



# Financial Stuff

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## MORE MONEY PLEASE!

Nearly all of us think life would be better if, as JD Rockefeller said many years ago, they had “*just a little bit more*” money. Research reveals more money solves problems and makes us happier. The irony is research also reveals people who worship money usually don’t have much of it. They tend to make costly mistakes, such as spending more than they earn and borrowing more than they can pay back. They also have a tendency to hoard and work too much. So how much is enough? Surveys are pretty consistent that people are happier as their income increases until ~\$75,000. After that, more income doesn’t necessarily result in more happiness. The American College of Financial Services conducted a 25 year survey from 1994 to 2018. They found that money plays a big role in our happiness and/or contentment up until a net worth of ~\$4 million. More money doesn’t automatically make us happier, but it is normal to conclude “*just a little bit more*” will help. Many Americans have a disconnect between money and happiness. One possibility is the biblical principle of tithing. When we’re helping others, we stop looking at our own situation. Before the pandemic, we were already drifting toward isolation. For the moment, it has become a way of life. God didn’t create us to be alone! Health is also critical and takes time to maintain. We’ve all been around people at the end of life sharing their regrets. More money is rarely, if ever, mentioned. (*Source: Advisor Perspectives, American College of Financial Services, JFR*)

## LIFE HAPPENS

The S&P 500 stock index reported a 40% increase during the past 12 months on 6/30/21. How often does it have a negative number? During the past 30 years, the S&P 500 stock index reported a negative trailing 12-month total return 58 times out of 360 months, which is 16% of the time. The last negative number was March 2020, when the index was down 7.0% over the previous 12 months. (*Source: CBO, BTN Research*)

## A Few More Debt Numbers

Remember what Hemingway said about going bankrupt. “*It happens very slowly then all of a sudden.*” Since 2011, the National Debt has increased from ~\$15 trillion to ~\$28 trillion. That increase involved ~\$4 billion per day of new debt, ~\$150 million per hour, ~\$2.5 million per minute and ~\$43,000 per second. Assuming there are 350 million people living in America, that works out to ~\$10 per day per person added to the ~\$87,000 each of us already owes. (*Source: Treasury Department*).

## FRA = FULL RETIREMENT AGE

Also known as “*normal retirement age*,” FRA may include some months as well. If you were born on January 1, refer to the previous year.

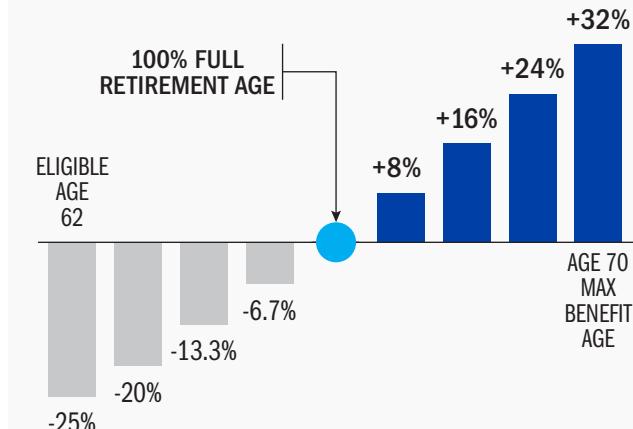
YEAR OF BIRTH	FULL RETIREMENT AGE
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

Source: SSA.gov

### Benefits of Waiting

Retiring early reduces the amount of income you receive each month. Delaying retirement increases it.

### BASED ON FRA OF 66



Source: SSA.gov

## YOU GET WHAT YOU PAY FOR?

The annual Gallup Purdue university poll reconfirms that the more engaged the student was, the more likely he or she will be successful in life. Where they go to school, or how much they pay, is not as important as what they do while they are there. The highest rating went to professors who made learning fun. The second highest was having professors who took a personal interest in their students. The third key was having a mentor to help them shape their goals and dreams. Another highly-rated factor was projects that took a semester or more to complete. Internships where they could apply what they were learning and being active in extra curricular activities also topped the list. (Source: Gallup)

## DO AS I SAY! NOT AS I DO!

Where's the report on the 182 private jets landing in Glasgow and Edinburgh airports for the COP2 Climate Summit? ~1,000 TONS of CO2 was emitted. How about President Biden's 85 car motorcade? Did everyone from Washington attend? The best story is how the “*leaders*” were given electric vehicles to drive while they were there. The only problem was there weren't enough charging stations. So, they used diesel generators! You can't make this up. (Source: *Wall Street Journal*)

## COVID-19 FUNERAL ASSISTANCE

FEMA (*Federal Emergency Management Agency*) is providing financial assistance for funeral expenses. Who is eligible? For deaths after May 16, 2020, the death certificate must indicate the death was attributed to COVID-19. For deaths between January 20 and May 16, 2020, any death certificate that doesn't say the cause was COVID-19, the application must be accompanied by a statement listing COVID-19 as a cause or contributing cause and signed by the original certifier of the death certificate or the local Medical Examiner/Coroner from the jurisdiction where the death occurred. Call 844-684-6333 to have one of FEMA's representatives help you complete an application. (Source: *FEMA*)

## WHAT TIME IS IT?

As we live longer, the assumptions about life expectancy are changing. We plan under the assumption that you are going to live forever. The reality is none of us will beat the clock. In 1900, the average life expectancy in America was ~47. Today it's ~77. Children born today could be the first to have life expectancies of 100. Half of us will outlive our life expectancy. The longer we live, the more money it takes. The mystery is how much to spend today versus how much to save in case we need it tomorrow. Reaching 65 is an indicator that you may live longer than the averages.

Your family history is important, income, lifestyle, location, etc. For the 65 year old, non-smoking male born on January 1st, 1956, there is a 90% chance that he will make it to age 72. There is a 50% chance he will make it to age 85 and a 10% chance he will live to age 96. For 65 year old women, there is a 90% chance that she will make it to age 74, 50% chance she will make it to 88 and a 10% chance she will live to age 98. For 65 year old couples, the odds are 90% that one or both will make it to age 82, 50% that one or both will make it to age 92 and 10% age 100. If you are a smoker, then subtract 5-8 years. We keep it simple and assume you will live forever! You can play with the numbers at [www.longevityillustrator.org](http://www.longevityillustrator.org). (Source: *American Academy of Actuaries, Financial Advisor*)

## RETIREMENT INCOME

A recent study by the AAII calculated the probability of outliving your money. One interesting conclusion was how the RMD payout based on the IRS Uniform Life Expectancy table had 100% success for not outliving the money. This is because the withdrawal is based on the existing value of the account. If the account loses money, then the RMD amount decreases. If the account maintains its value, then the RMD slowly increases as your life expectancy decreases. In nearly 80% of the situations, whether one was invested in 100% fixed income or 100% stock, the RMD increased ~80% of the time. Similar results were found for the 4% withdrawal, but the increase was smaller. What if someone is retired during a time when average returns are low? The success rate is still 100%, but the odds of increased withdrawals over time is reduced to ~60% from ~80%. The best strategy is a flexible one. Take less out in bad years and more in good years. A parallel study on portfolio returns concluded that our primary asset to improve investment returns is time. The second is a little luck when it comes to timing. We've seen this over the years. If you retire at a market peak, then best to reduce your withdrawal until the account has a chance to grow a little. The third factor is diversification. Growth has outperformed value for 10+ years now. Some believe the trend will continue. Others have been wrong about when value would outperform. The balance is not betting on one specific strategy. The fourth factor is cost. Keep your costs down and investment performance improves, all other things being equal. The fifth factor is risk/reward. They usually go hand in hand, but not always. Today's record low interest rates being an example. The cost for no risk is accepting returns of 1% or less, but that doesn't even keep up with inflation. The sixth factor is dollar cost averaging isn't free. It often helps, but sometimes can hurt. The seventh factor is taxes. Don't pay anymore than you have to! To sum it all up, **"Spend less than you Earn, Be/Become Debt Free and Divide Your Portions."**

(Source: AAII)

## WHO WANTS TO BE A MILLIONAIRE?

It doesn't happen overnight, but all you need is time and money. Every year counts. And how you invest. Stocks offer the best return over time. Over the past 60 years, the S&P 500 Index has averaged 10%. 8% over the past 20 years. The typical America has very little saved at age 40, but the good news is there is still time to make it happen by age 60 if you save enough. How much will you need in retirement? On average 70-80% of your working income. Another important number is 4%. If you spend more than 4% of your retirement savings, then there is a chance you'll run out of

money before the Lord calls you home. You can take more in good years, but the key is to limit the withdrawals in bad years. Another health check is how much you have saved already for retirement. At age 30, you should have 1x your salary. At age 40, 3x your salary. At age 50, 6x your salary. At age 60, 8x your salary. At age 70, 10x your salary. It all comes down to spending/budgeting. 50% of your income should go to necessities, 20% to savings and 30% anything you want! (Source: JFR, WSJ, Stansberry, AAII)

### YEARS TO BECOME A MILLIONAIRE

#### Rate of Return

Savings	5%	7%	10%
\$100 per month	77	61	47
\$300 per month	56	45	35
\$700 per month	40	33	27

## MEDICAID "PLANNING"

The primary issue to remember is Medicaid is welfare. It is not intended to be used as a way to shelter assets from the government. With average nursing home costs passing \$100,000 in 2020, none of us wants so much money spent on our last chapter. Qualifications vary by state, but as a rule your income needs to be less than \$2,500 per month to qualify. It is possible to allocate as much as \$3,000 per month to a spouse, but your total assets must be \$2,000 or less. The spouse's assets may or may not be protected, but as a rule \$150,000 or so is. Your home is protected while you're alive, but the state can come after it when you pass. Redistributing assets is a possibility, but important to remember if the government can no longer reach the money, then you probably can't either. **"My child will protect it."** Many will, but many will not. There are what is known as Medicaid compliant annuities, but the government must be the beneficiary of what's left. A Miller Trust is a possibility for your extra monthly income to help protect assets for your spouse. Not so much for children or anyone else. The 5-6 year look back period is becoming more firmly in place. Irrevocable trusts can work to protect money from the government, but remember you lose control of the money and become reliant on a child or someone else to do the right thing. (Source: Estate Planning, WSJ, Investor Business Daily)

*The brave die never, though they sleep in dust,  
their courage nerves a thousand living men.*

MINOT J. SAVAGE

## WHAT HAPPENED TO “A BILLION HERE, A BILLION THERE...”?

Will 2020 be when one billion was replaced with one trillion? What comes after trillion? For now, billions has replaced millions as pocket change. 30-40 years ago it was difficult to comprehend how a million dollars is \$10 a second for 28 hours. And today a billion dollars at \$10 a second for 38 months is no big deal? **How much is a trillion? \$10 a second for more than 3,000 years.** (Source: JFR)

## COMMON QUESTIONS

Prior to retirement the most important question is *“How much do I need?”* The focus is simply saving enough each year in order to one day retire comfortably. The X Factor is what if I have to retire at 60 instead of 65? Or 58 instead of 62? As we’ve discussed before, lots of unplanned things happen between 55 and 65 that can impact our financial plan. Once we get close to retirement, the same question is asked again, *“How much do I need?”* We calculate how much you can spend on the *‘I’m going to live forever’* plan, as well as how much assuming you live to 80, 90, etc.

Another important question is, *“How do I pay for health-care?”* This topic has many moving parts at the moment. The good news is once you get to Medicare, the cost of coverage drops dramatically. *“What about Social Security?”* This question is mostly mathematical based on whether or not you should spend your own money first or the government’s. The X Factor is when we’re going to die. *“Can I stay in my home?”* The best plan is to be debt-free in retirement, but many Americans still have a mortgage at retirement. *“What if I need long-term care?”* Few Americans can afford to pay \$7-9,000 per month to stay in a nursing home. The best plan is to consider the possibilities and be prepared. *“How can I not be a burden to my family?”* Most importantly, never forget the 3 fundamentals, which will help you achieve financial independence. Talk to your children about the what if scenarios. Get your legal documents and affairs in order. *“How can I maintain my independence?”* As mentioned already, be prepared and plan accordingly. Like bad weather, it is very unlikely that a storm will destroy everything you’ve spent your working years to accumulate, but we all know someone where it has. We are answering these questions and more every day for clients. Call or email. We are here for you! (Source: Advisor Perspectives, Financial Planning)

## NOT SO BIG MONEY?

Also for 2022, the IRS has updated the Required Minimum Distribution (RMD) Tables and changed the beginning date from age 70 1/2 to 72. Under the old table, the RMD Uniform Life Expectancy factor for age 72 was 25.6. It is

now 27.4, which ironically was the factor for age 70 under the old table. The net result is the RMD will be ~7% less to help offset increasing life expectancies. (Source: IRS, Nationwide)

## “IT WON’T HAPPEN TO ME!”

It works well most of the time if we are conscious the world we live in isn’t perfect and we plan accordingly. **BUT!** Life does happen. The last 2 years is an example. Divorce is up and the largest increase is for people over 50. The exact opposite of the normal percentages. Divorce impacts money, emotions, families, friends, lifestyles... Even before the pandemic, there has been a growing trend for adult children to remain dependent on their parents. While the responsibility never goes away, most parents didn’t plan on sitting at home in retirement in order to afford helping their children. In many cases, the children really don’t need the money, they just don’t want to work and/or spend their own money. The best solution is Say No! A compromise may be to have them sign a loan agreement. Second and third homes can also be a problem when people don’t realize the total cost. Real estate is normally a good investment, but the profit may not come until you sell 15-30 years later. In the meantime, the cost of owning a second home may not be affordable. I can rent it! Yes, but being a landlord also takes time, money and is usually stressful. There is no shortage of Fear today. And the reasons are put in front of us 24 hours a day. Many Americans have plenty of money to spend, but they are afraid to. One possible solution is to create a bucket account that is funded from investments monthly. The money in the bucket account can be spent on anything at any time. What if I get sick? It can be expensive. The *“experts”* are crunching numbers all the time that suggest at some point in our lives we will need \$200,000+ for healthcare. The primary defense is health care insurance. Maybe I should go into business? If you’ve never owned a business, then think long and hard about it. What is the purpose? Who are the customers? How much will you charge? How much will you spend producing the product or service? What if someone steals from me? An elderly neighbor with an aging dog told me about how the coyotes were stalking him in the park at dusk the other day. Young and old are targets for thieves dependent on our circumstances, strengths and weaknesses. Avoid problems by being mindful of the world we live in. Like the old saying, *“Be prepared.”* (Source: Financial Planning, Investors Business Daily)

## DISABILITY INSURANCE

Long-term financial planning is based on people's ability to earn an income until they retire. But what happens if you are forced to stop working because of a disability? Advances in medicine and technology are helping people to live longer healthier lives than our ancestors enjoyed. Many people live an active and healthy life well into their nineties. **This is not news.** But have you stopped to consider these same advances are also lengthening lives of people suffering from prolonged illnesses and catastrophic accidents? Here are some staggering statistics!

- **Three in ten workers entering the work force today will become disabled before retiring.** Source: Social Security Administration
- **One in seven workers can expect to be disabled for five years or more before retirement.** Source: Commissioners Disability Table, Health Insurance Association of America
- **Disability causes nearly 50% of all mortgage foreclosures, 2% are caused by death.** Source: Health Affairs, The Policy Journal Of Health Sphere
- **The final award rate for disabled-worker applicants has varied over time, averaging 32 percent for claims filed from 2009 through 2018.** Source: Social Security Administration
- **Unexpected illnesses and injuries cause 350,000 personal bankruptcies each year.** Source: Health Affairs
- **The average long-term disability absence lasts 2.5 years.** Source: Commissioner's Individual Disability

A long-term disability could bring your financial plan to a standstill. Worse than that; it could result in financial ruin for you and your family. Disability Insurance protects your ability to earn an income.

### DO YOU NEED IT?

It depends. If you lose the ability to earn an income do you have available resources that will replace it through retirement?

### HOW DO I GET IT?

Many employers provide short and long-term disability insurance options to their employees. Often it is paid for with salary reduction/contributions. If you are contributing to such a plan, it will show up as a reduction/draw on your paystub. If you are not participating, ask your Human Resource representative if there is a plan you are eligible for. Often, this is the most cost-effective way to obtain disability insurance coverage.

### WHAT IF MY EMPLOYER DOES NOT OFFER THIS OPTION?

Call us. We can review your situation and help you determine your needs. We are also able to go into the insurance market and help you choose a policy that best suits your needs. We've seen examples of complete financial ruin because there was no insurance to protect a family's income. This family exhausted their retirement funds, savings and were forced to sell their home. We've also helped folks process their claims and move into life permanently disabled without causing a change in their financial plan and/or financial lifestyle.

## “INFLATION IS DEAD? NOT!!!”

While our “representatives” try to tell us inflation Is “transitory,” the last year has been a grim reminder inflation is alive and, for the moment, getting worse. As the chart reveals, over time inflation compounds; just like a credit card when someone makes the minimum payment.

Economics 101 teaches that as prices increase, we spend less on them. Nothing wrong with that, but the real answer is to arrange your finances in a way where your income and net worth keep up with and/or stay ahead of inflation.

When Disney World opened on October 18, 1971, admission was \$3.50 for adults and \$1.00 for children. Today, the tickets are \$109 for adults and \$104 for children. That works out to an Increase of 7% per year for adults and 10% for children. Worried about Inflation? Come and see us or give us a call. (Source: Advisor Perspectives, Wall Street Journal)

## WHAT IF?

Helping both your children and parents is often referred to as the “*sandwich generation*.” Millions of Americans are in this situation today. What if this is you tomorrow? One way to prepare is to better understand your parents’ finances. Do they have an estate plan? Have they prepared for the possibility of needing long-term care? Have they considered Medicaid planning, irrevocable trusts, “*look back*” periods? What if one or both of your parents and/or in-laws need assistance? Are there family members ready and able to help? If not, then can they afford to pay for help from someone else? (Source: Advisor Perspectives, Financial Planning)

*The evils of tyranny are rarely seen but by him who resists it.*

JOHN HAY

## ECONOMICS 101

What about inflation, interest rates and the stock market? Our “*representatives*” and the Federal Reserve want us to believe they have us covered. “*All is well.*” Having confidence is important. **BUT!** Our money is “*flat*,” which the dictionary defines as arbitrary. President Johnson eliminated the final link that the dollar had to gold in 1968. What else can they do? Raising interest rates slows down the economy, but we’re still trying to recover from the pandemic. Inflation increase interest rates. If the Fed quits “*buying*” all the government debt being issued, then that may reduce the growth of the money supply. Some “*experts*” say the Federal Reserve controls interest rates, so we don’t need to worry about them increasing much. If interest rates don’t increase, then how can inflation be “*transitory?*” Is it possible to print \$7 trillion of new money and not have inflation? Picture the current situation as heading into the rapids. We know there will be calm water again. The mystery is what happens, or not, before we get there. (*Source: Financial Advisor, AIER, Wall Street Journal*)

## THE NATIONAL DEBT

The National Debt just passed \$30,000,000,000,000. **No big deal. Right?** Time will tell. No mention of it in the news. Instead in Detroit we were focused on the “*Snowpocalypse*,” which turned out to be anything but. In 1789 we borrowed \$75,000,000 to fight the war of Independence and paid it off 50 years later. During the Civil War we borrowed \$1,000,000,000. In 1975, the National Debt was \$500,000,000,000. In 1981, the National Debt doubled and passed the \$1,000,000,000,000 mark for the first time. We hit \$10 trillion in 2008 and \$20 trillion in 2017. According to the Congressional Budget Office (CBO), we weren’t supposed to reach \$30 trillion of debt until 2025. Debt threatens our way of life. It threatens our national security. It should not be an option for our “*representatives*. ” (*Source: WSJ, AIER, CBO*)

## BIG MONEY?

For 2022, the IRS has raised the annual gift tax exclusion to \$16,000 per donee from \$15,000. For married couples, this translates into \$32,000 per donee since each can gift \$16,000 to the same individual. There are other options to give money away without paying taxes. Give us a call when you need some guidance. (*Source: Kiplinger, IRS*)

## NO MORE STRETCH IRA?

The IRS has eliminated the “*stretch provisions*” for non spouse IRA beneficiaries. **BUT!** A Charitable Trust can accomplish the same goal. The key is if the plan is to leave a portion or all of your estate to charity. There are many tax benefits to a charitable trust, but there are also costs; including loss of control of the principal. Another consideration is a highly appreciated asset. “*Gifting*” this asset to charity can not only avoid the capital gains tax, but also a charitable deduction. Saving taxes are good, but the key is to consider the costs and benefits. The first question is, “*Do you want to leave money to charity or church?*” (*Source: Kiplinger, Private Wealth, IRS*)

## GUARDIANS – LIFE HAPPENS

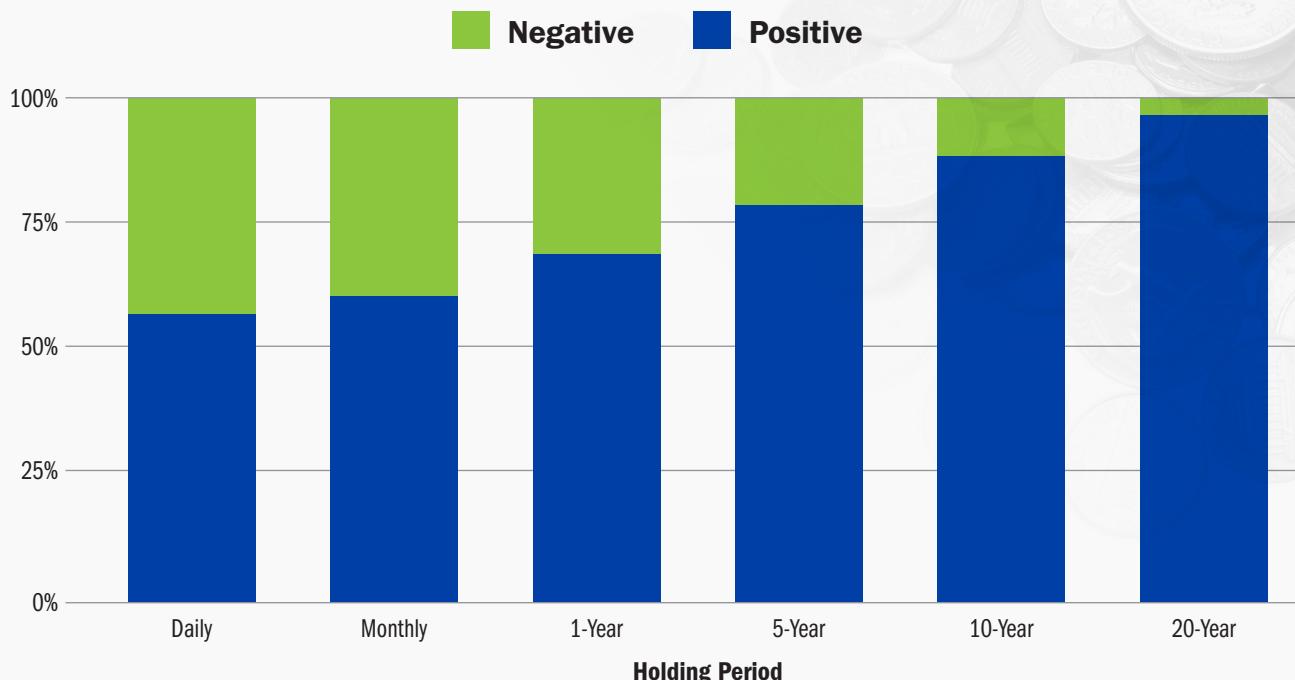
Sometimes, it can be complicated and frustrating. Whether you have legal authority or not, it can be challenging to serve as someone’s guardian. There are professionals, which has its own set of blessings and curses. More often, it is a family member, which can be complicated when other family members, including the one being manager, disagree with the decisions being made. The courts have well established guidelines and principles. They prefer to appoint a family member, but often there isn’t anyone qualified. If a professional is appointed, it is the guardian’s job to protect your loved one, not your estate. When the bills start adding up at \$250 per hour or so, relationships can quickly sour. There is court oversite, but the opportunity for trouble is there. Most important, remember taking care of someone’s finances and/or health can be complicated. This is why we ask about your estate documents during reviews. (*Source: Kiplinger, Financial Advisor*)

## BY THE NUMBERS

Just 4 US States have \$1+ trillion economies. California (\$3.3 trillion), Texas (\$2.0 trillion), New York (\$1.9 trillion) and Florida (\$1.2 trillion). Together they represent 37% of our nation’s economy and ~33% of the total population (~110 of ~330 million). The top of the top US taxpayers (1 of 1,000) in 2018 made at least \$2.5 million and reported 10% of all personal income. The bottom 50% of US taxpayers (1 of 2) made less than \$23,000 in AGI and totaled 11% of all income reported. Important to note that while the IRS receives ~150 million returns each year, ~40% of Americans with income do not have to file a Federal return. 80% of citizens over 75 years old do not have to file a Federal tax return. Notice any correlations in these numbers? They are there. (*Source: IRS, US Bureau of Economic Analysis*)

# THE ODDS OF LOSING MONEY IN STOCKS DECREASES WITH LONGER HOLDING PERIOD

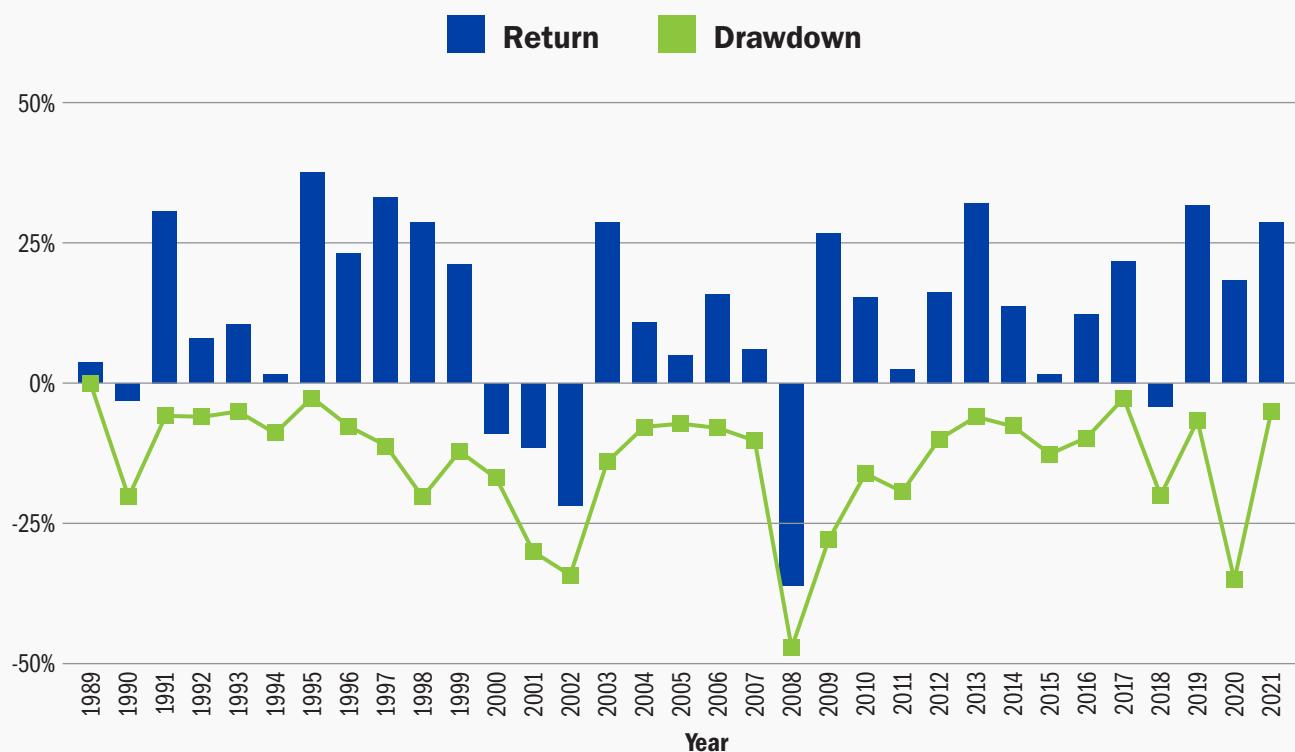
## Holding Period – S&P 500 Returns 1928–2021



Source: Motely Fool data as of Dec 31, 2021

**What this chart says:** Stocks are a coin flip on any given day, but over time the odds of making money improves. It's not **timing** the market, but **time in** the market.

## S&P 500 ANNUAL RETURNS AND DRAWDOWNS



Source: Motely Fool data as of Dec 31, 2021

**What this chart says:** Even in good years, stocks go up and down. Investing is a marathon, not a sprint. Even in strong markets, there are bad days and/or months.



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Personal Coaching	Insurance: Life, Health, Disability, Long-Term Care	Fee-Only Investment Consulting and Asset Management
Business Planning and Development	Estate Planning	Employee Sponsored Retirement Savings Plans
Real Estate Investment Trusts	Asset Management	Retirement Plans: IRA, SEP, 401k, Keogh, 403b
Mutual Funds*	Annuities, Fixed and Variable*	Full-Service Brokerage Accounts*

***We have the knowledge, tools and experience to help. Call us today at 800/315-2945 or 734/692-1421.***

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