



# The 2012 Annuity & Investment Report

retirement  
security  
investment  
growth



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*Whatever your picture of retirement, the best way to get there – and enjoy it once you’ve arrived – is with a focused, thoughtful plan.*

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## Introduction

The year 2012 starts with great uncertainty. A Presidential election, turmoil in the European markets, unsteady job growth, a depressed housing market, and \$15,000,000,000 (trillion) in National debt have created a climate that puts a premium on solid retirement planning and a focus on stability.



At the same time, we are seeing the first effects of the arrival of the Baby Boomers into the ranks of the retired, the start of a trend that is going to grow over the next 10 years and put even more pressure on the Social Security system and on each of us to make the best possible financial decisions we can to ensure that our retirement savings last longer, reflective of our longer life expectancy.

A new trend is developing within the retirement planning world, where “income” has displaced “cash” as the new King. Retirees and pre-retirees can and should be looking for safe, stable returns that ensure their retirement savings are not swallowed up by market downturns or depleted prematurely.

This report discusses these points, the current economic and financial climate, and an outline of the various choices available to investors today. The goal of this report is not to provide financial planning advice – everyone should have a professional financial advisor – but rather to provide a possible blueprint to help you navigate the turbulent financial world that we live in today.

### **2012: The Baby Boomers Arrive**

In 2012, the full force of the Baby Boomer transition becomes a tsunami, as the single largest generational group (80+ million people) begin leaving the rank of the employed and move to a new status: retired.

This massive demographic change will have a huge impact on your retirement and your retirement planning – no matter how old you are today.

## Unsettled & Unstable... in 2012

A review of the following variables demonstrates an economic and investment climate that is both fragile and unsettled – definitely not an ideal scenario when you are evaluating your investment or retirement planning options:



### **Economic Climate: Trending positive, but unstable**

We are seeing mixed signals on the domestic economic front. First, the positive signs: the job market is improving, housing sales and construction are showing signs of improvement, business sales and profits are rising, and capital expenditures are growing. These positive signs need to be tempered with a moribund manufacturing sector, a still-depressed Real Estate market and slower growth in China that could pull down any U.S. economic growth. In a year-end survey by the National Association of Business Economics, the median prediction of GDP growth for 2012 was 2.4%, so at best we'll see a gradual improving economy, and at worst we'll be pushed back into recession by one of the other climate variables that impacts our economy.

### **Political Climate: Turmoil & Gridlock for the Year**

With 2012 being a Presidential Election year, Washington political gridlock will have a negative impact on the financial climate. Almost every economist (conservative or liberal) agrees that the United States should have short-term fiscal stimulus to support the gradually improving economy, combined with long-term debt reduction, but because of the battles in Washington we seem to be getting the opposite. Our political system is getting worse, not better, and this creates an instability that is unfriendly at best to the financial climate of the country.

### **Headlines of 2011**

A review of headlines\* over the past few months underscores the unstable and unsettled nature of our financial and economic worlds:

- Mortgage Mess Continues
- Deadlock in Congress
- Bank Bailouts Continue
- Unemployment Rises
- The Euro in Crisis
- Health Costs Skyrocketing
- \$15 Trillion National Debt
- Retirements in Jeopardy

\* NY Times, Wall Street Journal, Atlantic Constitution, USA Today, Forbes, & others.

## **Financial Climate: the Hangover Continues...**

Our financial system is still trying to recover from the meltdown of 2008/9 where the financial markets and credit system were on the edge of collapse. Credit has recently started to loosen for businesses and consumers, but is nowhere near pre-meltdown levels.



Households have made progress in terms of working down consumer debt, with Credit Card companies reporting in December that delinquency rates were the lowest in years. Of course one of the most important drivers of the U.S. economy (at least over the past 15 years) has been the Real Estate market, and while improving, it is still severely depressed and is not expected to return to 2006 levels for many years to come.

## **International Climate: The European Debt Crisis & China**

When German Chancellor Angela Merkel, generally one of the most optimistic public figures in Europe, recently declared that “2012 will no doubt be more difficult than 2011” and later added, “Europe is facing its harshest test in decades,” it sent shockwaves through the U.S. markets.

Like it or not, we have come to accept how important Europe is and how interconnected the global financial system has become. The United States actually has a smaller population and a smaller economy than the European Union does. In fact, the EU has an economy that is nearly as large as the economies of the United States and China combined. There are more Fortune 500 companies in Europe than there are in the U.S., and the European banking system is far larger than the U.S. banking system. Anyone that does not believe that a financial collapse in Europe would have a devastating impact on the U.S. economy is living in a fantasy world.

Americans better start paying attention to what is going on over there, because we are about to be broadsided by a massive financial tsunami originating out of Europe.

## **Social Security: Increased pressure on the system**

According to the Census Bureau, the elderly population will more than double between now and the year 2050, to 80 million, with most of the growth occurring between 2012 and 2030 when the “Baby Boom” generation enters their elderly years. This will put pressure on an all ready weakened Social Security system and force individuals to expect more of their retirement needs to be met by their own investments and retirement plans.



## **Demographic Change: we are living longer**

When the United States was founded, life expectancy at birth stood at about 35 years old. It reached 47 years in 1900, 68 years in 1950, and 76 years in 1991. Today, life expectancy is 78 years, with women expected to live 80.6 years and men 75.7 years. People are living longer. As a result, the fear of running out of available retirement income has become more important. How can we insure our retirement income survives as long as we do? How do we guarantee our retirement checks will always be there?

## The New Retirement Rule

The old adage, “Cash is King”, is no longer true. For the next few generations, especially the Baby Boomers, Cash is not King: **Income is the New King.**



How could a long-standing investing rule have changed so drastically? How could an entire group of people (Baby Boomers) be so dependent on income? How could the “live free” generation be so concerned about their financial security?

Remember, financial security begins by asking important questions:

- When are you planning to retire?
- What is your “time” horizon?
- How do you avoid risk?
- Where do you invest?
- Whom do you trust?
- Is safety & security even a possibility anymore?

The interesting (and critical) takeaway here is that the questions for the Baby Boomer generation are no different than for previous generations, **but the answers are different.**

The issues and variables outlined on the preceding pages are of paramount importance to those looking at or already in retirement. How do we guarantee income that will last our whole lives? How do we increase our standard of living? What decisions are right for us at this juncture? The following information will assist you in creating a viable long-term plan.

## The Baby Boomers are Arriving!

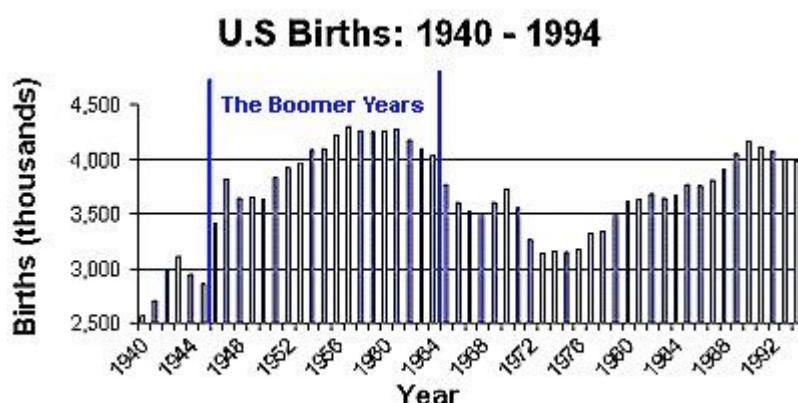
The transition began in 2010 as 10,000 Baby Boomers a day joined the ranks of the newly retired. Now, in 2012, the full force of the Baby Boomer transition becomes a huge tsunami. A tsunami sweeping across our country changing everything we have experienced to date. The largest single generational group (80,000,000) will be leaving the ranks of the employed and moving to a new status: retired. This 17-year massive change is beginning now. The full impact of this on our economy and our way of life is unknown at this time. Such a large group moving from producer to receiver will affect 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?

Retirement needs of Baby Boomers and other generations are the focus of this report. Your financial future can take many forms; safety of income, safety of assets and safety regarding inflation.

What we have learned over the past 4 years is that the future is very hard to predict; the future holds enormous uncertainty. In the past, it was assumed that the stock market would rise over almost any specific time period, our homes would increase in value; history has now proven that is not necessarily correct. The **time horizons** for each of us is different and the timing of asset valuation may not match the individual Baby Boomer retirement needs.



## Time Horizons: When will you need your retirement income?

If a Boomer had planned to retire in 2011 and had his retirement account tied to the general stock market, the loss in that account's value from 2008 to 2011 could have been as much as 45%, even if the investment was in well-known American companies.



Facing this volatility has left us uncertain, requiring us to look at all available retirement options. No longer can Baby Boomer “assume” that the funds will be available. Wall Street has seen to that. The person planning for their retirement must take an active role providing the funds for his or her retirement, as well as investment choices. Sitting passively on the sidelines is frankly “not an option.”

Does the average Baby Boomer have options? The answer is yes; many options and many choices. Let's look at the pros and cons of these options.

## Baby Boomer Investment Options

Now let's examine the options available to Baby Boomers (and anyone else of course), and let's put them in the context of today's financial climate.



### Mutual Funds

The classification of mutual funds is wide and diverse. Mutual Funds can own almost any available asset such as stocks and bonds or any combination of these assets. In essence, a mutual fund is a group of assets banded together to help diversify the investment risk. Examples include: a "large cap" fund; a fund invested in only large American companies; a bond mutual fund where investment is limited to only bonds (debt instruments); or even a combination of stocks and bonds (known as a balanced fund). Many options are available to the investor; you can diversify, choosing between more than 8,000 mutual funds.

Regardless of which fund they select, one thing all mutual fund owners share is fees. Mutual funds have a wide and varied source of fee structures. Depending on your choice, the fees can vary from over 3% to less than 1/2% per year of your entire account value. The real effect on your invested asset can be critical; the percentage of fees is calculated against your entire account. For example, if your invested asset was initially \$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 reduce the funds available to you for your future retirement needs, and the compound on long-term growth is substantial.

### » Mutual Funds = Fees

### Real Estate

The old adage used to be that "buying your home was the best investment you could 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, so planning to use your home as part of "downsizing" later in life may not be a reality.

### » Real Estate = Mortgage Commitment

## Individual Stocks

Purchasing individual stocks allow you to focus on specific companies. The selection of your stock investment can require research, past experience and knowledge. Your investment is tied to the health of that company; changes in product line, competition and after tax earnings can have either a positive or negative affect. Investing in individual stocks should be looked at as a long-term investment. Performance should be weighed over a number of years and not a number of months. What about Bear Markets? How would you protect yourself? How many months would you need to recover your retirement funds?



Bear markets are usually characterized by high volatility and often steep losses. What happens if a Bear Market hits simultaneously with your time horizon for retirement?

### » Individual Stocks = Volatility

## Bonds

Bonds are debt instruments. Investing in bonds involves loaning an entity (bond issuer) money. The bond issuer pays a fixed interest rate for the life of the bond and at the end of the bond period the original purchase price of the bond is returned to the bond investor. The problems with bonds are simple: you take a credit risk, and the actual value of the bond can change daily as the value of money changes. 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.

### » Bonds = Being a Lender

## Commodities

Gold, silver and other precious metals have for years been considered a hedge against inflation or a natural home for safety. In reality, since 1982, gold has not kept up with inflation. Precious metals are significantly volatile and hedging retirement with this class of assets can be very dangerous.

### » Commodities = The Unknown

## Annuities

Annuities are an important part of any retirement plan as they are safe, secure and risk free. An annuity allows you to accumulate funds for retirement on a tax-deferred basis, and upon retirement you'll receive income from the annuity that can be guaranteed by the insurer to last either a fixed number of years, or as long as you live.



A quick summary of annuity benefits includes:

- Tax deferred earnings
- No contribution limits
- Flexibility in distribution / payouts
- No forced distributions
- Proceeds not subject to probate

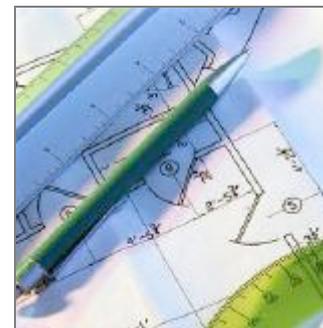
Annuities represent a formidable option for someone looking to enhance their retirement planning strategy. Not only do they add to the mix of tax-deferred growth you may be getting from your IRAs or 401(k)s, but they also offer significant investment and distribution options.

There are many types of annuities, offered by many insurance companies. The first step is to speak with a qualified professional to receive an annuity quote so you can best gauge how an annuity would fit into your specific financial plan.

**» Annuities = Safety**

## Summary

As an American, 2012 will be an important year. The upcoming Presidential Election will set a new course for our country and our economy. The debt crisis in Greece, which boiled over to Italy, Spain and France, is creating an uncertain world economy. How this affects the U.S. and your personal retirement account is still up for discussion. One thing is certain; dealing with our \$15,000,000,000 (trillion) National Debt will impact our tax liabilities and net retirement income.



The question is what should you focus on your individual situation. How can you accomplish your goals and objectives? Educating yourself about available retirement fund options should be at the forefront. Knowing your risk tolerance and your true retirement objectives is essential to solid retirement planning.

The old saying “**Cash is King**” will no longer be true for 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 going to be different for each person but will probably be a combination of currently available retirement options. These options will include guaranteed income that cannot be outlived, inflation protection, safety, security, and risk management. These options should be blended with versatility and the ability to make necessary changes and adjustments over a period of time.

As we point out with all our reports, we strongly advise you to speak to a qualified financial professional to discuss the specific options available to you that fit your retirement needs. We live in a different era than our parents, and the products, options and strategies available reflect that. The changes we are experiencing make planning for retirement complex and time consuming, but how you respond and adapt to these changes is undoubtedly one of the most important things you’ll do in your life. We all have dreams of how we want our retirement years to be. With careful planning you’ll be in a better position to realize those dreams.

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