AIG as the largest insurance company and do not differentiate between the many varied types of legal entities that exist within the AIG Holding Company structure, including a thrift organization, investment and other financial products companies, many types of insurers, and even some nonfinancial entities such as an airplane-leasing company.

AIG Holding Company's problems began with its financial products unit located in the United Kingdom. The AIG financial products unit sold credit protection to a wide range and number of entities throughout the U.S. and in many other countries as well. Unfortunately since this AIG entity was not a regulated U.S. insurer, it did not price the protection relative to the risks assumed, was not required to maintain assets to cover the liabilities written, and was not subject to minimum capital and surplus requirements to cushion unexpected events or errors in estimates. Once the subprime crisis began unfolding, the rating agencies recognized the increased risk this brought to the AIG Holding Company, which was downgraded. That downgrade caused a reputational response to all AIG entities, not just the financial products unit, and a liquidity crunch ensued that threatened the entire group.

The public perception seems to be that the AIG "insurers" benefitted from the federal bailout. Press releases about compensation packages, meetings and trips to exotic places, add fuel to the public ire regarding this sentiment. In reality, the money from the bailout was needed to satisfy contractual obligations with banks, financial institutions and other entities. Many of those entities have either already required government support or are identified as needing to raise capital. Had AIG not provided the contractually owed billions of dollars to these other entities, the failure rate and dollar amount would have been much greater for these other entities.

To the extent the public lumps all insurance together, then obviously there would be a negative impact to the insurance marketplace in general. Fortunately, there has also been press articles that inform readers about the prudent solvency regulation of insurers conducted at the state level. While insurers are not immune to the recent market impacts, the fact that the industry has weathered this economic storm better than banks and others is a testament to the conservative regulatory requirements maintained by the national system of state-based insurance regulation.

How are international insurance regulations impacting U.S. insurers with global operations?

Insurers participating in other jurisdictions must comply with the requirements of those jurisdictions. Of the more than 5,000 insurance entities in the U.S., very few operate internationally. This fact is an important consideration when U.S. regulators interact with international standard setting bodies. State insurance regulators are eager to help other jurisdictions improve their regulatory systems, but also look to what other countries are doing to see if any best practices would work to improve U.S. insurance regulation. In fact, the NAIC has recently initiated the Solvency Modernization Initiative (SMI) to assess the current solvency framework and suggest changes where needed, and identify solvency initiatives in other jurisdictions that may add value to this review.

How would you characterize or describe the strength of most U.S. insurers today?

Insurance regulators believe most life insurers are well capitalized, and the life insurance industry is well positioned for success in the future. Generally, life insurers tend to invest for the long term rather than short term, so they have fared much better during these hard economic times than banks and securities firms.

Overall, the life insurance industry reported dramatic improvement in profitability as net income totaled $9 billion for the first half of 2009. Despite a moderate decline in net premiums written, A&H premiums increased modestly, and annuity premiums remained solid at $125 billion for the first six months of 2009. Return on equity was a solid 7%, and return on assets also showed significant improvement, with an investment yield of 5.3%.

TRIMMING THE FAT: **NEXT ISSUE TO HIGHLIGHT ADVISORS' TIPS ON STREAMLINING YOUR OPERATIONS**

With Costs on the Rise, Social Security Likely Remains Flat

The Social Security trustees recently announced there will likely be no cost of living adjustments to Social Security benefits for 2010 and 2011. If Social Security payouts remain flat as projected (at press time), next year will be the first year with no increase in monthly benefits since automatic cost of living adjustments were implemented in 1975. With Medicare prescription drug premiums on the rise, some seniors who have these premiums deducted from their Social Security benefits may actually begin to see smaller monthly Social Security checks in the next year. In addition, many retirees are already feeling the pinch of smaller retirement account balances following the sharp stock market declines in recent years.

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Cost of living adjustments are pegged to the Consumer Price Index for Urban Wage Earners and Clerical Workers. The index, compiled by the U.S. Bureau of Labor Statistics, represents a basket of goods and services that includes food, housing and energy prices. In theory, since the cost of goods and services measured by the index has not increased, the buying power of people receiving Social Security benefits should remain the same. In practice, however, senior citizens may still face higher costs of living.

Indeed, senior citizens typically have higher out-of-pocket medical and drug costs than the general population. And because they are more likely to be on a fixed income, retirees have little flexibility to make financial adjustments when prices go up on essentials, or when they face a large, unexpected expense, such as making a repair to their to their home or fixing their car. For nearly the past 25 years, seniors have looked forward to the COLA to help offset their rising expenses. For many, the reality of not receiving an increase in their Social Security check will necessitate that they look elsewhere for additional sources of income.

Given this developing situation, now may be an ideal time to talk with clients who receive Social Security benefits—or who expect to start receiving them in the next two years—about their income needs. Seniors who expect to see their Social Security payments shrink because of increases in Medicare prescription drug premiums may be looking for new sources of income. Depending on the health and interests of the retiree, possible sources of income could include part-time employment and beginning or increasing distributions from retirement accounts. Plus, some of your clients may be interested in learning more about converting part of their retirement savings to an immediate annuity. In essence, an immediate annuity functions as a "do-it-yourself" pension plan for retirees who want to turn part of their savings into a tax-advantaged, predictable stream of income. In addition many annuities feature options that allow for withdrawals to help cover extraordinary expenses, such as medical, long-term care and home repairs.

Whatever your clients decide to do to address their income needs, the key is to have the conversation before their finances become a problem.

Restoring Retirement... *continued from cover*

steep market decline, many annuity owners remained largely on track because of various guarantee features in their contracts.

The financial crisis exposed previously unimagined vulnerabilities, greatly increasing the public's awareness of and need for insured retirement products. Many consumers are coming to financial advisors with questions, seeking balanced information and education about these products. You now have a huge opportunity and a responsibility to help these consumers learn more about how these products can help safeguard a portfolio. IRI's mission is to be your definitive source for information, research and education about all insured retirement products, not just annuities.

> "Our industry is not just transitioning past a crisis. It is transforming."

The markets may seem calmer now, but no one in financial services can afford to return to business as usual. As we look ahead, IRI is positioning itself to help financial advisors like you address other impediments to your clients' retirement security—rising healthcare costs, diminished property values, prolonged unemployment and inflation.

Our industry is not just transitioning past a crisis. It is transforming. We are creating new and, often, simpler products to respond to our clients' heightened sense of risk. We are actively engaged in helping shape regulatory reforms that reinforce our industry's financial health, protect consumers' long-term best interests and ultimately lead to a more secure retirement in America.

I invite you to join us in this transformation. In doing so you will have a prominent voice in assuring that investors and their advisors have access to the products and resources needed to help restore retirement confidence. I look forward to partnering with you as we work together toward this objective.

James A. Shepherdson is incoming Chairman of the IRI Board of Directors. He is also Executive Vice President at AXA Equitable.

VAs' Value Offsets Costs in an Uncertain World

Once an argument against purchasing variable annuities, investors and financial advisors now better understand the costs when weighed against the benefits of a lifetime guarantee. Sure, the fees are still there, but as Baby Boomers watched their retirement plans disappear into the ether over the past year, VAs and their guarantee of steady, continual income became worth the price for customers hungry for the safety nets these products provide.

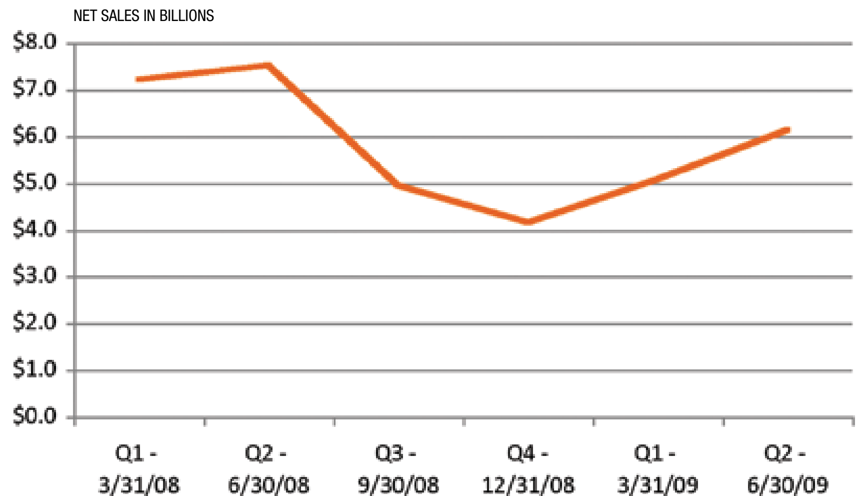
"If a retirement account had a VA in it before the market decline, your assets would been protected," says Peter Welgoss, a research analyst who focuses on VAs for Financial Research Corp. "Consumers in the future are going to take this into account and plan accordingly."

In fact, many customers are opting for the most safety they can buy, with those in the field noting a buying trend toward high daily lifetime income products. This is not surprising, given that investors want assurances—now more than ever—that their retirement will be there when they're ready.

"Cost is only an issue in the absence of value," says Jacob Herschler, senior vice president of strategic initiatives at Prudential Annuities. "And given American's experience last year, they're placing a huge value on income they can get from their retirement savings accounts."

VA QUARTERLY SALES

Variable Annuity Assets Advance Most in 17 Quarters



For a complimentary copy of the 2009 IRI Annuity Fact Book, visit www.irionline.org SOURCE: MORNINGSTAR, INC

Back to Basics

Insurance firms are also making VA's more competitive against other products by focusing more on the basics, such as a lifetime guarantees, and less on the bells and whistles. While the rates are lower in some cases, going from a 7% return, to perhaps 5%, these products are actually more in line with what VAs originally offered when they first appeared on the market, says Welgoss.

By making the VA product simpler, insurance companies are able to lower the cost, bringing increased price competition into the field—making the option more attractive to advisors and their clients. "We're hearing from a lot of advisors who may have been new to the industry, or not sold annuities in the past, who are starting to see some traction," says Welgoss.

Mike Farrell, the New York-based executive vice president for MetLife's U.S. Distribution unit, agrees with this assessment as he watches sales of new policies at MetLife increase "considerably." He's also seen existing customers return to make additional deposits into their policies—a trend which began when the market started its tumble.

"It was different 20 years ago when people had cop and fireman pension plans," he says. "But think about the depreciation during the financial crisis. VAs are uniquely situated to provide safety and predictive income, and protect people from outliving their income."

There is no question that investors approaching retirement are rethinking how much they can save, what they will need in their Golden Years and how they can protect their financial savings. "We see consumers leaning toward and acknowledging that annuities can play a part in a healthy retirement portfolio," says Welgoss.

Education is Key

This is why insurance firms are trying to educate advisors on how to use VAs in their practice. Many planners once turned their clients away from these products, citing cost. But with consumers afraid their retirement dreams—or even retirement needs—may be slipping away, VAs are looking quite different to both groups.

"I think if they don't explore them, they're creating a risk that clients will find these guarantees through other advisors," says Herschler. "Those financial advisors who had not embraced VAs, but focused on systematic withdrawals have had to re-counsel their clients with new concerns about depleting those accounts while still alive."

And that is a risk most older investors are not going to want to take again during their lifetime. Having lived through this downturn, most clients are going to choose an option that lets their money work for them securely, and allows them to breathe a little easier.

"I do think that as we get into the new normal, people will get more into VAs," says Farrell. "The value proposition of an insured income has really started to take hold in the Baby Boomer generation and will continue to grow." ●

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Understanding the Impact of Revenue Ruling 2008-24

The Treasury Department and Internal Revenue Service Revenue Procedure 2008-24 provides guidance on the tax consequences of a partial exchange involving nonqualified annuity contracts. It affects partial exchanges undertaken after June 30, 2008. Though the ruling is complex, the basic theme is simple: If you do a partial exchange, do not take withdrawals from the original source or the new one within the first year. The tax penalties are substantial. However, for advisors who understand the ruling, there is also the potential to use it for their clients' benefit.

"Not many people know about the ruling and penalties can be severe," says Thomas H. Duncan, director of advanced sales at Nationwide Financial Services. In essence, the ruling says if you do a partial exchange, and you take a withdrawal from either the source contract or the new contract within a year of that exchange, you subject that entire exchange amount to income taxation. That would turn a tax-free exchange under section 1035 (which allows an individual to move their nonqualified annuity from one insurance carrier to another and not have to pay taxes) into a taxable one. Says Duncan, "if you utilize a partial exchange there is an exclusionary holding period: wait a year."

On a more positive note, the ruling also offers a potential benefit. According to Duncan, "the upside is you may be able to access the cost basis of the contract faster than if you hadn't done the partial exchange." By splitting the annuity through a partial exchange, there is less gain to tax. For instance, take an annuity worth $200 that has $100 in after-tax basis and $100 in untaxed gains. If you withdrew $100, you would pay taxes on the full $100 dollars. However, if you did a partial exchange and moved $100 to a new annuity contact, you would end up with two contracts—each worth $100, and each with $50 in untaxed gain and $50 in after-tax basis. If you then completely surrendered one of those contracts after waiting out the one-year period, you would only pay tax on the $50 gain in the contract you surrendered.

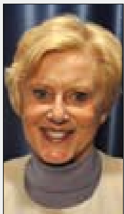
Bryan Keene, a partner at Davis & Harman LLP, which serves as counsel to the industry group The Committee of Annuity Insurers, says the new ruling "is helpful guidance and a significant step in the right direction." But he points out that certain aspects of it need to be clarified in future guidance. The Committee, along with the American Council of Life Insurers, jointly filed a comment letter on May 19, 2008, which identified concerns relating to exceptions to the one-year waiting period. For example, under 2008-24, it appears that someone who "attains" age 59½ within the one-year window would be allowed to take a withdrawal during that window without adverse tax consequences; someone who was already 59½ at the time of the partial exchange would be required to wait out the one-year period before taking any withdrawals.

What is clear, according to Duncan, "is you need to know Rule 2008-24 so you don't violate it. And if you understand the rule you can use to your own advantage if you so choose." ●

The Committee of Annuity Insurers comment letter on Revenue Procedure 2008-24 can be found at: www.annuity-insurers.org/pdfs/CommentsonRevProc2008-24.pdf

Incentivizing Workers to Invest

by Congresswoman Ginny Brown-Waite (R-FL)



Today's fragile economy is causing many Americans to put their retirement planning on hold and focus instead on the mounting stack of bills that are waiting to be paid. Further, the economic downturn has highlighted the precarious state of the Social Security Trust Fund. Just a couple weeks ago, the Congressional Budget Office warned in its updated economic projections that the Social Security Trust Fund would pay out more than it takes in for 2010 and 2011.

I have co-sponsored a bill with my colleague, Rep. Earl Pomeroy (D-ND), which incentivizes workers to invest in a retirement annuity. While Americans are working to make ends meet in their formative years, annuities insure that they do not have to work as hard in their golden years.

The Retirement Security Needs Lifetime Pay Act, H.R. 2748, would encourage workers to annuitize some of their retirement savings by providing a tax exclusion of 50% up to $10,000 of lifetime annuity payments each year. A lifetime annuity is the only financial vehicle that delivers a steady stream of income for life.

Additionally, the bill would exclude from taxes 25% of lifetime income payments from Individual Retirement Accounts (IRAs), qualified plans and similar employer-sponsored retirement savings plans other than defined benefit plans. The bill also excludes the value of longevity insurance from amounts subject to required minimum distributions and clarifies the taxation of partial annuity payments.

By providing incentives for workers to annuitize part of their retirement savings, this bill addresses the management of savings once an individual reaches retirement, an issue previously ignored by public policy. Congress has gone to great lengths to provide incentives to encourage workers to accumulate enough savings for retirement. However, upon retirement, workers face numerous risks in managing those savings throughout their retirement years. Annuities will help them to secure their investment no matter how long they live.

However, this bill is only one step in the process. Without the help of financial advisors, most Americans will not realize the added value that an annuity could have on their retirement. I encourage all financial advisors to educate themselves about this bill, and pass on that education to consumers.

This bill puts choice back on the table. We are in the midst of trying times; annuities help ensure there will be better days ahead. ●

Come 2010, Roth IRAs Are Available to All Investors

After January 1, 2010, the income restriction on Roth IRAs will be eliminated, and high-income investors will finally be allowed to convert their traditional IRA to a Roth. The advantages of a Roth include tax-free withdrawals in retirement, no required minimum distributions and tax-free income for heirs who inherit an account. "The news that anyone in 2010 regardless of income can make a Roth conversion is huge news," says industry expert James Lange, of James Lange & Associates. "This is a very big deal."

Unfortunately, many investors with a household income of $100,000 or more—even those with advisors—do not know about the opportunity. According to a survey by Fidelity Investments, 83% of respondents with advisors did not know about the change coming on January 1. This is surprising, given the number of additional households that will become eligible for a Roth conversion in 2010: 13 million-plus, according to statistics cited by Linda Ward, executive director of retirement services at Morgan Stanley Smith Barney. This equates to $1 to $2 trillion dollars in assets that could be converted. But how many people the conversion will actually benefit is still in question. Ward says, "conversion is a good opportunity for the right people but it is not for everyone."

The Decision to Convert

The benefits and costs of a Roth conversion hinge mostly on the fact that by switching a traditional IRA to a Roth IRA, the investor pays income taxes on the assets much sooner than he or she would otherwise, but can enjoy tax-free distributions thereafter. Assets in a Roth IRA can continue to grow for generations, with no one paying income taxes on distributions, unlike in a traditional IRA. But the act of conversion itself creates income tax on the sums involved, so there are many factors that need to be juggled when contemplating the change.

For many clients, the advantages of tax-free growth and no required minimum distributions outweigh the immediate tax hit of a conversion. This would be the case for a high-net-worth individual who is already in the highest tax bracket and will continue to be so throughout retirement. Here the immediate bump in tax bracket caused by the conversion is not an issue. Also paying tax on the conversion reduces the size of the estate and hence estate taxes.

Alternatively, there could be valid financial reasons not to convert. For instance, a Roth conversion could lead to an immediate and large bump in tax bracket for an otherwise low-income client, draining the assets being converted. Another example is if the client does not have enough money outside of the IRA to fund the conversion and is forced to use assets from the IRA instead, creating an early distribution penalty. Other reasons to consider include assets decreasing after being converted or if the client plans to leave the estate to charity. "In all these cases conversion might not be the right thing," says Lange.

Given the numerous variables involved in conversion, advisors might need help deciding the best move for their clients. For this task, advisors may choose to utilize specialized software, which can be helpful provided the user understands its limitations.

Software Considerations

"Both financial advisors and clients need to approach calculators with a sense of caution," says Ward. As an example, she points to software that does not include the opportunity cost of the lost potential in growth of assets used to pay taxes on a conversion. "The devil is in these details." Her company is working with an outside vendor to build a proprietary software program that takes such factors into account.

Advisors point out that no software program can do everything, because the variables in a conversion are too numerous. For Lange, the software that comes closest is Brentmark Software, which sponsors the site **www.rothira.com**. Another program creating buzz is Retiree Benchmark offered by Retiree Inc. Company founder William Meyer says, "you can't make a good decision regarding Roth conversions without including all your assets and incorporating taxation. Our approach illustrates not only total conversion, but also partial conversion, allowing the advisor and consumer to maximize tax benefits."

Software, however, does not have to be complicated. "We use Microsoft Excel," says attorney Bruce Steiner of Kleinberg, Kaplan, Wolff & Cohen. He points out the calculations involved are not overwhelming and often need to be customized in any case. Says Steiner, "it depends on the degree to which people fine tune it."

Existing software can also be up to the job. Tim Steffen, senior vice president at Robert Baird & Co. says, "You could use a standard software package, as long as your software can handle Roth accounts." Steffen's approach is to run two financial plans, one with a traditional IRA and one that has undergone a Roth conversion, to compare which offers a greater net worth. The length of time the client plans to keep the money in the Roth before withdrawing it, as well as his or her future tax rates, help sway the comparison. Concludes Steffen, "Roth IRAs are a great tool. Though not right for every client, they tend to be appropriate in more cases than not."

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Debunking Variable Annuity Myths

When examined in light of today's market, and investors' eagerness for guarantees, many of the myths surrounding variable annuities begin to melt away. Advisors and clients are discovering that these investments provide protection at a cost commensurate with their price and potential future tax savings.

"It makes sense to me that advisors are taking a harder look at the economics of a product that provides downside protection and hedges against equities," says Frank O'Connor, director, insurance products for Morningstar. "We're seeing sales start to increase and net cash flow into the products, which implies new money."

Here's an analysis of four VA myths, to help advisors and their clients better understand the value variable annuities bring to the marketplace.

Myth One: VAs Don't Belong in Qualified Accounts

Noted financial commentator Suze Orman has long opposed buying VAs for qualified accounts. Her complaint? The tax-deferral benefit of a qualified account negates the tax-deferring benefit of a VA. "But that's like saying that's only what a variable annuity is good for," says John McCarthy, vice president of Advanced Sales Corp.

McCarthy points out that with a VA's living benefits, or guaranteed withdrawals, assets are protected far differently than those invested in a mutual fund. Because of a VA's guarantees, assets are sheltered from the bruising that a pure mutual fund can—and did—take in a bouncing market.

In past bull markets, investors may have felt they did not need these assurances. Following recent market events, however, having this security in place can buy clients much-needed peace of mind.

Myth Two: VAs Are Too Expensive

In the past, many investors sidestepped VAs because they felt the extra cost—when compared to a mutual fund—was not worth the price. And some financial advisors told clients they were not convinced of VAs' value versus their expenses. After all, many VAs had an average 3% buy-in fee, which some investors felt was too high.

But, according to O'Connor, "after investors lost 40% in their portfolio, that 3% looks very different. If I was a self-directed investor, investing in mutual funds in a classic way, I may wonder if they may have been better served by that [fee]."

While VAs can, at times, cost more, they offer guarantees that a mutual fund does not—minimum withdrawals for life, sometimes even if a contract value goes down to zero. That's a plus many investors would not turn down again. "So yes, while they're more expensive, you are getting that guarantee," says McCarthy.

Myth Three: VAs Are Not Tax-Efficient

Evaluating a VA strictly on its tax-efficiency could make it appear a less desirable option than a mutual fund, an investment that does enjoy a step-up in cost basis for capital gains. By comparison, VAs are taxed as ordinary income. However, many believe long-term capital gains rates are likely to go up to balance the Federal debt.

Myth Four: VAs Are Too Confusing

Clients rely on their financial advisors to bring clarity to their retirement plans, and sometimes advisors believe simplicity belies a better product. Target-date funds are a perfect example, a seemingly simple to understand option for both consumers and their advisors.

But the meltdown of target-date funds has put VAs back into favorable light. "You would expect [VAs] are a good conversation topic for an advisor to have with a client," says O'Connor. "You haven't wanted to talk about these before, but now it might be a good time. Especially for Baby Boomers."

So insurance firms are streamlining products and even offering to educate advisors who might be looking at VAs for the first time. "Our big push is to educate those non-annuity advisors who have been burned by what they were doing prior," says Clifford Jack, executive vice president and chief distribution officer for Jackson National Life Insurance. "This is a great opportunity." ●

Parting Thoughts... *continued from cover*

successor, Jamie Shepherdson, I am proud that IRI has responded to the challenges of the last year with clear purpose and forethought for a new future, one in which IRI has evolved to more holistically support the expanding needs of our industry.

This journey began with bringing on board Cathy Weatherford as president and CEO. Cathy's leadership has been instrumental to IRI's accomplishments this year, and I know she will continue to be a strong guiding force for this organization.

One of the highlights of my year as IRI chair has been working with Cathy and the board to redefine IRI's mission to meet the information and advocacy needs of financial advisors and their clients. Our goal is for IRI to become the authoritative source of knowledge pertaining to annuities, insured retirement strategies and retirement planning, and we are well on our way.

To better articulate our new mission and define our organization's place in the industry, we introduced a new brand as we retired the name "NAVA" and became the Insured Retirement Institute (IRI). More than just a name change, becoming IRI was a definitive step toward achieving our mission and vigorously promoting consumer confidence in the value and viability of insured retirement strategies to financial professionals and investors alike.

This past year has seen significant revitalization of our committees, of our public relations efforts and success, and of IRI's prominence as an advocate throughout the nation and on Capitol Hill.

As I look back on my time as IRI Chairman, I am proud of what we have achieved together and excited about the vision we have laid out for the future. As America continues to rebuild from the unprecedented economic events of the past year, those approaching retirement need product choices, research and the counsel of well-informed financial professionals more than ever. In the future, IRI will be at the forefront of ensuring investors and their advisors have the resources needed to plan for retirement.

It has been my pleasure to be a part of this journey, and I look forward to continued involvement as a supporter and advocate of IRI for years to come. ●

Mark S. Casady is outgoing Chairman of the IRI Board of Directors. He is also Chairman and CEO of LPL Financial.