Our Annuities Philosophy

Annuities are a polarizing area of interest in the financial community, but for many they can be instrumental to a finely tuned financial plan. We look at annuities differently than most, using them as an alternative asset class in a diversified portfolio of assets that can help improve risk-adjusted returns without locking you into low interest rates for the rest of your life.

Anatomy of an Index Annuity

- An index annuity guarantees that at the end of your contractual term, your principal deposit doesn't lose value. If you surrender your full contract before the term is up, you will pay a surrender fee.
- Annuities allow for a percentage to be withdrawn without penalty each year.
- Annuities will credit interest to you based on the performance of an underlying market index. Crediting can be fairly complex and should be well understood by your advisor.
- Annuities are interest rate sensitive. The pricing of guarantees and crediting are impacted by the interest rate environment. Take caution in buying guarantees in low interest rate environments.
- Annuities typically pay up-front commissions. A higher commission means less value to the owner of the annuity. Always ask what the commission percentage paid is on an annuity.
- Annuities are tax-deferred instruments and historically used to generate guaranteed income payments. Modern strategies may minimize the importance of both of these characteristics.

How Income Guarantee Works

Most annuities are sold on income guarantees. For example, you make an initial payment of $100,000. You are promised an 8% return value, with an annual take home of 5%. In this scenario, **it would take you almost 30 years for you money to double your money**. This is the false allure of annuities. At Arbor, we think that income guarantees can be a vital part of financial plans, but guarantees live at the mercy of the interest rate environment, and lack liquidity and transparency.

Real Returns Illustrated

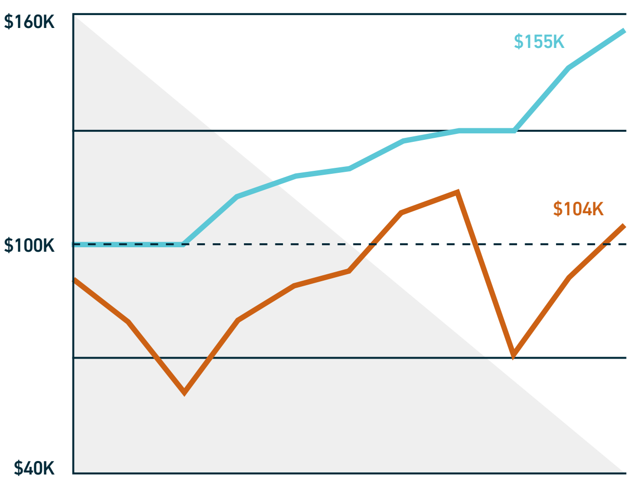
Arbor's philosophy emphasizes real money growth when using annuities. We want you to have real money to walk away with when the annuity term matures. In order to understand the potential for real growth we analyze the following:

– The index used to credit interest.
– The participation rate of that index.
– The fee or spread deducted from the credited interest.
– The maximum limit on returns in each period, referred to as a cap.

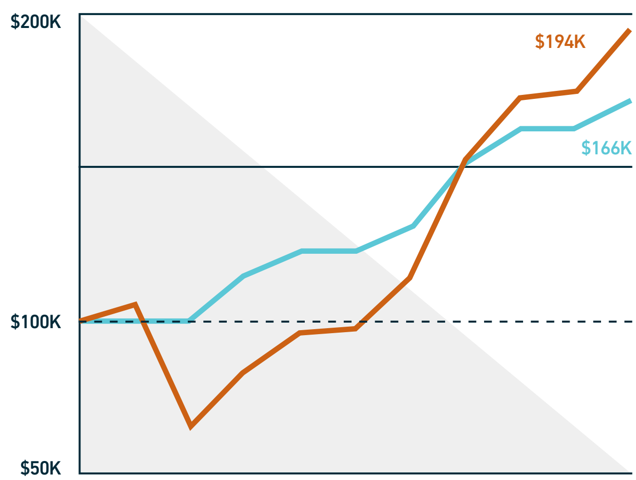
We strive to find the best combination of these variables to maximize potential returns over the term of the annuity. For example, we prefer to use crediting structures without caps that limit your upside potential.

A hypothetical annuity credits 50% of the S&P 500 returns each year with a 1% spread. There is no cap on the positive returns. In years with a negative return, the interest credited will be 0.

S&P RETURN
ANNUITY RETURN



YEAR 2000-2010 : THE LOST DECADE



YEAR 2006-2016 : GREAT FINANCIAL CRISIS, FOLLOWED BY A BULL MARKET

In summation, **the Arbor philosophy is to protect a portion of your assets while still giving you the opportunity to make positive gains** without starving your plan of liquidity or flexibility.

Learn more at arborfirm.com