2021 Annuity and Investment Report

A GVA Inc. Publication

As we prepare for 2022, many questions and concerns arise about the financial state of our economy, not only in America but worldwide. The ongoing ISIS issue, immigration, civil wars, health care, the COVID-19 pandemic, and much more make for an uncertain future.

Along with a general feeling of unrest, there seems to be an extraordinary amount of anger. This unprecedented level of anger seems to show itself in the media, the new presidential administration, and general conversations about everyday things. People, in general, are not happy, and striking out at the status quo seems to provide alternatives.

Since we cannot solve all the world's problems, let's at least focus on how our situation is affected and what steps are available to make corrections and alterations.

I feel the three biggest concerns of those about to enter retirement and who are already retired is:

1. Outliving your money
2. Inflation
3. Health care

To address those points means we must address a more complicated issue: the economy, administration, and personal situation.

Market Volatility.

Combine the volatility with the projected slowing of growth of the world's economy, and you have a recipe for an economic downturn, even a possible depression. The world's economy thrives on one single fact: growth. Without growth, the status quo means "economic decline." Here is a chart that illustrates past performance in several indices.

Data as of 2/5/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	-3.10%	-8.02%	-8.85%	8.68%	4.87%
DOW	-1.59%	-7.00%	-9.39%	6.80%	5.01%
NASDAQ	-5.44%	-12.87%	-8.44%	11.51%	9.28%
U.S. Corporate Bond Index	0.00%	0.26%	-5.15%	1.34%	1.13%
International	-1.55%	-8.71%	-13.95%	-1.89%	-1.15%
Data as 2/5/2016	**1 mo.**	**6 mo.**	**1 yr.**	**5 yr.**	**10 yr.**
Treasury Yields (CMT)	0.23%	0.45%	0.55%	1.25%	1.86%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the DJCBP. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The chart above contains aged data which shows the returns picture from 2016. There I incredible data available, use this link to search for your specific interests. Market Indexes | Historical Chart Gallery | StockCharts.com

Consider overall returns of US Corporate Bonds or the yields of US Treasuries. How much would your retirement account have lost if it were invested in International stocks? What if you had been exposed to volatility in the Dow Jones Industrial Average in the past year? How would your retirement accounts have fared if you had chosen absolute security and invested 100% in Treasuries this past time period and been exposed to inflation at the same time.

If the market moves up or down too fast, the market is considered **volatile** and can be too dangerous for wise investment decisions.

- **Retirement income pensions.** Large American corporations which historically have provided pensions and other retirement vehicles to their dedicated employees are now shunning the financial obligation. Simply put, they are outsourcing the obligation to a third party, usually an insurance company. The reason is simple, removing the liability provides the corporation with a known number that can be built into its Pro-forma balance sheet. Many corporations now offer increased incentives for employees to join a different retirement plan, a 401(k). Matching funds to a certain limit is offered, the corporation pays administration fees and many more incentives to move away from guaranteed pension plans. In other words, limit the future financial liability the corporation will face. It comes down to simple math; if you know exactly what the future financial liability will be, then planning for that known liability allows the corporation to build the cost into the cost of goods sold (COGS).

- **Risk is unavoidable.*** Using the term risk when discussing money is quite a different topic. Truer words have never been spoken, and risk is everywhere in our lives; risk is part of our human experience. Many different levels of risk with investments exist, and with an increasing level of risk should come the opportunity for increased yields. That is true, but only to a point; there are many risky investments that most of us would never accept.

***There is a way to reduce income risk by outsourcing to a risk bearer.**

One simple risk option is a Las Vegas Casino. Anyone can go into any casino and place a bet on roulette for almost any amount; the casino will take the risk.

Why?

Because they know that the odds are slightly in their favor, and over time, they will win. What if you took your life savings and placed it on either red or black? If the roulette ball jumps in the color slot you chose, you will either double, or you will lose your money. Simple as that.

Would you accept the risk? Of course not, but it still shows an example of high risk, high reward. The primary risks that most of us face can be summed up in this list:

- Risk of living too long
- Risk of inflation
- Risk of loss of health
- Risk of running out of money

When it comes to investing, you have only 2 choices:

1. Personally accept financial risk in order to increase overall yields
2. Outsource to a 3rd party manager who will accept and manage the risk

"Risk too big or too important to manage should

be outsourced to a risk manager,

a risk manager is an insurance company."

Skyrocketing Health Costs.

For over 100 years, the discussion of a national health care system in America has been both a hot and cold discussion. As president, Theodore Roosevelt first suggested the idea of a health care system that would be available for all Americans. In fact, as a candidate for president, a national health care plan was part of his campaign platform.

The idea lay dormant until after World War II when President Truman suggested to Congress they consider a national approach to health care coverage. His idea was coverage that would include both hospital and doctors' visits and a well-being approach to individual care. President Truman's effort was unsuccessful, and once again, the plan was dormant for another 20 years.

In 1960 John F. Kennedy was elected president, sweeping into Congress with him a democratic majority. His campaign slogan, *"We Can Do Better"* signaled to America that change was coming. The change was in the approach to health insurance. A national study conducted in 1961 found that 56% of Americans over age 65 had no insurance coverage. What began with President Kennedy was finished by President Lyndon B. Johnson in 1965 when legislation was passed to create health care for those 65 and over. Medicare was born. Over 19 million seniors signed up for coverage in the first year.

In 2003 the *Medicare Prescription and Modernization Act* added more options for the prescription drug benefit. This act increased availability to subsidize the cost of prescription drugs to the clear majority of Medicare enrollees.

The *Kaiser Foundation,* in a report at the end of 2014, said Americans enrolled in Medicare numbered 49,435,610. Now consider the coming tsunami of Baby Boomers reaching the age of 65 and gaining the right to enroll in Medicare. At over **10,000** a day, the system currently in place has every possibility of a huge financial overrun**. In 2020 Medicare benefits equaled 15% of the federal budget.** By 2030 it is estimated the percentage could increase to 19%.

The plan was simple, reduce the cost of reimbursements paid to medical providers and create a fund to allow those with no insurance coverage (or medical impairment) to be able to afford health care at a reasonable cost. (Plus, tax increases and other fees)

Take money from one pocket and put it in the other pocket; that is about as simple as it gets. The *Affordable Care Act* is doing just that by gradually reducing the amount of government spending on medical care.

With the magic of the moving money came another sleight of hand: make those who can afford more pay more. The government controls the payment of social security retirement benefits, so it is in the perfect position to know where to extract additional premiums to help with the *Affordable Care Act* cost. Most enrollees in Medicare Part B (supplemental insurance) pay $104.90 per month, but if your income is higher than $85,000, then a new premium is calculated for you. The additional cost on top of the $104.90 can increase as much as $335.70 a month in 2016, that maximum has increased to **$471.** The increase in cost for the enrollee's share from 2016 to 2021 is spiraling up with no end in site. This is based on earnings results, and the amount the enrollee has paid into the system is completely ignored; those earning more pay more.

Naturally, the problem becomes clearer, and if you reduce the amount reimbursed to the health care provider, the obvious thing will happen.

Health care cost after Medicare reimbursement are passed to the enrollee.

The medical provider also faces increases in expenses which is a natural course of business. In 2017 a small increase was set to offset medical costs charged by the provider, that of course, is even less than the set decrease in medical reimbursements estimated when the *ACA* was first adopted.

Here is an example from my personal experience. Recently I needed to visit my primary care physician for my annual Medicare physical, which is needed for a continuing medical need. I spent 10 minutes with the nurse, 15 minutes with the doctor. During that time, only questions and answers were updated in my medical file. Once finished, they updated the file, and I was able to extend the medical need for the next 12 months. I asked about co-pay and was told Medicare would be billed.

The following month I received this bill from my doctor, showing how much I owed Medicare did not reimburse that.

Account Summary	
Charges	$315.00
Payments	$0.00
Insurance Paid	$0.00
You Paid	$0.00
Your Responsibility	$315.00*

Insurance Billing Information
MEDICARE - MEDICARE A & B
BCBS - PREMERA MEDICARE SUPPLEMENT

Because of reimbursement changes, my health care provider was not reimbursed for the cost of my exam, and the provider sent me the bill. This will be commonplace as we move forward; how will those on fixed income pay unreimbursed medical expenses?

Only those who plan and budget for the continual cost of increasing out-of-pocket medical expenses will have a chance of financial survival.

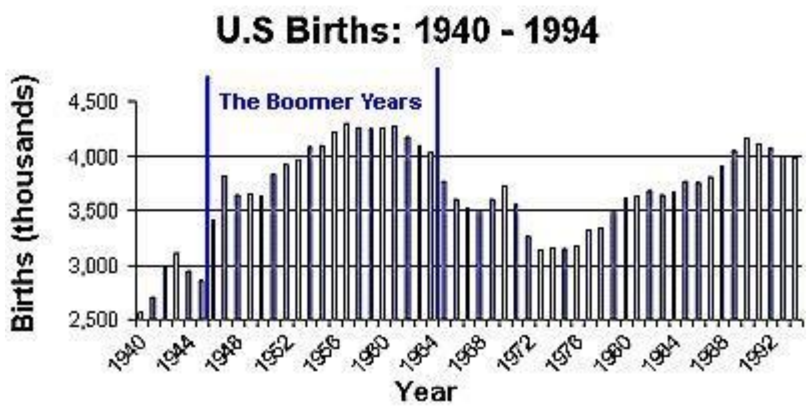
Nothing will compare to the percentage of monthly budgets being decimated more than this one single issue, and yet most have no clue, and few Americans are prepared.

"The Longer You Live, the Longer You Live."

These issues are at the paramount of those looking towards or already in retirement. How do we guarantee income that will last our whole lives? How do we increase our standard of living? How do we make the right decisions?

2021 is going to be a generational transition year, to say the least. Tax reform, the possible loss of the ACA, congressional upheaval, military issues, the budget, it all seems to be ready to come to a boil.

The transition began in 2010 as **10,000** Baby Boomers a day joined the ranks of the newly retired. Now in 2021, the full force of the Baby Boomer transition begins like a huge tsunami, sweeping across our country and hanging everything we have experienced so far. The single largest generational group (80,000,000) will be leaving the ranks of the employed and moving to a new status; retirement. This massive change is beginning now and will continue over the next 12 years.



The impact on our economy and our way of life is unknown now. Such a large group moving from producer to receiver could **influence** virtually all aspects of the American economy.

What about the Baby Boomers themselves? How will they retire?

What are their real needs in retirement, and what options exist for them?

The Boomers will need the basis for what most Americans are investing in for future retirement needs: safety. Safety takes on many forms when dealing with the future, safety of income, the safety of important assets, and inflation concerns.

What we have learned since 2008 is that the future is very hard to predict and has enormous uncertainty. In the past, it was taken for granted that the stock market would rise over almost any specific time period, our homes would increase in value, the stock market could be depended on; history has now proven that is not necessarily correct. Over time, the stock market may rise, our homes may increase in value, but the **time horizons** for that time period may not match for the individual Baby Boomer.

If a Boomer had planned to retire in 2021 and had his retirement account tied to the general stock market, the market exposure in the value of that account from 2008 to 2011 could have been as much as 30%, and that is if the investment had been in well-known American companies.

Has the Baby Boomer had sufficient time to regain the losses from the financial meltdown of 2008?

NO!

The recent market increase has helped BUT, many Baby Boomers simply could not afford the risk of further losses and simply left the market.

Facing this volatility and the mess our financial industry has left us certainly provides the necessity to look at all available options for retirement. **No longer can the Baby Boomer just "assume" that the funds will be available; Wall Street has seen to that.** The person looking at retirement must take an active role in not only providing the funds for his or her retirement but also for the investment choices.

> ***"Sitting passively on the sidelines and not understanding all options is frankly not an option."***

Does the average Baby Boomer have options? The answer is **yes**, with many options and many choices. Let's have a look at the options and the pros and cons. What are the Baby Boomer's real options, and how does he/she protect themselves from situations beyond their control?

Let's examine a few investment options available to the Baby Boomers.

Mutual Funds: The classification of mutual funds is very wide and diverse. Mutual A mutual fund is a group of assets banded together to help diversify the investment risk. Funds can own almost any available asset, such as stock and bonds or any combination of these assets. A common mutual fund could be a "large cap" fund, a fund invested in only large American companies. Still, another could be a bond mutual fund where investment is limited to only bonds (debt instruments). Still, more options could be a combination of stocks and bonds known as a balanced fund. Many options are available to you, the investor. You can diversify and choose between more than 8,000 mutual fund options.

One thing all mutual fund owners share, regardless of which fund they select, is fees.

Mutual funds have a wide and varied source of fee structures, and depending on your choice, the fees can vary from over 3% to less than ½%. The real effect on your invested asset can be critical; the percentage of fees is calculated against your entire account. As an example, if your invested asset was $100,000 and your mutual fund fee was 2%, the overall cost of owning that specific mutual fund would be $2,000 a year. Giving away such large fees can drastically change the funds available to you for your future retirement needs.

What to do? Ask your broker to explain fees and expenses to you. If you still are not sure and the prospectus is difficult to understand, call the mutual fund company and ask them about the annual fees and expenses associated with your fund. A very good source for more information about mutual funds is: www.finra.org

Individual Stocks: Purchasing individual stocks allows you to focus on one specific company or sector. The selection of your stock investment can require research, past experience, and knowledge. Once again, your investment is tied to that company; changes in the product line, competition, and after-tax earnings can have both a positive and negative effect on your investment. Investing in individual stocks should be looked at as a long-term investment. Performance should be weighed over several years and not a number of months. What about Bear Markets? (price decrease) How would you protect yourself? How many months would you need to recover your retirement funds? This is a very important and often overlooked factor.

Bear markets are usually characterized by high volatility and often steep losses. What happens if a Bear Market comes? How does that fit into your planned time horizons?

Last 12 Historical Bear Market Recoveries.

Peak	Trough	Total Return Decline	Months To Recovery
9/7/1929	6/1/1932	-84%	152
3/6/1937	4/28/1942	-42%	14
5/29/1946	6/13/1949	-13%	5
8/2/1956	10/22/1957	-13%	9
12/12/1961	6/26/1962	-22%	10
2/9/1966	10/7/1966	-16%	6
11/29/1968	5/26/1970	-29%	9
1/11/1973	10/3/1974	-43%	21
11/28/1980	8/12/1982	-17%	3
8/25/1987	12/4/1987	-30%	17
7/16/1990	10/11/1990	-19%	4
3/24/2000	10/9/2002	-47%	48
Average		**-31%**	**25**

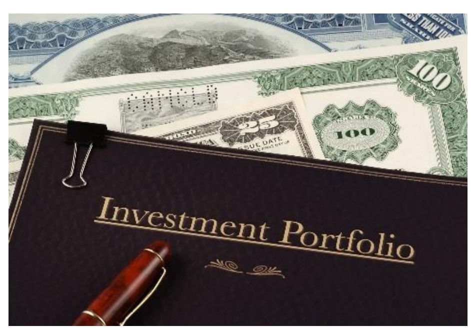
Source: Global Financial Data

Bonds: Investing in bonds means loaning an entity (bond issuer) money. The bond issuer pays a fixed interest rate for the life of the bond, and upon the end of the bond period, the original purchase price of the bond is returned to the bond investor. The problem with bonds is simple:

- Buying a bond means you take credit risk. The credit rating of the bond issuing company is your reference to the amount of risk that your money will be returned at the end of the bond time period.
- Once a bond is issued, the actual value of that bond can change daily as the value of money changes. This means that over the course of a 20-year bond, the value can go up or go down based on market conditions. Bonds should always be considered a long-term investment.

<u>There are bonds with many choices and categories:</u>

- Corporate Bonds
- US Treasuries
- Municipal Bonds
- International Bonds



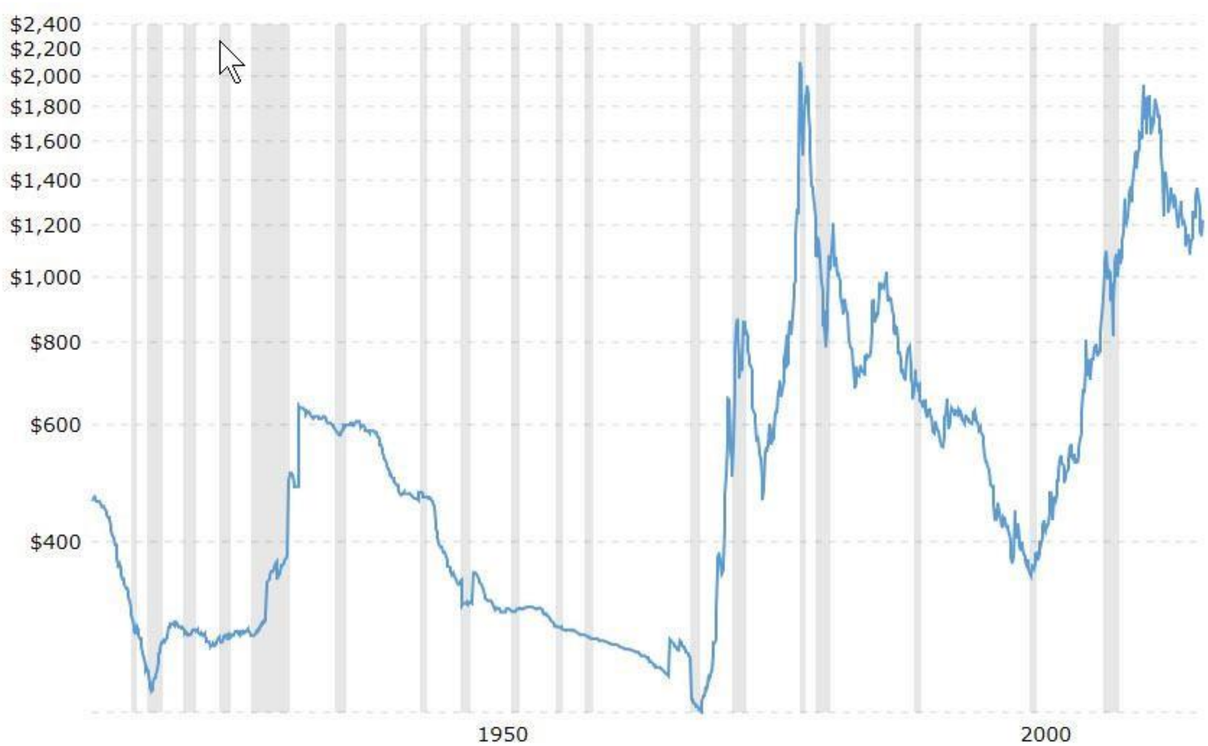
Make sure you understand the length of the bond period (maturity), the interest originally paid on the bond, and the interest you are currently receiving (yield) before making any decisions to use bonds for your retirement investing.

A good source for additional information about bonds is www.investopedia.com

Real Estate: The old adage was buying your home is the best investment you can make. Over the past few years, we have seen firsthand what can happen to the value of real estate. Home values (and other real estate) have dropped dramatically in recent years, and planning to use your home as part of "downsizing" later in life may not be a reality.

Commodities: Gold, silver, and other precious metals have for years been considered a hedge against inflation or a natural home for safety. For the past 30 years (since 1982), gold has not kept up with inflation. Precious metals are significantly volatile, and hedging retirement bets can be very dangerous with this class of assets can be very dangerous.

Gold Prices Chart: Current gold price as of January 23, 2021, is $1,856 an ounce.



As the above chart shows, owning gold means owning volatility.

Annuities: Annuities are extremely boring; they are also safe, secure, and free from market risk. Older generation annuities were fraught with contractual restrictions and favored the insurance company. With proper regulation and a newly designed financial model, annuities have become important in any serious financial planning. Annuities have joined the 21st Century. <u>Annuities have established their position as a mainstream financial vehicle, used by millions of people.</u>

The reason? Simple. **Annuities are safe, secure, and market risk-free.** A key benefit of annuities is allowing the participant to receive money over any period of time, even a lifetime. Annuities allow investing without concern over account values and long-term performance. <u>When you select the income option in annuities, you outsource the insurance company's financial responsibility.</u>

Choosing the correct asset mix depends on one key factor: your individual time horizon.

What is a retirement "Time Horizon?"

A time horizon is the length of time over which an investment is made or held before it is liquidated. Time Horizons can range from a few years to many years; it all depends on your individual situation. It could be decades for a buy-and-hold investor or an individual who is investing in a retirement plan. Investment time horizons are determined more by an investor's goals for the funds rather than the mechanism itself.

The sooner the need for the funds should dictate the amount of risk anyone is willing to accept. If retirement is planned in a few years, the risk would be dangerous; where a time horizon for retirement is 30 years away, some risk may be beneficial.

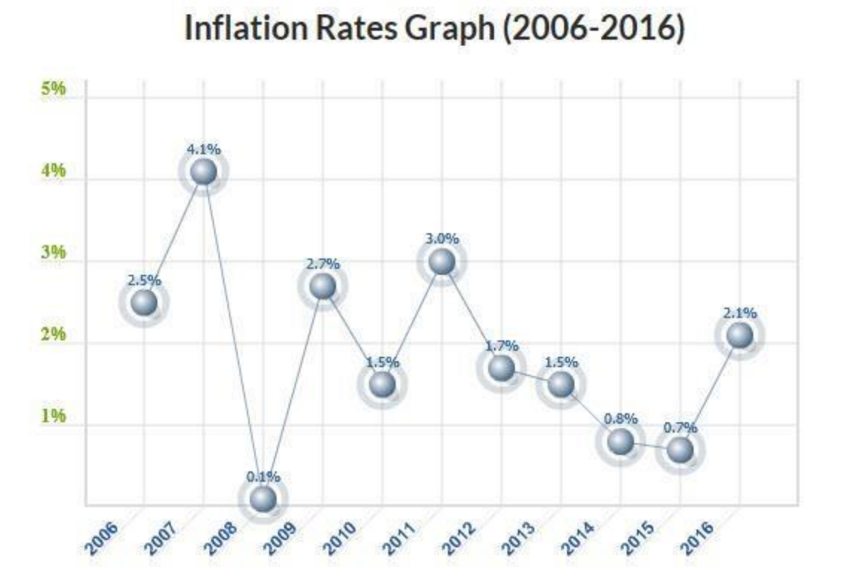
We have discussed the important parts of investment options. As the Baby Boomers move toward retirement, concern over what and how to fund their necessary income becomes very cloudy for the following reasons.

Inflation: How much money will we need in the future? What happens if we lose our purchasing power? Health care costs may be a particular concern and could continue to consume an even greater portion of a retiree's budget. Currently, health care costs are the second-highest increase in pricing costs of vital expense goods in the American economy.

In 2021, per the US Government, the inflation rate was 1.27%.

The inflation rate, per the *US Inflation Calculator* (see link below), averaged 2.18% per year for the past 10 years, which includes deflation that occurred in 2009. Your buying power would have been less simply by choosing the safest of all possible investment options, US Treasuries. http://www.usinflationcalculator.com/inflation/current-inflation-rates/

The historical and accepted definition of **market volatility** is the degree of variation of a trading price series over time as measured by the standard deviation (norm or basis based on past history) of returns.



How do you protect your future value against inflation? I have found the simplest and easiest way to hedge against inflation, simply invest in an asset that has always hedged against inflation: The American Economy.

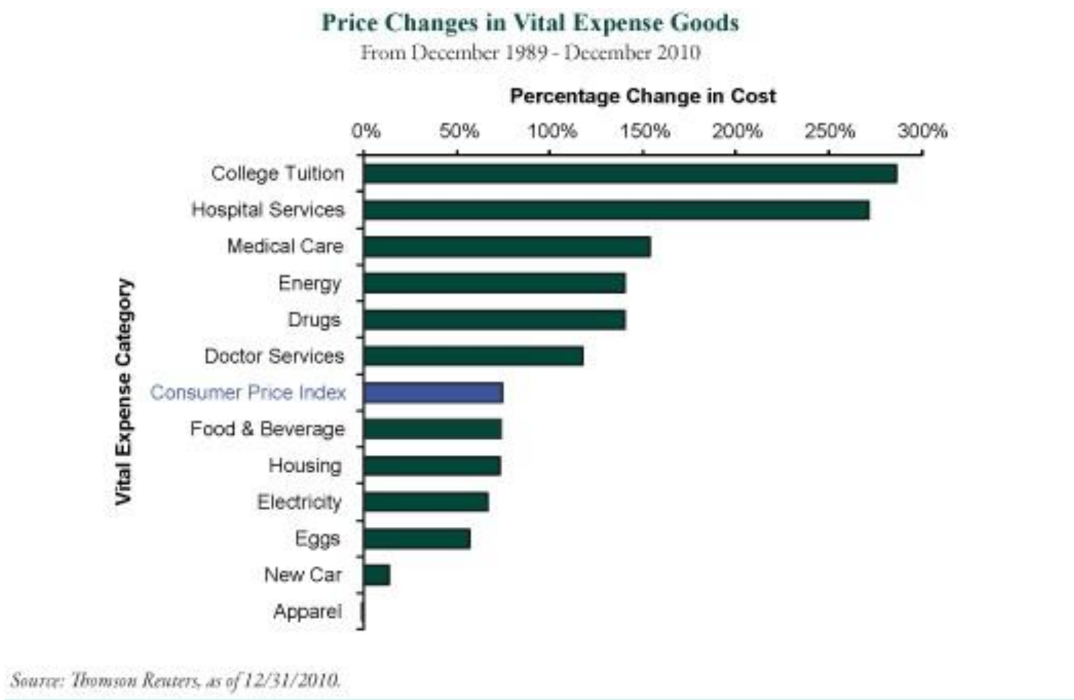
The simplest choice is to buy the American economy by investing in the Standard and Poor's 500 Stock Index. There are numerous avenues to choose from, and I* recommend the Vanguard Stock 500 Index fund simply because it is the least expensive.

Vanguard INVESTMENTS

Here is a link: https://personal.vanguard.com/us/funds/snapshot?FundId=0040&FundIntExt=INT

***I never give investment advice; I am not licensed nor authorized to do so; I give information. The client will need to contact Vanguard (or their choice) and conduct business with them directly.**

Even though this chart is slightly outdated, it does illustrate how inflation affects specific goods and services. As an example, look at the cost of hospital services and medical care from 1989 to 2010; compared to the *"consumer price index"* (CPI) these are staggering increases.



Income or asset transfer? What is the purpose of your retirement account, and what do you want it to accomplish? Most of us use our retirement accounts for income and not asset transfer (asset transfer means selling assets monthly to provide income). This is an important question that needs to be asked and answered.

For most Baby Boomers, the answer is simple, **"Income is King."** Having enough income each month for living expenses, vacation expenses, and life event becomes paramount.

"Volatility and exposure to risk

are no longer acceptable."

How much risk can you afford? What happens when market losses decrease your account? Is your life affected? What rate of return is acceptable to you? Have you thought about your worst-case scenario?

Fees and commissions: The Baby Boomers are more informed. They know to ask about fees and understand how fees can dramatically affect the future value of their retirement account. Fees can include exchange fees, redemption fees, account fees, expense ratio fees, management fees, sales loads fees, deferred charge fees, distribution fees, and other expense fees. Understand the future value of your account when it is subjected to excessive fees.

Debt no longer acceptable: As the Baby Boomers move towards retirement, debt becomes a major issue. The Baby Boomers now know that debt management is essential to long-term retirement management.

Life expectancy: We live longer, and the fear of running out of available retirement income has become paramount. How can we make sure our retirement income lives as long as we do? How do we guarantee our retirement checks will always be there?

Summary: "Income is King."

2021 will be an important year for you and for America. The Presidential Election set a new course for our country and our economy. The debt crisis in Greece, which boiled over to Italy and touched Spain and France, is impacting an uncertain world economy. How this affects the US, and your personal retirement account is still up for review.

One thing is certain, dealing with our **$23,300,000,000 (trillion) National Debt** will certainly impact our tax liability and our net available retirement income.

The question is what to focus on for your individual situation.

How can you accomplish your goals and objectives?

Education about your available retirement fund options should be at the forefront. Defining your risk tolerance and your true retirement objectives is essential to solid retirement planning, and you must know your investment horizons.

The old saying "Cash is King" will not be true for the Baby Boomers in their retirement years.

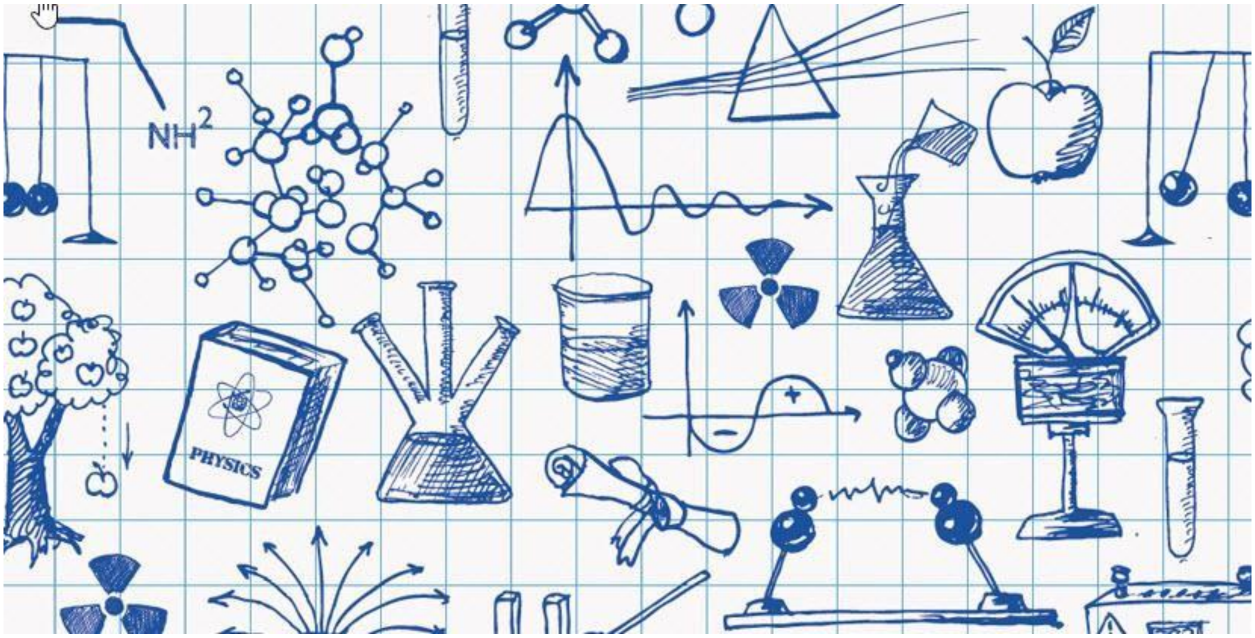
The new slogan will be **"Income is King."** Safe, secure, guaranteed income will be the goal of most Boomers.

What is the answer?

The actual answer is different for everyone but would probably be a combination of available retirement options. These options will include guaranteed income that cannot be outlived, inflation protection, safety and security, and market risk management. These options would be blended with versatility and the ability to make necessary changes and adjustments over a period of time.

For many, the answer is to outsource retirement fund responsibility to a 3rd party administrator, an insurance company.

Learn about what many people are calling the single greatest financial vehicle ever created?



Headlines!

This product will revolutionize retirement planning ………

Evolution in retirement planning has arrived: perfection ………

The solution for lifetime income that can be adjusted has arrived ………

Stockbrokers will flock to this insurance product to hold on to their clients ………

The Baby Boomers retirement utopia has arrived in the form of an income stream that can never be outlived ………….

Fixed Indexed Annuities

Yes, the best financial product created since the depression is a fixed annuity, better known as a *Fixed Indexed Annuity* with a *Lifetime Income Benefit Rider* attached.

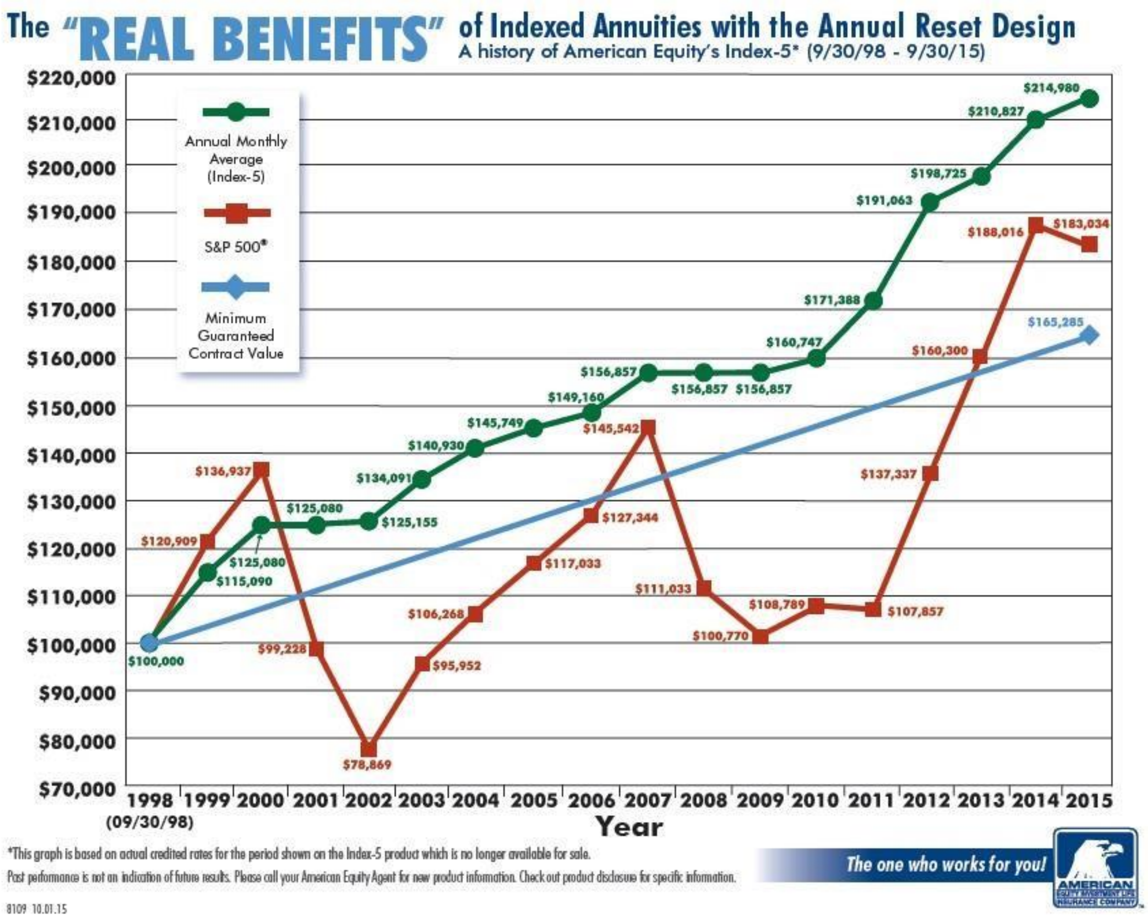
Lifetime Income Benefit Riders (LIBRs)

Lifetime Income Benefit Riders (LIBRs) pay lifetime income based on a percentage of the contract's income value. The percentage is based on the age of the contract holder at the time income starts. This type of rider creates a predictable income check in retirement that will never decrease…and in some contracts, it can increase. Income that can never be outlived.

Fixed Indexed Annuities are insurance products with guarantees:

- Guaranteed to never lose value
- Guaranteed to provide income that can never be outlived

Look at this chart that explains how a Fixed Indexed Annuity can protect your retirement funds from losses. The **red** line is the S&P 500 results based on year to year, and the **Blue** line is the guaranteed minimum from the annuity; the **Green** line shows how this annuity (American Equity Index-5) would have performed during the same time period. (9-30-1998 to 9-30-2015)



It is time to act.

Become educated, be informed, be involved. It is your security.

Many good sources of information are available to you.

www.sec.gov
www.finra.org
www.annuity.com
www.bankrate.com
www.kiplinger.com
www.american-equity.com

Disclosure: It is important to understand exactly what this report means and how to interpret it. This report is my personal opinion based on my observations of the economy and financial markets. I am not a trained economist, nor am I licensed to sell securities and give financial advice for fees. I am an insurance salesman who specializes in annuities provided by insurance companies. I am a partner in Annuity.com as well as other financial websites.

The information in this booklet is assumed to be accurate, please verify any information which may effect any decision.

As with all important decisions, careful evaluation of your goals and investments should be made before any final decisions be are considered.

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