"QUALITY PRODUCTS AND QUALITY SERVICE BEGIN WITH QUALITY THINKING."

APRIL 2003

ANNUITY NEWS

THE SOURCE SPECIAL EDITION

Check us out!

You have recently seen London Pacific placed in receivership by regulators. You saw Conseco file bankruptcy. In each case, clients did not suffer but producers did. How embarrassing is it to take a call from a client whose annuity company has just hit the skids? Whose job is it to stay on top of these matters? Several top marketing companies were writing millions in annuities with these two carriers even after financial disaster had struck. However, not one of AFS's producers was writing business with them at that time. Protect yourself by getting the latest comprehensive ratings and financial review on your carriers today. Better yet, ask about the "**Annuity Marketing Program**" that uses these updates to generate more annuity business. Ext. 132 or check the box on the **Faxback form**.

In this issue:

Tax Analysis - It Pays to Work That 1040!

Here is a five-letter word for increasing annuity sales: T - A - X - E - S! This is tax season. If there are 50 ways to leave your lover, there are many more ways to lower a clients' taxes. *Using the 1040 your client just filed, you can show them what an annuity can actually do for them.* For seniors, there are several 'hot button' tax issues. The "Tax Relief" sales kit provides our licensed producers with training on how to analyze a 1040 tax return, present 4 specific tax relief strategies and scripts on using these tactics; **tax return overlays for your presentation;** and prospecting tips. Get a jump on 90% of your competition. The small number of all advisors using these strategies are experiencing huge increases in their annuity business, shouldn't you?

Here's one example: for some retirees, if they earn one additional dollar in income, they will pay taxes on an additional $1.50. Another perspective: do these clients have a marginal tax bracket of 22% OR 42%? Why you may ask? This is all due to the taxable Social Security laws passed in 1983 and 1993. There are specific strategies for lowering taxable Social Security that are included in AFS' powerful "**Tax Relief**" sales kits. Producing AFS agents get this powerful program. Ask about how you can get a sample kit and become eligible for this awesome program-ext. 132 or check Tax Relief on the **Faxback form**.

Guarantee Rates more valuable in unstable market

Latest CD Annuity Rates
3 year 3.67%
5 year 3.90%
10 year 5.00%

Looking for CD alternatives? One source says the average 3-year CD is paying 2.6% today. In a 15% tax bracket that is a net of 2.2% after taxes. Most retiree's personal inflation rates will erase what's left after taxes. Bank source says the average 5-year CD is under 3.4%. Clients in the 27% tax bracket will earn less than 2.5% after taxes! This is a great time to be in our business. In addition to these Multi-year Guarantee Annuities we also have traditional fixed annuities with minimum guaranteed rates of 3.5% per year. **Let us quote your next case**.
(All products may not be available in all states. Check the "**Product Toolbox**" on our website for product changes and updates.)

Interest rates generally may have stabilized recently but the impact of lower rates is really starting to be felt by the insurance companies. "Floating minimum guaranteed" rates have arrived. The insurance regulators have adopted rules that will allow companies to 'float' their minimum guaranteed rates based on the 5 year Treasury yield. Today that means 2.57% would be the contract minimum. That rate can change with fluctuation in the benchmark. These changes would not affect existing policies. This means contracts with today's locked down guarantee rate just became more valuable! Ask about our 'Plain Vanilla' annuity with the 3.5% lifetime guarantee!

Budget crunches affecting Long Term Care

State government budget crunches are impacting your clients' long-term care options. Many states are cutting back Medicaid funding and leaving many people without any coverage. For years, annuity producers have successfully used annuities for Medicaid planning. Today, states are trying to close those loopholes, and proposals in the Bush budget plan might accelerate those changes. Several states are cracking down on "Medicaid-friendly annuity" marketing. That is different from using annuities for Medicaid planning. Annuities are still a valid planning tool but caution is warranted.

Here are some things you can do to stay ahead of the curve: 1) rely on top-rated annuity carriers who will document that they offer "actuarially sound" annuity options, 2) consider using other LTC options like annuities that offer LTC benefits, and 3) clients who are able to provide "private pay" initially will have more options than those who must seek immediately Medicaid assistance. There are products that offer LTC benefits as long as clients have not used a nursing home or home care in the 12 months prior to applying for the annuity. Be wary of products that are fully underwritten or products that require the client to 'spend their annuity' first, before the LTC benefits are triggered.

Ask about our LTC annuity kits or for our help in dealing with the medicaid minefields, call ext. 132 or mark the Faxback form.

LEARNING CORNER

Become an IRA Expert in Dallas, TX

Last year the IRS changed the rules on required distributions and spawned the 'Stretch IRA' industry. This year, the IRS has revamped the SEPP or 72(t) rules. President Bush has proposed major changes in retirement plans and lifetime savings accounts. How can you profit from these changes? How do you integrate these changes into your marketing programs? How do you position yourself with prospects and clients as the 'trusted advisor' for retirement plans? How do you use these changes to build strategic alliances with other professionals?

Become a true IRA/Retirement Plan Distribution Expert.
This exciting training program will be led by two of the industry's leading IRA distribution and marketing specialists, **Ed Slott, CPA & Larry Klein, CPA, MBA & CSA**. Mark your calendars for **April 25-26 in Dallas, Texas**. See the attached flyer for more detailed information.

AFS WANTS TO HELP YOU GET THERE. CONTRACT WITH AFS AND QUALIFY FOR $100 SCHOLARSHIP TO ATTEND THIS ONE-OF-A-KIND MEETING.

Add Credibility! Try our Client Management System

Many top producers are having phenomenal success attracting new clients right now, many are not. One differentiating factor is proactive communication. The latest research shows that clients who have been contacted recently by their advisors are significantly more likely to retain their present advisor and refer more business. Looking for a simpler, more effective tool for staying in touch? Ask about our client management system. Research shows it is 7

times less expensive to market to an existing customer than it is to market to a cold prospect. How much did it cost you to acquire customers last year? The latest research says that you need to contact your existing clients at least 18 times a year to keep them satisfied. That doesn't mean 18 calls or 18 letters. People like to be contacted in a variety of ways. That's where this web-based system can really help. Need help with 'Nurture Marketing' programs? Call ext. 132 or mark the Faxback form.

Quick Facts - Now's the time!

The EIA that pays it's own taxes!
You will often hear from clients about a "step up in basis" as a reason for not moving assets from stocks and mutual funds into EIAs. When the clients or their advisors are saying "step-up in basis" what they are really saying is that the children will pay no taxes on the stocks or mutual fund gains at the demise of the parents. There are other ways to accomplish similar objectives without leaving the parents in a risk situation. Of course, using an EIA will help them accumulate assets for the children faster because of tax deferral. Current taxes will not be paid on dividends or capital gains distributions. Moreover, most EIA products are tied to the S&P 500 index. That index has outperformed over 85% of all money managers over the last 10 or 15 years. Finally, the annual reset features and principal guarantees will protect that nest egg from market losses. Once the client has accumulated a sum of money, how do you protect it from shrinkage associated with taxes? One simple tool is an 'enhanced death benefit' rider. This rider, for example, would pay the heirs a tax-free bonus equal to 28% of the total gain in the annuity, including any 1035 exchange amounts. That means most children will receive at least the same amount and maybe more, on a net basis, than they would if they relied on the 'step-up in basis' approach.

Loss on Surrender of Annuity Contracts.
Annuity contracts that have lost value may create tax-deductible losses, according to some recent tax rulings. In order to qualify, the non-qualified contracts must be surrendered and not exchanged under IRC Section 1035. Here is the process:
Step one- calculate the basis in the contract. Normally this is the amount that was paid for the annuity.
Step two- calculate the gain or loss by subtracting the basis from the market value (note surrender charges don't count). Example: The client paid $100,000 several years ago. The market value today is $80,000. The client surrenders the annuity and receives a check for $75,000 after surrender charges. What's the loss? $20,000 ($100,000 - $80,000). The complicating matter is where to report the losses. The clients should

consult competent tax counsel. Here's what one leading CPA firm suggests: conservatively, these are miscellaneous deductions on Schedule A, Form 1040. However, a position can be taken to deduct the losses on line 14, Form 1040 (Other gains/Losses). Revenue Ruling 61-201, 1961-2 CB 46, supports treating the loss as an ordinary loss.

Annuity switcheroo.
That's what the Wall Street Journal called the next strategy. By pulling out most - but not all- of their cash from a variable annuity with losses and exchanging the money for a second annuity, investors can increase the sums that their heirs will receive when the annuity holders die. Here's why. Variable annuities promise to pay heirs of an annuity holder the sum of the premium invested - even if that far exceeds the annuity's current value. But some contracts also offer escalating death benefits. For instance, if a person invested $250,000 in an annuity a few years back and watched that sink to $175,000, the death benefit would still be at least $250,000 - and it could be higher in contracts offering the 'enhanced' coverage. Here is an example: The holder arranges a direct tax-free exchange of most, but not all, of the cash in the original annuity into a second annuity through what's called a "1035 exchange." The investor leaves the contract minimum in the contract and a death benefit that is 16 times larger - $80,000, or $250,000 minus the $170,000 withdrawal. In essence, this keeps the insurer on the hook for a death benefit in the first annuity, while the death benefit in the second annuity rises along with the account value. Don’t do this without competent assistance and look for the insurance companies to “close” this up in the future. Call for our CFP assistance.

Want to take advantage of the EIA that pays it's own taxes? Our licensed producers get these "Quickfacts" in the *AFS Source* on a regular basis. Dare to compare? AFS has the software to compare your EIA with the industry leaders based on actual performance! One of our producers made a $300,000 sale by showing his 4% bonus EIA outperformed another 10% bonus annuity based on historical performance. How did he do it? Our unique EIA analyst can make you money. Call ext. 132 or mark EIA Comparison on the Faxback form.

Quality Products and Quality Service begin with Quality Thinking

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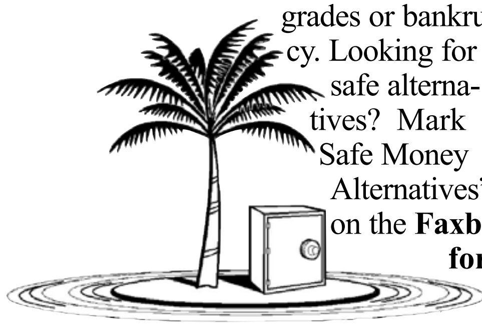
Safe Money Alternatives

Yields on money market funds and CDs have reached 40-year lows. Everywhere the senior turns they are hit with higher yielding alternatives. The latest is Ultra short Bond funds. Positioned as money fund alternatives, these are bond funds and suffer from two major risks:
Interest rate risk - if rates go up the value of bonds go down and principal is lost;
Credit risk - if the ultra short bond issuers stumble financially, these funds could lose with missed interest payments, or even principal, due to downgrades or bankruptcy. Looking for safe alternatives? Mark Safe Money Alternatives" on the **Faxback form**.



BONUS

for contracting with Annuity Financial Services! Fax back your requests, include your email address and we will send you "Reading the Tax Form 1040" sales tool and as an added bonus the Money Talks CD Program with your membership to AFS Platinum. Included in this Newsletter is a Faxback form for you to fill out and Fax in to AFS. Don't miss this great opportunity!

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ANNUITY NEWS

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Attention: Marketing

Or if you prefer -
E-MAIL YOUR REQUEST TO INFO@ANNUITYFINANCIAL.COM
OR CALL (800) 326-9019 EXTENSION 132

(Systems and Presentations for AFS Contracted Brokers only)

Yes, please me the following information:

- ☐ The ***Tax Relief*** Sales Kit
- ☐ ***LTC Benefit*** Annuity
- ☐ ***Annuity Marketing*** Program
- ☐ ***Nuture Marketing*** Program
- ☐ ***Plain Vanilla*** Annuity
- ☐ ***Safe Money*** Alternatives
- ☐ Request ***EIA Comparison***
- ☐ Registration Form for ***IRA Dallas Training*** and AFS Scholarship.
- ☐ Please send me information on AFS and how I can have access to the programs discussed.

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No requests are processed without a verifiable phone number. We are very selective in our materials and customize each request to your particluar marketing needs.

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