Legal White Collar Thievery

"It is true that a fool and his money are soon parted, but no one does it faster and more efficiently than the financial industry; they make you the biggest fool of all." Bill Broich

Most banking and financial industry customers are entirely clueless when it comes to expenses, fees, and charges deducted from their account. Financial fees are the number one source of income for every financial institution in existence. This includes banks, stockbrokers, universities, and your neighborhood credit union. Subtracting fees from your account is easy; they already have access to your funds, and their thievery is legal and automatic.

Learning how the system works and understanding fee structure could help you put an end to the onslaught of account reduction you face daily. Imagine if you could stop your ATM fees and save the average monthly fee of $26.00 a month, which is more than $300 a year in savings. I will show you how to do just that, and I will show you what your bank does not want you to know!

And that is just the beginning, everyone wants your money, and if you do not understand the system, you are a sitting duck!

Bill Broich

Thievery? Really? How can this happen? First, let us look at the definition of thievery.

Thievery: the action of stealing another person's property.

Is not stealing illegal? The simple answer is yes, stealing is illegal, but it does become legal if you were informed and agree with it.

Why would anyone agree to have their property stolen? Believe it or not, it happens every day all day. It occurs when you sign up for any bank service or any securities purchases. The agreement you sign shows what fees and expenses you will be exposed to with any transaction. Banks provide you with a list of services and charges, but they can change (increase) without your permission; they simply notify you of fee and expense increases.

Want an example of how banks use fees and expenses to generate obscene profits? Let us focus on two simple tools they use to increase their bottom line.

Information You Need to Know to Manage Your Money and Your Bank

Is not stealing illegal? The simple answer is yes, stealing is illegal, but it does become legal if you were informed and agree with it.

Bank fees are remarkably high; most banks would not exist if they could not charge fees. According to the Public Interest Research Group, in the first three quarters of 2018, overdraft fee revenue accounted for an average of 8.1 % of banks' net income.

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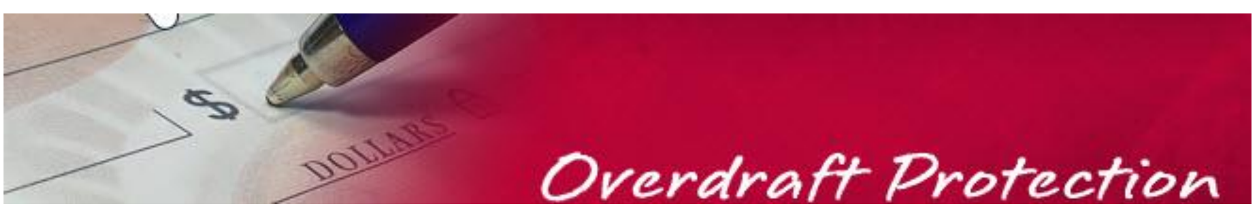


If you have a checking account with a bank an overdraw your account, a fee is charged and added to your deficit. On the surface, that seems reasonable; after all, you spent money you did not have. The bank paid your check with their money and charged you a fee, an overdraft fee. Most banks limit the amount of total overdraft on any one account; once that is reached, the bank continues to add more fees but does NOT pay the checks; they are returned as insufficient funds.

The history of this fee is interesting. It originated to help bank customers by covering an occasional mistake; naturally, an expense was incurred, and to charge a fee seemed reasonable.

In 1980, the fee for an overdrawn account was $5 per incident; last year, the average was nearly $45.

$5 to $45 over 36 years in an increase of 6.5% per year. Compare this to inflation for the same time period, $5 in 1980 would have a value of $15.50 in 2019. Bank fees of $45 compared to an inflation rate of $15.50. The difference is **322%** higher.

How much does this add up to for additional fee revenue for banks? In 2019 a study by the *Center for Responsible Lending* estimated it to be $11.6 billion annually. https://www.nytimes.com/2020/06/03/business/banks-overdraft-fees.html?

As of July 1, 2010, banks must ask new customers if they wish to opt-in to overdraft protection. That legislation extended to existing customers on August 15, 2010. There is no legislation regarding how much money can be charged for overdraft fees, meaning customers who opt-in to the program could still pay up to $45 for transactions that take them even $5 into overdraft. While this law was well-intended, it was spun by the banks as a benefit:

"let us help you not to have returned checks."

(this was the lead focus of a national bank's advertising campaign.)

The Four Types of Overdraft Fees

https://www.valuepenguin.com/banking/bank-overdraft-fees

While most banks charge similar amounts for each fee, they sometimes apply slightly different rules to how each fee works and charged. The multiple fees involved in an overdraft represent some of the highest checking accounts that banks charge. Besides the standard overdraft fee, you may encounter the nonsufficient funds (NSF) fee, the overdraft protection fee, and the extended overdraft fee.

Overdraft Fee

The most obvious fee involved in an overdraft is the simply named overdraft fee, which occurs each time the bank approves a transaction that exceeds your available balance. Typically, banks do not charge the overdraft fee when you overdraw by less than $5.

Every bank and credit union has its own limit on the number of overdraft fees it will charge in one day. You can commonly expect banks to charge a maximum of 4 to 6 overdraft fees per day per account, though a few outliers do allow as many as 12 in one day.

NSF Fee

The nonsufficient funds (NSF) fee occurs each time the bank chooses to reject a transaction that overdraws your balance. Practically every bank charges the same amount for overdraft and NSF fees, and the two are often printed as one figure in your schedule of fees.

Since a bank must choose between approving and declining an overdraft, a single overdraft will cost you either an overdraft fee or an NSF fee, but never both. However, a few banks do distinguish between the two fees when they count the daily maximum. *For example, U.S. Bank* will only charge up to 4 overdraft fees per day, but counts the limit on NSF fees separately, so that you can end up paying **eight** separate penalties in a day.

Overdraft Protection Fee

Also called the overdraft transfer fee, the overdraft protection fee is charged for every time the bank arranges a transfer from another one of your accounts —usually a savings account —to cover the overdraft. Legally, banks cannot include overdraft protection as an automatic account service, so customers must opt into activating the feature.

Online banks often provide overdraft protection for free, but if you are at a standard bank, you can expect to pay anywhere from $10 to $12.50 per transfer. (some banks allow a free number per month, then fees will begin when the limit is reached) While this can save you money in comparison to paying overdraft or NSF fees, if the bank's policy does not include mandatory notifications for each overdraft transfer, you may end up draining your savings before you realize what's happening.

Extended Overdraft Fee

The final fee in the arsenal of overdraft penalties is the extended overdraft fee. This fee is sometimes called a sustained overdraft or extended overdrawn balance fee, and it comes into play when you leave your account balance in the negative for a certain number of days. In most cases, you have 5 business days or 7 calendar days to fix your balance before the extended overdraft fee takes your account even deeper into the red.

Some banks charge this fee once every 5 days, while others go so far as to assess the fee every day until you bring your balance back above zero. The maximum number of extended overdraft fees you can incur varies by bank.

Help Yourself by Reading the Fine Print and Asking Questions

Try to understand your bank's overdraft policies. The deposit account agreement and personal schedule of fees you receive when you open your account should cover fee limits, recurring fees, and other quirks in the bank's rules. You can obtain extra copies of these documents either online or directly through your bank.

These are a few of the points you might want to investigate:

- Does the bank notify you when an overdraft occurs or is the overdraft fee a "silent" charge that might end up surprising you?
- Does the overdraft fee apply only to written checks and automatic transfers, or does it also cover debit card swipes and ATM withdrawals?
- How long can your account stay overdrawn before the extended overdraft fee kicks in, and how long before that fee is charged a second or third time?

If you cannot find the answers to such questions in the documents, you should ask a bank representative by phone or in-person to clarify your situation.

Use Overdraft Protection with Caution (Overdraft protection can be a loan that charges interest)

Overdraft protection is not a way to avoid fees. Still, careful management can help you reduce them: paying the typical $10 to $12.50 per protective transfer is still preferable to get hit with a $35 (or more) overdraft or NSF charge. Also, using overdraft protection will ensure that your transaction is not rejected, as it may be if the bank decides to decline a normal overdraft.

However, overdraft protection services can be costly if you overuse them. The service itself costs a fee each time it is activated, and you are also spending money out of your savings account or a line of credit to cover the overdraft. In extreme cases, you may even run into savings account fees: use overdraft protection more than 5 or 6 times in a month, and the bank may charge you a penalty for exceeding the federal limit on savings account withdrawals.

Banks are legally required to offer overdraft protection as an opt-in service rather than an automatic feature, so if such an arrangement appeals to you, you will need to contact your bank to set it up.

Be cautious for Savings Account Fees.

Savings Account Fees: What They Are and How Much They Cost

Typical savings accounts come with a monthly maintenance fee and an excessive withdrawal fee; both can be avoided if you meet certain conditions in using your account. Incidental fees, which are charged for specific services, often hide in the fine print of fee schedules, which not all banks make readily available. Bank fees may vary from monthly service fees of around $5 to stop payment and insufficient fund fees of as high as $35. Avoiding fees on your savings account is vital if you wish to maximize the interest your money earns, especially with today's low-interest rates. Even a small deduction from your principal can become a significant loss over time.

- Monthly Fees for Savings Accounts

- Online Saving Account Fees
- Withdrawal Fees
- Inactivity fees

Certificates of Deposit (CD) created an entirely new avenue for banks to **take advantage of depositors** not paying attention. (and you agreed to it when you opened your account)

How about a second fee charged by banks negotiated through Congress by the banking industry is called the **new money rate and the old money rate.** It is not a fee but an abuse of depositor money. The less a bank must pay in interest for funds on deposit, the more margin it can make on your deposit

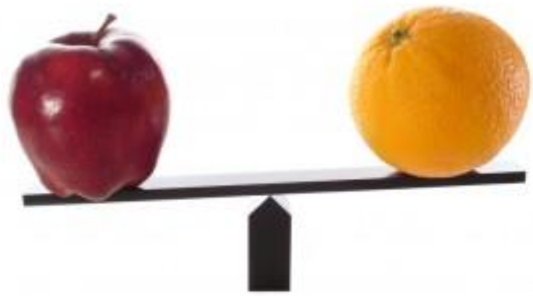
If you have a bank certificate of deposit and it matures, the bank will automatically rollover your **Certificate of Deposit** unless you tell them not to. If they do so automatically, you might be earning a lower rate than is offered, new depositors. This simple change in rules has allowed banks to earn a greater rate on the funds on deposit.

How much difference can an automatic rollover rate be? New money rates intended to attract new depositors can be as high as 2.5% for a 3-year CD, but the rollover rate can be as low as .8% (higher or lower depending on current interest rates) for the same money on deposit in the same cd at the same bank.

Ask your bank for a list of fees, charges, and expenses for bank services. As an example, here is **Bank of America**, 16 pages long and small print.https://www.bankofamerica.com/smallbusiness/resources/business-schedule-fees.go

Many people have found that buying a **"multiyear guarantee annuity"** can make more sense than a bank CD; here is more info: http://www.annuity.com/should-you-choose-an-annuity-or-a-bank-certificates-of-deposit/

If your important funds' safety and security are important, should you choose to hold your funds, banks, or insurance companies?



While there is no **"correct"** answer for everyone, both choices have benefits. Your decision should be based on your specific situation and goals.

Both banks and insurance companies are highly regulated and insured. The choice should be based on your specific needs.

1. The already low interest paid on **CDs is taxable** whether you use it or not. Do not be fooled. A 5-year CD still gives you a 1099 every single year. **Annuities are only exposed to tax liability when the funds are accessed**, either by the annuity owner or later to a named beneficiary
2. In many states, an annuity may have some level of exemption from creditor liens and judgment. The amount that can be protected varies based on your state of residence. A CD can be garnished or seized. In most situations, a Bank CD is an exposed asset to creditors.
3. Unless you specify **named beneficiaries**, your CD may be subject to probate expenses. Annuities are contracts, and you can name a beneficiary. Named beneficiaries may receive the proceeds without probate expense or time delay.
4. The interest on your CDs may reduce your **Social Security benefits.** Again, because you are given a 1099 each year, this interest on your CD is considered income. Therefore, this income may push you into a higher tax bracket, which could reduce your Social Security

benefits because of the higher taxes you may be forced to pay. Unless you need the earned interest, consider an annuity; interest earned annually is not considered income until the funds are touched.

5. Your CD cannot give you triple compounding, but an annuity can. Again, because a **CD is taxed every year**, your money cannot grow on a tax-deferred basis. **Annuities are tax-deferred,** allowing you to defer the tax liability, earn interest on taxes you did not have to pay and interest on the deferred interest.
6. **Income**. Annuities can provide income for any time period, even a lifetime. In the event you live longer than expected, an annuity can keep the income coming. Income from a bank cd can only provide income as long as there are funds available. When the account is diminished, the income stops. Unlike annuities, this vehicle cannot provide you with a lifetime income guarantee.
7. **Bank CDs have no catastrophic clauses.** For the most part, CDs will not let you liquidate without penalties; annuities have contractual guarantees that allow for access under specific conditions, such as a prolonged nursing homestay.
8. Bank CDs provide options for safety and security for a shorter time period than do insurance company annuities. Often a **combination of short (bank cd) and long positions (annuity)** may provide a higher yield overall.

I use bank CDs constantly to park money and to help my clients with short term money rates. The best place to find the highest available bank Interest rates at www.bankrate.com

More bank fee information provided by Investopedia:

- Monthly Account Maintenance Fees
- Minimum Balance Fees
- Overdraft/NSF Fees
- Overdraft Protection Fees
- Returned Deposit Fee
- Additional Checks Fees
- Cashier's Check Fees
- Paper Statement Fees
- ATM Fees
- Debit Card Transaction Fees
- Lost Card Fees
- Foreign Transaction Fees
- Wire Transfer Fees

- Savings Withdrawal Fees
- Inactivity Fees
- Account Closing Fees
- Negative Interest
- How to Limit Bank Fees
- The Bottom Line

S-l-e-a-z-y

If you think banks have fees and expenses, wait until you learn about securities. If you are considering buying a security (stocks, bonds, mutual funds, variable annuities), you will be provided with full disclosure; this instrument is called a **prospectus.**

A **prospectus** is a disclosure document that describes a financial security for potential buyers. It commonly provides investors with material information such as a description of the company's business, financial statements, biographies of officers and directors, detailed information about their compensation, any litigation that is taking place, a list of material properties, and any other material information. It also includes a listing of expenses, fees, and additional charges associated with any security purchase. In other words, full disclosure.

How does a prospectus work? In a short definition, it means disclosure of all aspects of the investment. A prospectus is a formal legal document required by and filed with the **Securities and Exchange Commission** that provides details about an investment offering for sale to the public.

A prospectus must be given to a prospect before a security can be sold.

It has been my experience that most people who buy securities, such as a mutual fund, do not read the prospectus. Many fund companies provide a "summary" or an abbreviated prospectus.

What is the problem? The problem is one of complexity; a prospectus is a legal document written by attorneys designed to provide all required information. The problem is the severity of the information; most prospectuses are challenging to read and even more difficult to understand. Once you have signed the paperwork and accepted the prospectus, you are subject to the expenses and fees associated with the security.

Work hard and give your money away. How does that sound? Believe it or not, many people are doing just that.

How would you feel in someone who was earning 20% on your money, and you were taking the risk? How about 5%? 10%? How would you feel if someone was making money on your retirement account, and you were losing money? It is happening now, and it has been for a long time.

Here is a simple example of the point I am making.

Example: An account with a broker who charges 1% for any asset under their management. (AUM) The account returns 5% net after expenses. You took the risk; it is your money. How can the broker earn almost 20% on your investment? You made a net 5%, and the broker made 1% (asset fee) on your full account. 1/5 is an excellent ratio for the broker, no risk, no gamble, and the brokers get paid regardless if you made or lost money. What happens to the brokers 1% if the account lost money? **They still get paid!**

How can this be happening? How could financial regulators allow this? Who is protecting the investor?

Exactly what is happening?

Let us look at reality. Depending on your profession, you are an expert in your own field, whether it is a mail carrier, a doctor, or a factory worker, each of us knows more about our specific job than others do. In becoming a specialist in our job, we recognize others for their specific knowledge and ability. **That opens the door for someone to take advantage.** The advantage could be the auto repairman, the grocer, and the financial broker.

How could the broker make so much money from your account without your knowledge or permission? You were informed the simple fact is this, and you gave your permission when you signed up for the account and agreed to the fee and expense structure!

Details? When you signed with your broker, you agreed to do business with their broker/dealer. The broker/dealer became the custodial of your assets, and their employee, the stockbroker, did the management. For their services, they charge fees, fully allowable by the SEC and the industry manager, FINRA. The fees and all charges were provided you in a document called the *prospectus*. In that document are outlined performance history, goals, fees and expenses, and other costs.

In addition to the fees disclosed in the prospectus, there can be fees for their employee, the broker. The broker can also charge you an additional fee for their time or their advice in the form of asset management fees. If you add the possible fees together, they can add up to a terrific portion of your eventual retirement account.

There are many choices for investing. As an example, we will use one specific type of security: **open ended mutual funds**. Open-ended mutual funds are extremely popular and widely held.

U.S. SECURITIES AND EXCHANGE COMMISSION

Here is a definition from the Securities and Exchange Commission (SEC).

https://www.sec.gov/answers/mutfund.htm

Mutual Funds

A mutual fund is a type of investment company that pools money from many investors and invests the money in stocks, bonds, money-market instruments, other securities, or even cash. Here are some characteristics of mutual funds:

Investors purchase shares in the mutual fund from the fund itself, or through a broker for the fund, and cannot purchase the shares from other investors on a secondary market, such as the New York Stock Exchange or Nasdaq Stock Market. The price that investors pay for mutual fund shares is the fund's approximate net asset value (NAV) per share plus any fees that the fund may charge at purchase, such as sales charges, also known as sales loads.

Mutual fund shares are "redeemable." This means that when mutual fund investors want to sell their fund shares, they sell them back to the fund, or to a broker acting for the fund, at their current NAV per share, minus any fees the fund may charge, such as deferred sales loads or redemption fees.

Mutual funds generally sell their shares on a continuous basis, although some funds will stop selling when, for example, they reach a certain level of assets under management.

The investment portfolios of mutual funds typically are managed by separate entities known as "investment advisors" that are registered with the SEC. In addition, mutual funds themselves are registered with the SEC and subject to SEC regulation.

There are many varieties of mutual funds, including index funds, stock funds, bond funds and money market funds. Each may have a different investment objective and strategy and a different investment portfolio. Different mutual funds may also be subject to different risks, volatility, and **fees and expenses. Fees reduce returns** on fund investments and are an important factor that investors should consider when buying mutual fund shares.

The important part of the SEC definition is the warning about fees and expenses. Many mutual funds are exposed to fees and expenses. Here is a list:

Mutual Fund Fees and Expenses

As with any business, running a mutual fund involves costs. For example, there are costs incurred in connection with investor transactions, such as investor purchases, exchanges, and redemptions. There are also regular fund operating costs that are not necessarily associated with any investor transaction, such as investment advisory fees, marketing and distribution expenses, brokerage fees, and custodial, transfer agency, legal, and accountant's fees.

Some funds cover the costs associated with an individual investor's transactions and account by imposing fees and charges directly on the investor at the time of the transactions (or periodically with respect to account fees). These fees and charges are identified in a fee table, located near the front of a fund's prospectus, under the heading "Shareholder Fees."

Funds typically pay their regular and recurring, fund-wide operating expenses out of fund assets, rather than by imposing separate fees and charges on investors. (Keep in mind, however, that because these expenses are paid out of fund assets, investors are paying them indirectly.) These expenses are identified in the fee table in the fund's prospectus under the heading "Annual Fund Operating Expenses."

A frequently asked question is whether the SEC imposes any specific limits on the size of the fees that a fund may charge. The short answer is the SEC generally does not, although the SEC limits redemption fees to 2% in most situations. The Financial Industry Regulatory Authority (FINRA), however, does impose limits on some fees.

Shareholder Fees

Sales Loads

Funds that use brokers to sell their shares typically compensate the brokers. Funds may do this by imposing a fee on investors, known as a "sales load" (or "sales charge (load)"), which is paid to the selling brokers. In this respect, a sales load is like a commission investors pay when they purchase any type of security from a broker. Although sales loads most frequently are used to compensate outside brokers that distribute fund shares, some funds that do not use outside brokers still charge sales loads. The SEC does not limit the size of sales load a fund may charge, but FINRA does not permit mutual fund sales loads to exceed **8.5%.** The percentage is lower if a fund imposes other types of charges. Most funds do not charge the maximum.

There are two general types of sales loads—a front-end sales load investors pay when they purchase fund shares and a back-end or deferred sales load investors pay when they redeem their shares.

Sales Charge (Load) on Purchases

The category "Sales Charge (Load) on Purchases" in the fee table includes sales loads that investors pay when they purchase fund shares (also known as "front-end sales loads"). The key point to keep in mind about a front-end sales load is it reduces the amount available to purchase fund shares. For example, if an investor writes a $10,000 check to a fund for the purchase of fund shares, and the fund has a 5% front-end sales load, the total amount of the sales load will be $500. The $500 sales load is first deducted from the $10,000 check (and typically paid to a selling broker), and assuming no other front-end fees, the remaining $9,500 is used to purchase fund shares for the investor.

Deferred Sales Charge (Load)

The category "Deferred Sales Charge (Load)" in the fee table refers to a sales load that investors pay when they redeem fund shares (that is, sell their shares back to the fund). You may also see this referred to as a "deferred" or "back-end" sales load. When an investor purchases shares that are subject to a back-end sales load rather than a front-end sales load, no sales load is deducted at purchase, and all the investors' money is immediately used to purchase fund shares (if no other fees or charges apply at the time of purchase). For example, if an investor invests $10,000 in a fund with a 5% back-end sales load, and if there are no other "purchase fees," the entire $10,000 will be used to purchase fund shares, and the 5% sales load is not deducted until the investor redeems his or her shares, at which point the fee is deducted from the redemption proceeds. Typically, a fund calculates the amount of a back-end sales load based on the *lesser* of the value of the shareholder's initial investment or the value of the shareholder's investment at redemption. For example, if the shareholder initially invests $10,000, and at redemption the investment has appreciated to $12,000, a back-end sales load calculated in this manner would be based on the value of the initial investment—$10,000—not on the value of the investment at redemption. Investors should carefully read a fund's prospectus to determine whether the fund calculates its back-end sales load in this manner. The most common type of back-end sales load is the "contingent deferred sales load," also referred to as a "CDS," or "CDSL." The amount of this type of load will depend on how long the investor holds his or her shares and typically decreases to zero if the investor hold his or her shares long enough. For example, a contingent deferred sales load might be 5% if an investor holds his or her shares for one year, 4% if the investor holds his or her shares for two years, and so on until the load goes away completely. The rate at which this fee will decline will be disclosed in the fund's prospectus.

A fund or class with a contingent deferred sales load typically will also have an annual **12b-1 fee.**

What exactly are 12 b-1 fees?

The short answer, compensation, trailing compensation that may be paid for the life of the investment.

Use this link to find information investing https://www.finra.org/investors#/

A 12b-1 fee is an annual marketing or distribution **fee** charged as an expense on a mutual fund. The **12b-1 fee** is an operational expense and, as such, is included in a fund's expense ratio. It is generally between 0.25 and **1**% (the maximum allowed) of a fund's net assets. Many organizations can share this revenue with the soliciting broker.

The fact that the SEC has allowed 12 b-1 fees as distribution expenses and allowed them to be added to the overall expenses of a mutual fund has led to a diminished rate of return for mutual fund owners.

While on the surface, .25% annual expense does not seem like a lot, it can be. Consider the expense in a long-term investment, adding up each year based on the actual value of the mutual fund. The losses to the fund owner can be significant and all at the benefit of those who originally sold the investment.

A Word About No-Load Funds

Some funds call themselves "no-load." As the name implies, this means that the fund does not charge any type of sales load. As described above, however, not every type of shareholder fee is a "sales load," and a no-load fund may charge fees that are not sales loads. For example, a no-load fund is permitted to charge purchase fees, redemption fees, exchange fees, and account fees, none of which is a "sales load." In addition, under FINRA rules, a fund is permitted to pay its annual operating expenses and still call itself "no-load," unless the combined amount of the fund's 12b-1 fees or separate shareholder service fees exceeds 0.25% of the fund's average annual net assets.

Redemption Fee

A redemption fee is another type of fee that some funds charge their shareholders when the shareholders redeem their shares. Although a redemption fee is deducted from redemption proceeds just like a deferred sales load, it is not considered to be a sales load. Unlike a sales load, which is used to pay brokers, a redemption fee is typically used to defray fund costs associated with a shareholder's redemption and is paid directly to the fund, not to a broker. The SEC limits redemption fees to 2%. The SEC has adopted a rule addressing the imposition of redemption fees by mutual funds in Rule 2-2 of the Investment Company Act of 1940.

Exchange Fee

An exchange fee is a fee that some funds impose on shareholders if they exchange (transfer) to another fund within the same fund group.

Account Fee

An account fee is a fee that some funds separately impose on investors in connection with the maintenance of their accounts. For example, some funds impose an account maintenance fee on accounts whose value is less than a certain dollar amount.

Purchase Fee

A purchase fee is another type of fee that some funds charge their shareholders when the shareholders purchase their shares. A purchase fee differs from, and is not considered to be, a front-end sales load because a purchase fee is paid to the fund (not to a broker) and is typically imposed to defray some of the fund's costs associated with the purchase.

Annual Fund Operating Expenses

Management Fees

Management fees are fees that are paid out of fund assets to the fund's investment adviser (or its affiliates) for managing the fund's investment portfolio, and administrative fees payable to the investment adviser that are not included in the "Other Expenses" category (discussed below).

Distribution [and/or Service] (12b-1) Fees

This category identifies so-called "12b-1 fees," which are fees paid by the fund out of fund assets to cover distribution expenses and sometimes shareholder service expenses. **"12b-1 fees"** get their name from the SEC rule that authorizes a fund to pay them. The rule permits a fund to pay distribution fees out of fund assets only if the fund has adopted a plan (12b-1 plan) authorizing their payment. "Distribution fees" include fees paid for marketing and selling fund shares, such as compensating brokers and others who sell fund shares, and paying for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. The SEC does not limit the size of 12b-1 fees that funds may pay. But under FINRA rules, 12b-1 fees that are used to pay marketing and distribution expenses (as opposed to shareholder service expenses) cannot exceed **0.75 percent** of a fund's average net assets per year.

Some 12b-1 plans also authorize and include "shareholder service fees," which are fees paid to persons to respond to investor inquiries and provide investors with information about their investments. A fund may pay shareholder service fees without adopting a 12b-1 plan. If shareholder service fees are part of a fund's 12b-1 plan, these fees will be included in this category of the fee table. If shareholder service fees are paid outside a 12b-1 plan, then they will be included in the "Other expenses" category, discussed below. FINRA imposes an annual .25% cap on shareholder service fees (regardless of whether these fees are authorized as part of a 12b-1 plan).

Other Expenses

Included in this category are expenses not included in the categories "Management Fees" or "Distribution [and/or Service] (12b-1) Fees." Examples include shareholder service expenses that are not included in the "Distribution [and/or Service] (12b-1) Fees" category; custodial expenses; legal expenses; accounting expenses; transfer agent expenses; and other administrative expenses.

Total Annual Fund Operating Expenses

This line of the fee table is the total of a fund's annual fund operating expenses, expressed as a percentage of the fund's average net assets.

A Word About Mutual Fund Fees and Expenses
As you might expect, fees and expenses vary from fund to fund. A fund with high costs must perform better than a low-cost fund to generate the same returns for you. Even small differences in fees can translate into large differences in returns over time. For example, if you invested $10,000 in a fund that produced a 10% annual return before expenses and had annual operating expenses of 1.5%, then after 20 years, you would have roughly **$49,725.** But if the fund had expenses of only 0.5%, then you would end up with **$60,858**.

Are you confused about fees on mutual funds? The financial industry's authoritative organization, FINRA, offers a calculator to help you understand the fees and expenses with your mutual fund. It is easy to use and easy to understand; here is the link: http://apps.finra.org/fundanalyzer/1/fa.aspx

Summary: Fees and expenses associated with mutual funds can greatly reduce your net returns. Knowing and understanding them can help you make the right decisions. To create an example, I randomly selected 3 mutual funds from this list: http://www.marketwatch.com/tools/mutual-fund/list?firstLetter=A

Disclaimer: I have no relationship, pro or con, with these funds. I derived my information via Morningstar, FINRA, and other industry sources. I used their fund name and added Morningstar to a Google search. Complete information is always disclosed in the offering Prospectus. Always seek authorized and licensed help when making important decisions.

Example of an Intermediate Bond Fund Class A

This fund would invest in bonds of all kinds, corporate, municipal, and US Treasury, of which 25% are below investment-grade. It has a front-end load of 4.25% and an annual expense ratio of .88%, of which .25% is 12b-1 fees (trail marketing expenses, see above in definitions).

5-year returns net to the fund shareowner is 2.85% annually averaged. This is an average fund in this category. What is your yield relationship to the overall expenses of the fund?

Front end load fees, ongoing expense ratio (annual fees to run the fund including 12 b-1 fees), and your yield over 5 years in this example is 2.85% net.

5-year returns net after fund expenses to the fund shareowner is 2.85% annually averaged.

Annual fees are **.88%**

Adding the two numbers together equals **3.73%.** Of the gross returns of 5.73%, the cost of the mutual fund was **23.5%** of the overall investment. The shareowner allowed the fund (and broker) to earn 23.5% on their investment, and the shareowner took 100% of the risk.

Example of a Mid Cap Fund Class B

This fund would invest in mid-sized companies. It has a back-end load of **4.5%** and an expense ratio of **2.15%.** Included in the expense ratio are 12b-1 fees of **.25%** (see definition above)

The fund is rated above average and has a 5-year net return of 12.13%.

Again, how much are the fees for you to make this return? Whose money is it, and who took the risk?

5-year returns net after fund expenses to the fund shareowner is 12.13% annually averaged.

Annual fees are 2.15%

Adding the two numbers together equals **14.28%.** Of the gross returns of 14.28%, the cost of the mutual fund was **15%** of the overall investment. The shareowner allowed the fund (and broker) to earn 15% on their investment, and the shareowner assumed 100% of the risk.

Example of an Asset Strategy Fund Class C

This fund would invest in worldwide stocks; it has a back-end load of 1.00% and an expense ratio of 2.01%. Included in the expense ratio are 12b-1 fees of 1.00% (part is load, see definition above).

The fund had a 5-year net return of 3.88%; what was the ratio of your yield to the fees charged?

Remember, it is your money, and you are taking all the risks; how much money is being made from your asset?

The fund had a 5-year net return of 3.88% and is rated below average by Morningstar.

5-year returns net after fund expenses to the fund shareowner is 12.13% annually averaged.

Annual fees are 2.01%

Adding the two numbers together equals **5.89%.** Of the gross returns of 5.89%, the cost of the mutual fund was **34.12%** of the overall investment. The shareowner allowed the fund (and broker) to earn 34.12% on their investment, and the shareowner assumed 100% of the risk.

In addition to fees that are charged to manage and run the investment, fees can also be charged by the sales broker. A broker can be paid in two ways:

- Fees paid as a commission from the fund for acquisition (loads) and for future servicing (12 b-1)
- Assets under management (AUM), in addition to any compensation paid as acquisition, brokers (and planners) can also charge a fee for

their management. This fee is a percentage of the assets in the account.

Concept:

1. A financial client works with a broker (or planner) and moves assets to the broker/dealer account
2. The broker charges a fee on the assets held in the brokerage account
3. The broker advises the client what to buy and where to keep the investments
4. The broker suggests a mutual fund that has no front-end load (B class or C class…client likes that)
5. Broker and broker/dealer receive compensation from the mutual fund purchased based on his/her advice
6. The broker also receives the AUM on the entire account, **including** funds that were recommended
7. Fees are paid by the account owner

How can this be legal? It is, thanks to Congress, the SEC, and FINRA….plus fees are disclosed for the fund in the prospectus.

BUT…

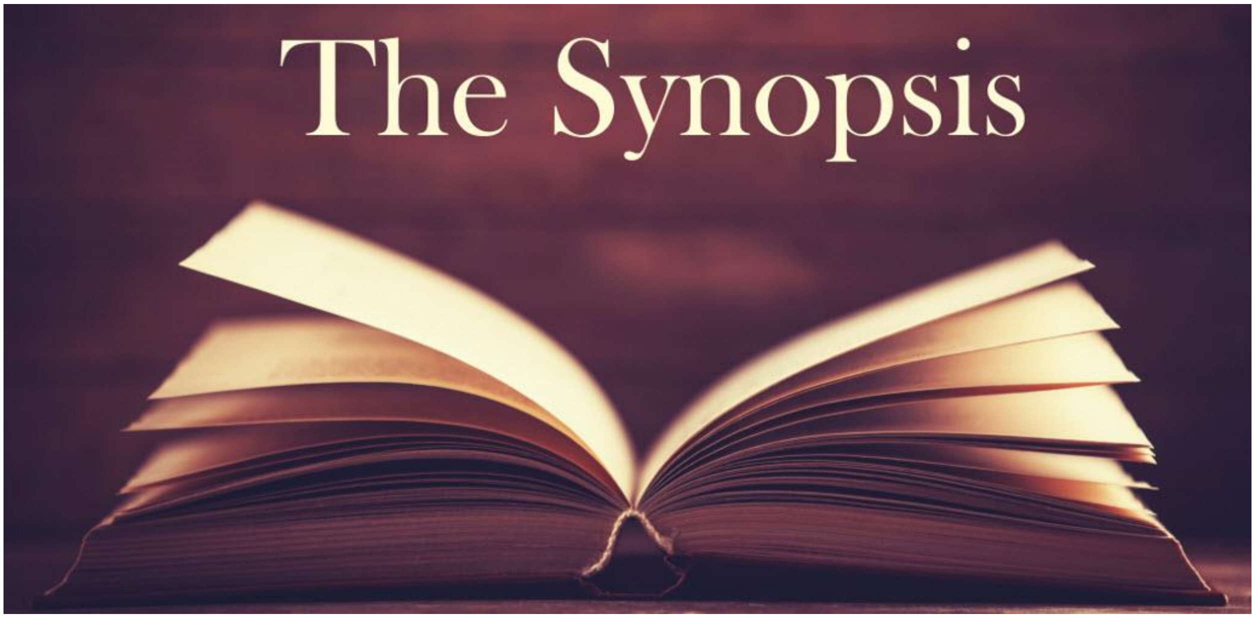
The assets under management is NOT (or discussed) part of the prospectus! AUM management fees are a separate agreement. They have illustrated on most brokerage statements on the *miscellaneous expense in the **January, April, July, and October** statements. Often, they say account fees or management fees. All broker/dealers are different.

The Broker Motto:

"Pay me now, pay me later, but you will pay me!"

Wrap Fee Definition (AUM): A **wrap fee** is a comprehensive charge levied by an investment manager or investment advisor to a client for providing a bundle of services, such as investment advice, investment research, and brokerage services. Fee amounts can range…as low as .5% and as high as 2%; it all depends on the company, amount under management, and other issues such as assets held outside.

Mutual Fund Expense Ratio: The **expense ratio** is the annual fee that all funds or ETFs charge their shareholders. It expresses the percentage of assets deducted each fiscal year for fund **expenses**, including 12b-1 fees, management fees, administrative fees, operating costs, and all other asset-based costs incurred by the fund. The **expense ratio** is the annual fee that all funds or ETFs charge their shareholders. It expresses the percentage of assets deducted each fiscal year for fund **expenses**, including 12b-1 fees, management fees, administrative fees, operating costs, and all other asset-based costs incurred by the fund.



Synopsis: If a prospect owned a mutual fund with an expense ratio of 1% and had a wrap account (AUM) with their planner of 1%, what is the true cost of the total fees?

2%

Let us continue to know what the impact of the fees are; we need to know what the net return was.

Scenario 1: The mutual fund was a bond fund with net returns of 5% after the expense ratio was deducted.

Now deduct the "wrap" fee of 1%, leaving a net return of 4%.

The net was 4%, the fees are 2%, what was the actual effect of the 2% in relation to the overall returns? 2%?

No, the fees represented 1/3 of the returns on the owner's account (2/6)…or consider this.

1/3 of the overall returns = earning **33%** on the clients' money; the incredible issue is this…. the broker only gets the upside, never the downside.

Scenario 2: Instead of a 6% return, let us pretend it was a gross of 20%.

20% gross with a 2% expense is a net 18%, not bad until you realize the amount the broker and Mutual Fund company made...2% is 10% of the returns, or in other words, expenses equaled 10% return on the clients' money, again without participation in the risk side.

Scenario 3: Instead of a 6% or 20% gross return, this time, let us assume a 0% return. The account owner earns nothing....zero! But the fund and the broker still earn 2% or 2% on an account that has a zero return, which means the account owner is the only one exposed to risk.

Now let us look at our three randomly selected mutual funds and calculate how fees and expenses affected the returns.

Calculate the gross 5-year return average, divide that total into the cost of owning the fund, and you will find the actual percentage the fund earned on the shareowner's investment as calculated NOT by actual fees but by actual percentage of gross returns.

Now let us add any **"Assets Under Management"** (AUM) fees that are charged by the broker. Many brokers charge these fees and simply allow the mutual fund to manage the money; these fees are fees on top of fees. The broker manages the client, the mutual fund company manages the money. Here is an example of AUM fee schedules.

Sample Fee Structure

Total Account Value	Annual Fee (Example)
Up to $50,000	1.45%
$50,001 – $100,000	1.30%
$100,001 – $300,000	1.15%
$300,000 – $500,000	1.10%
$500,001 – $750,000	1.05%
$750,001 – $1,000,000	1.00%
Next $1,000,000	0.60%
Next $1,000,000	0.50%
Next $1,000,000	0.40%
Next $1,000,000	0.25%
Over $5,000,000	Negotiable

In our sample calculations, let us assume the investor has a portfolio value of $750,001. At that level, with our example, the AUM fee would be 1%. Let us see how the AUM fee affects the percentage earned on the investors' money.

By adding an additional 1% in fees, the percentage of money earned by the broker and the mutual fund increases.

Intermediate Bond Fund Class A: Percentage increases from 23.5% to **49.6%**

Mid Cap Fund Class B: Percentage increases from 15% to **22%**

Asset Strategy Fund Class C: Percentage increases from 23.5% to **51.1%**

If our 3 randomly selected mutual funds were of equal value and in the same "assets under management" account, the average return the broker/mutual fund company would have earned on the investors' money is 40.9%.

No risk, guaranteed fees, all based on the investors' funds, the investor assumes all risk. Here is how your broker looks at your relationship.

Here is a simple graft that will illustrate how fees and expenses affect actual net returns.

This link provides more information about brokerage fees and expenses:
http://www.annuity.com/billions-in-fees-translates-to-billions-in-lower-retirement-income/

As we enter 2020, many questions and concerns arise about our economy's financial state, not only in America but worldwide. The ongoing Middle East issue, immigration, civil wars, the Zika virus, and many more all 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 administration, and general conversations about normal things. In general, people are not happy, and striking out at the status quo seems to provide alternatives.

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

Market Volatility.

Investopedia's definition of Market Volatility is: **Volatility** is a statistical measure of the dispersion of returns for a given security or **market** index. In most cases, the higher the **volatility**, the riskier the security. ... For example, when the stock **market** rises and falls more than one percent

over a sustained period of time, it is called a "**volatile**" **market**.
https://www.investopedia.com/terms/v/volatility.asp

There is even a **Market Volatility Index** that allows you to see how experts view this topic; here is a helpful link: https://markets.businessinsider.com/index/vix

Combine the volatility with the projected slower growth of the world's economy, and you have a recipe for a depression. The world's economy thrives on one single fact: growth. Without growth, the status quo means "depression." Here is a chart that illustrates past performance in several indices. This chart is only an example and contains older information. Indexes change rapidly; here is a link to find current data: https://www.thebalance.com/major-market-indexes-list-2466397

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.

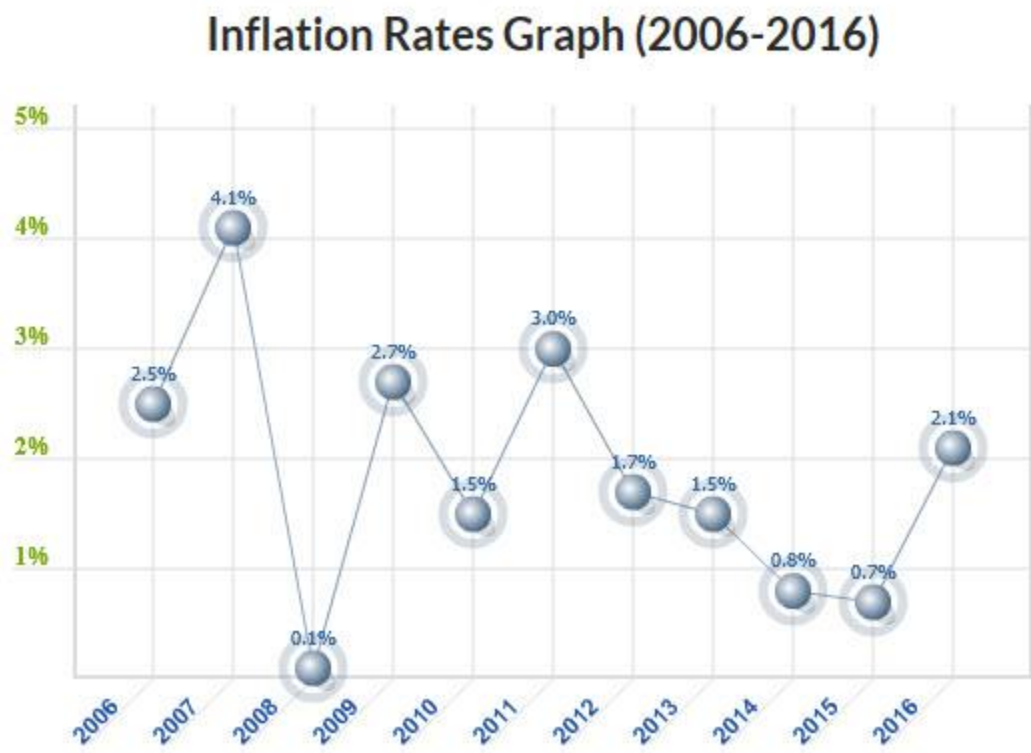
Consider overall returns of US Corporate Bonds or the yields of US Treasuries. How much would your retirement account have lost if it were invested in International stocks? What if you had been exposed to volatility in the Dow Jones Industrial Average in the past year? How would your retirement accounts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

In 2018, per the US Government, the inflation rate was 1.87%.

According to the US Inflation Calculator (see link below), the inflation rate averaged 2.18% per year for the past 10 years, which includes deflation that occurred in 2009. Your buying power would have been less by merely 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 history) of returns.



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 that 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, normally 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 are 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.** Truer words have never been spoken; the risk is everywhere in our lives; risk is part of our human experience. Using the term risk when discussing money is quite a different topic. 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.

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 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 the financial risk 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. As a candidate for president, a national health care plan was part of his campaign platform.

After World War II, the idea lay dormant 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 but also a wellbeing 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 difference was in the approach to health insurance. <u>A national study conducted in 1961 found that 56% of Americans over age 65 had no insurance coverage.</u> What began with President Kennedy was finished by President Lyndon B. Johnson in 1965 when legislation was passed, providing health care for those 65 and over. Medicare was born. <u>Over 19 million seniors signed up for coverage in the first year.</u>

In 2003 the *Medicare Prescription and Modernization Act* added more options for 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 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 substantial financial overrun**. In 2018 Medicare benefits equaled 15% of the federal budget.** By 2020 it is estimated the percentage could increase to 19%, and by 2030, nearly 30% of total federal expenditures. https://www.kff.org/medicare/issue-brief/the-facts-on-medicare-spending-and-financing/

A quote from the Obama Administration stated that the increase in the number of enrollees was significant but not enough to endanger the program "*thanks in part to "cost" savings embedded in the Affordable Care Act.*" (Obamacare)

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.

Along with the magic of the moving money came another sleight of hand: make those that can afford more pay more. The government controls the payment of social security retirement benefits, so it is perfect 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. 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; if you reduce the amount reimbursed to the health care provider, the obvious thing will happen.

Health care cost increases are not passed on to Medicare; they are passed to the enrollee.

The medical provider also faces increases in expenses, which is a natural course of business. In 2016 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.

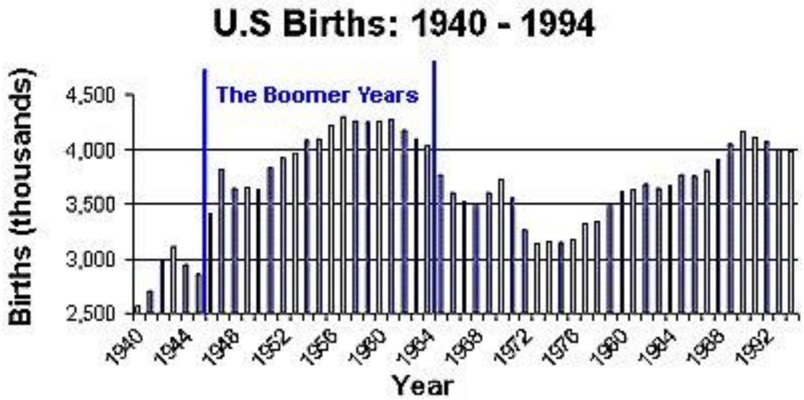
Only those who plan and budget for the continual cost of increasing out of pocket medical expenses will have a chance of financial survival. Nothing will compare to the percentage of monthly budgets being decimated more than this single issue, yet most have no clue why few Americans are prepared.

"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?

2017 is going to be a generational transition year, to say the least. Tax reform, the possible loss of the ACA, congressional upheaval, military issues, and the budget all seem 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 2016, 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 employed ranks and moving to a new status, retirement. This massive change is beginning now and will continue over the next 15 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?

What the Boomers will need is the basis for what most American investing for future retirement needs: safety. Safety takes on many forms when dealing with the future, safety of income, the safety of important assets, and safety regarding 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 it 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.

Suppose a Boomer had planned to retire in 2016 and had his retirement account tied to the general stock market. In that case, 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 retirement options. **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 providing the funds for his or her retirement and 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, many options, and many choices. Let us 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?

Individual Stocks: Purchasing individual stocks allows you to focus on one specific company or sector. The selection of your stock investment can require research, experience, and knowledge. Once again, your investment in that company is tied to that company; changes in product line, competition, and after-tax earnings can have both a positive and negative affect 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 an especially 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 assume credit risk. The bond issuing company's credit rating 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 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

Wall Street can spin investments and make them appealing. Many of us remember the mortgage mess provided by Wall Street when they decided to take a pile of mortgages, slice them up, and sell them as shares. The following fiasco nearly brought our country to its knees. In looking back at history, nothing compares to how Wall Street markets and manages bonds. Most people think of bonds as a safe place to earn a respectable interest rate.

On the surface, that may be somewhat true, but digging deeper can often find things that are marketing features designed to make a bond look better than it may be.

Several years ago, Wall Street decided to provide bonds as a source of acquiring and selling US companies. Invented by Michael Milken and his firm Drexel Burnham Lambert, Milliken made almost everything available to the bond market. In 1986, Milken and his firm came under microscopic scrutiny, and 6 years later, Drexel ceased to exist.

What did they do? They invented a method of raising capital, a bond category called: **Corporate High Yield Bonds**. On the surface, it sounded good, American corporations issuing bonds to grow the American economy. What the public did not understand was the "risk" factor. High Yield Bonds came with a "high" level of risk, and many of the bond issuers promoted by Milken failed.

Can you guess what that category of bonds is now called?

Junk Bonds.

"If it looks like a duck, quacks like a duck, and walks like a duck, it isn't a dog."

Junk was the real name for Corporate High Yield, they paid a higher interest rate, but they came with risk. Many of the bonds promoted by Milken were sold on the secondary market for pennies on the dollar.

Apply the duck quote to Junk Bonds. Junk is still junk, and you can dress it up as anything you wish, but it still junk.

Think of the stress and loss of account value many Americans suffered through because of the Wall Street marketing.

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. Milken was convicted and spent time in prison.

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 dangerous with this class of assets can be extremely dangerous.

How about annuities as a retirement income vehicle? The answer is simple; annuities fall into two different categories.

Good and Bad

Annuities come in two flavors, good and bad!

Bad: annuities sold as securities

Good: annuities sold as an insurance product

The truly educated person is a rare individual who can tell the difference between reality and illusion.

- **Variable annuities are an illusion**
- **Fixed annuities are a reality**

How about other investment options involving securities? Variable annuities are securities sold by brokers, and they are sold with a prospectus. In the world of investing, I cannot think of anything with higher exposure to fees, expenses, and charges that variable annuities.

Let us look at "variable" or security bases annuities. FINRA, the security industry self-governing body, explains variable annuities.

FINRA Financial Industry Regulatory Authority

http://www.finra.org/investors/variable-annuities

Variable Annuities

An annuity is a security contract between you and an insurance company in which the company promises to make periodic payments to you, starting immediately or at some future time. You buy an annuity either with a single payment or a series of payments called premiums. Variable annuities are securities and sold via a prospectus.

What is a Variable Annuity?

As its name implies, a variable annuity's return rate changes with the stock, bond, and money market funds that you choose as investment options. Variable annuities are sometimes compared to mutual funds because they offer similar investment features, including investment choices—called "separate accounts"—that resemble mutual funds. However, they are different products.

A typical variable annuity offers three basic features not commonly found in mutual funds:

1. tax-deferred treatment of earnings.
2. a death benefit; and
3. annuity payout options that can provide guaranteed income for life.

While a variable annuity has the benefit of tax-deferred growth, its annual expenses are likely to be much higher than the expenses on a typical mutual fund. And, unlike a fixed annuity, variable annuities do not provide any guarantee that you will earn a return on your investment. Instead, there is a risk that you could lose money.

In general, variable annuities have two phases: (1) the "accumulation" phase, when the premiums you pay are allocated among investment portfolios or subaccounts, and your earnings on these investments accumulate; and (2) the "distribution" phase, when the insurance company guarantees a minimum payment to you based on the principle and investment returns (positive or negative).

During the accumulation phase, it can be difficult and costly to access the money you have invested. You often must pay what is called "surrender charges" to withdraw your money early—and you might incur tax liabilities on the earnings your investment has made. You typically can choose to withdraw money in a lump sum or as a series of payments over time in the distribution phase. Regardless, your distribution will depend on the performance of the investment options you chose.

Things to Consider

The variety of features offered by variable annuities can be confusing. For this reason, it can be difficult to understand what is being recommended for you to buy. It is smart to take the following steps before you purchase a variable annuity:

- Fully understand all its terms, **fees, and expenses**, and carefully read the prospectus.
- Ask specific questions like how long your money will be tied up, whether the annuity has sales or surrender charges, and whether the investment poses liquidity risks and has early withdrawal penalties or potential tax consequences.
- Find out whether the policy has a "free look" period that allows you to cancel an annuity purchase within a specific period if you have second thoughts.

- Ask how your broker is being compensated. In addition to annual fees and other charges, the salesperson who sells you a variable annuity is likely collecting a commission for the sale. Variable annuities have many features that can drive up commission charges to customers. Sometimes, a salesperson will also receive special compensation for selling these products.

Fees and Expenses

Variable annuities typically have high annual fees and expenses, in addition to potential sales and surrender charges and early withdrawal penalties. These annual fees and expenses can include: (fee information from www.annuity.com)

- Mortality and expense risk charges, which the insurance company charges for the insurance to cover guaranteed death benefits, annuity payout options that can provide guaranteed income for life or guaranteed caps on administrative charges. Fees can range from almost nothing to as high as **1.65%** of the account value per year.
- Administrative fees for record-keeping and other administrative expenses. Fees generally are **.25%** of the account value per year.
- Underlying fund expenses, relating to the investment subaccounts. Fees can be anything from **.40% to 3.00%** of the account values (per sub-account) per year.
- Charges for special features, such as stepped-up death benefits, guaranteed minimum income benefits, long-term health insurance or principal protection. Fees for guarantee income riders, death benefit riders, and other features can range from **.5% to 2:00%** (or higher)

The total fees and expenses that can be charged for the contract, administration, investment management, and add-on riders could exceed **4%.** Make sure you fully understand all fees, expenses, and benefits before committing to this product.

More Information

The following resources provide additional information about variable annuities, risks, and benefits, exchanging or replacing annuities, and whether this type of investment is the right choice.

- FINRA Investor Alert: Variable Annuities: Beyond the Hard Sell
- FINRA Investor Alert: Should You Exchange Your Variable Annuity?
- http://www.annuity.com/insiders-guide-to-variable-annuities/

Make sure you understand all the fees, expenses, and other charges related to the variable annuity recommended to you before you make a purchase.

Regulation

Variable annuities are securities registered with the Securities and Exchange Commission (SEC), and sales of variable insurance products are regulated by the SEC and FINRA.

Now let us look at the Good!

Annuities sold as an insurance product are NOT securities. Fixed annuities earn a preset minimum guaranteed interest and are not variable (you are not exposed to market volatility).

Fixed annuities fall into 2 categories:

The first category is an annuity, where the interest is fully guaranteed for the term of the contract. These categories are called *"Multi-Year Guaranteed Annuity"* (MYGA). Interest is known in advance and fully guaranteed for the time period. Periods can be as short as 2 years (in most states) and as long as 10 years. The most common time period is 5 years.

The second category as annuities that carry a minimum guaranteed interest rate BUT actual interest credited is tied to an outside source such as the Standard and Poor's Stock Index. (S&P 500)

Overview of Fixed Indexed Annuity (FIA)

Source: www.annuityfyi.com

A fixed-indexed annuity (FIA) is a type of annuity that grows at the greater of a) an annual, guaranteed minimum rate of return, or b) the return from a specified stock market index (such as the S&P 500®), reduced by certain expenses and formulas. At the time the contract is opened, a term is chosen, which is the number of years until the principal is guaranteed, and the surrender period is finished. In a robust stock market, you will not achieve the actual performance of the index due to the formulas, spreads, participation rates, and caps applied to fixed-indexed annuities, as well as because of the absence of dividends. However, in a down market, you will not ever lose principal (provided the underlying insurance company stays solvent, and to date, no insurance company has ever failed to pay out on a fixed annuity). Many investors find that fixed-indexed annuity returns more closely approximate CDs, traditional fixed annuities, or high-grade bonds, but with the potential for a small hedge against inflation in an upmarket.

Fixed vs. Fixed-Index Annuities

Technically speaking, fixed-indexed annuities are a type of fixed annuity. But a fixed-indexed annuity is different than a standard fixed annuity in the way that earnings are credited to the annuity. For a standard fixed annuity, the issuing insurance company guarantees a minimum interest rate. The focus is on the safety of principal and stable, predictable investment returns. With fixed-indexed annuities, the contract return is the greater of a) an annual minimum rate, or b) the return of a stock market index (such as the S&P 500®), reduced by certain expenses and formulas. If the chosen index rises sufficiently during a specified period, a greater return is credited to the owner's account for that period. If the stock market index does not rise sufficiently, or even declines, the lower minimum rate is credited (usually 0% – 2%). The owner is guaranteed to receive back at least all principal less withdrawals (provided, of course, that the owner has held the contract for the minimum period of time specified in the contract).

Participation / Index Rates

The participation rate, also known as the index rate, is the percentage increase in the index by which a contract will grow. For example, if the participation rate is 75% for a fixed-indexed annuity that is based on the S&P 500® and the S&P 500® increases 10% for the year, the contract would be credited with 7.5%. The participation rate is usually less than 100%. The participation rate will vary based on the length of the term and on your contract. Note: Dividends are never included in the total return of fixed-indexed annuities. For example, if the S&P 500® was up 10% based on the market's points gain, the total return may be higher once you factor in dividends. Over time dividends have made up as much as 40% or more of the total return of the S&P 500®. It is important to know that you will be forgoing dividends in exchange for principal protection on all fixed-indexed annuities.

Floor & Cap Rate

The floor refers to the minimum guaranteed amount credited to the account. At the time of this writing (see Update date at the bottom of this page), this rate is almost always between 0% – 2%. The cap rate is the annual maximum percentage increase allowed. For example, if the chosen market index increases by 35%, and the contract has a 10% cap, the increase will be limited to 10%. Some contracts do not have a cap rate (these tend to have a lower participation rate, such as 30% to 50% compared with 75% to 100% for a plan with a cap rate). The cap varies depending on the length of your term — fixed-indexed annuities with more extended commitment periods (surrender periods) tend to have a higher cap rate, whereas annuities with shorter surrenders periods tend to have a lower cap rate. NOTE: The cap may reset annually and is subject to change at each renewal.

Index Credit Period

There are four basic ways in which amounts are credited to an owner's contract at specific points in time:

- **Annual reset**: this measures the change in the market index over a one-year period.
- **Point-to-point / term**: similar to the annual reset, but the period is usually five to seven years.
- **Annual high-water mark with a look back**: the highest anniversary value is used to determine the gain.
- **Monthly Averaging**: you have 12 "month-a-vestry" points throughout the year, and at the end of each year, the insurance company adds them up and divides by 12.

Fees

While there are no up-front commissions charged when purchasing a fixed-indexed annuity, depending on the product, the caps, participation rates, and spreads can be onerous. Surrender charges may be imposed if withdrawals in excess of a certain amount are made (usually 10% per year) or if the contract is surrendered completely. Surrender charges can be as high as 10% on non-bonus contracts and 22% on bonus contracts. Surrender charges typically decline over time, usually by 1% per year. For more information on surrender charges, click here and look under "Liquidity Options."

Regulation

Fixed-indexed annuities are considered to be fixed annuities by law, and as such, they are not issued by prospectus (a document that provides detailed information on how an annuity contract works, the risks involved, and all expenses or charges). Nor are fixed-indexed annuities typically regulated by FINRA or the SEC (under certain circumstances, an insurance company may register a fixed-indexed annuity product with FINRA or the SEC). If a fixed-indexed annuity is registered, a prospectus must be provided to the buyer. Only individuals with both securities and insurance licenses may sell registered fixed-indexed annuities.

Other Features

Some fixed-indexed annuity contracts offer as an optional feature and for an additional fee, a guaranteed death benefit and/or a guaranteed lifetime withdrawal benefit (GLIB). In the death benefit, if an annuitant dies before annuity payments begin, the contract will pay the named beneficiary(s) the greater of the investment in the contract (less any withdrawals), usually compounded at 4% to 5% annually through the date of death. With the GLWB, the principal will usually compound at 4% to 8% (depending on the contact), income will be determined by the age of the annuitant, and the value of the annuity contract plus the length of time the income is desired. Any time period can be selected, even a lifetime.

Other benefits:

- **State-regulated.** Fixed indexed annuities are regulated and approved for sale by the individual states.

- **Principal protection**. Your principal is **guaranteed,** and you are protected from losing any policy value.
- **Probate advantage.** If there is a named beneficiary, annuities can pay death benefits that are not subject to probate before they are distributed.
- **Death benefits**. Your beneficiaries will collect the value of your annuity, including the interest that has accumulated.
- **Cash access**. Depending on your policy, you can access up to 10 percent of your principal per year, after the first, penalty-free. Withdrawals above the penalty-free cap will be subject to a surrender charge. Some policies offer a Return of Premium (ROP) rider. This feature allows you to take 100 percent of the original premium without any surrender penalties. Some companies offer this rider for no cost.

Like all important decisions, make sure you fully understand how an annuity can help your situation and meet your goals. Annuities are not for everyone, but if their benefits match your goals, they can be a good choice.

Calculate Calculate Calculate Calculate

Quit thinking of fees and expenses as numbers but think of them as a percentage of the overall returns.

That calculation will illustrate the actual cost to you of ownership. Remember, the shareowner **assumes all risk**; the fund still charges the fees regardless of any actual returns.

If the fund does well, the expenses increase; if the fund losses money, the expenses are fixed and do not decrease when the fund declines in value.

How do you fight back and protect yourself? The answer is simple, be informed. https://www.finra.org/investors#/

Here are key points to consider when a broker gives you advice.

Unsuitable Investments: Are the recommendation given you suitable for your situation. A stockbroker is required to learn about your risk tolerance, income, investment experience, other assets, financial needs, and investment goals before ever recommending an investment. Based upon that information, your stockbroker is obligated only to recommend investments suitable to your specific situation. Anything less runs the risk of fraud.

Misrepresenting or Omitting Facts: Stockbroker misrepresentation occurs when misleading information is provided, or material facts are withheld, that impact the investment decision. This can include not adequately disclosing sales-related compensation, risks, liquidity, or any other material facts. All investment recommendations must have a reasonable basis in fact, and all relevant information to the investment decision must be disclosed.

Churning: Has there been excessive trading in your account to pursue quick profits? Has the same stock been bought and sold multiple times? If your stockbroker was in control of your account, then churning may have occurred. This is another form of investment fraud.

Inappropriate Mutual Fund and Variable Annuity Sales: Just as a stockbroker can fraudulently churn stocks in your account, a broker may also switch between mutual funds with excessive frequency for no valid reason except to earn commissions. Another form of mutual fund sales abuse is selling various forms of loaded funds or Class B shares to clients who might qualify for Class A shares or be equally served by no-load equivalents. Finally, variable annuity sales abuse can be excessive in fees and expenses; make sure you fully understand how your returns can be affected.

FINRA, the security industry authority, can also help; they provide you with access to your broker's past work activity. Has the broker been fined, censored, or in any other way been subject to authoritative sanctions?

Here is a link to help you learn more about your broker. https://brokercheck.finra.org/

I see the light!

You have seen the light! It is time to be informed, take action, and increase your net returns. How do you accomplish that?

Be honest with yourself about your current assets, including IRA, 401k, pensions, and all assets. Determine precisely what you wish to accomplish and your estimated timeline. Numerous calculators are available to help you understand yields and future values.

I have found this link to be helpful: http://www.annuity.com/calculators/

If you decide to use a financial planner to help you build your plan, use a "fee-only" planner and NEVER a "fee-based" planner. A fee-only planner will charge you for their time and never receive any compensation from their recommendations.

Here is a good article from NAPFA about fees and fee-only planners: https://www.napfa.org/financial-planning/what-is-fee-only-advising

The *National Association of Personal Financial Advisors* (NAPFA) is the country's leading professional association of Fee-Only financial advisors—highly trained professionals who are committed to working in the best interests of those they serve. Since 1983, Americans across the country have looked to NAPFA for access to financial professionals who meet the highest membership standards for professional competency, client-focused financial planning, and Fee-Only compensation.

Here is their link: http://www.napfa.org/

As a person gets closer to retirement time, an annuity can make solid sense as a tool to manage important retirement funds. Annuities can provide an income that you and your spouse can never outlive, but not all annuities are alike, and great care should be taken in understanding benefits and costs.

Here is a good source for annuity information: www.annuity.com as is www.annuityfyi.com

However, you decide to proceed, make sure you move slowly, inform yourself with solid information, ask questions, and often a second opinion can be meaningful.

to be caused directly or indirectly by the information contained on this site. Use it at your own risk. Rates, fees, expenses, and other factors frequently change, sometimes without notice. While we strive to maintain timely and accurate information, offer details may be out of date. Readers should thus verify the terms of any such offers prior to participating in them. The author and its publisher disclaim responsibility for updating information and disclaim responsibility for third-party content, products, and services. The authors of this booklet are also the owners of www.annuity.com.

Be informed, be free