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*Objective Advice to Help You Reach
Your Goals & Find Peace of Mind*

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Savings Bonds – In a column in the *Washington Post* on September 21st, Jane Bryant Quinn discusses the decline of savings bonds as a useful investment in a diversified portfolio. Her reasons for thinking that savings bonds are on their way out:

1. Last May, the fixed-rate portion of the interest on I bonds was set at zero. Current buyers will not earn more than the inflation rate (currently 4.84%) over the next 30 years.
2. The amount of money an investor can put into I bonds annually has been cut from \$30,000 to \$5,000 for both paper bonds and the electronic version.
3. Rates for EE bonds are currently set at only 1.4% for 30 years. The \$5,000 per year maximum purchase applies to EE bonds as well as I bonds.
4. Savings bonds must be held for five years to avoid paying a three-month interest penalty.
5. Paper savings bonds will not be available at all much longer. Eventually, everyone buying savings bonds will have to do so electronically through TreasuryDirect.gov.

Home Inventory - A current inventory of your household contents will provide peace of mind in case you need to file a claim for damages with your insurance company. A copy of your inventory should be in your safe deposit box. Pictures are a very good idea. Take them from every corner of every room. Don't forget the porch, deck, laundry room, garage, and attic!

Computer software, such as Quicken Home Inventory, is available. Make sure that you have a good backup in place and have a hard copy in your safe deposit box.

Variable Annuities: Certified financial planner Ron Pearson of Beach Financial Advisory Service in Virginia Beach wrote the following article for his newsletter. I am using it with his permission:

One of the things a fiduciary advisor must do continually is due diligence on all the latest and greatest products to determine what's in our clients' best interests.

I will say at the outset that I see a gigantic divide in the financial planning world. Those financial planners who earn commissions for recommending products almost always use them. On the other hand, those financial planners who are Fee-Only (and only paid for their advice) rarely use them.

I recently read an article in one of my professional magazines saying that a respected research organization (Ibbotson Associates) had determined that a Variable Annuity with a Guaranteed Minimum Withdrawal Benefit (VA+GMWB) provided better returns and more safety than a similar portfolio of mutual funds.

I found the actual article ("Retirement Portfolio and Variable Annuity with GMWB") at the Ibbotson website and was immediately surprised that the paper was sponsored by Nationwide, a company that produces and sells Variable Annuities.

As I read the paper, I was looking for answers as to how a VA+GMWB could outperform a portfolio of mutual funds since the VA+GMWB costs, on average, 1% more and the returns are taxed at ordinary income. For example, income on a \$50,000 distribution from the VA+GMWB would trigger \$20,000 in taxes if you were in the 40% federal and state combined brackets. In a mutual fund portfolio with 30% of the income taxed as ordinary dividends while 70% of the income was capital gains or qualified dividends (taxed at 15%), the distributions would trigger \$11,250 in taxes.

When I read the paper's assumptions, I found that **taxes were not considered**. Also, **inflation was not considered (probably since no VA+GMWB offers an inflation adjusted withdrawal benefit)**. In addition, **Ibbotson assumed expense of .4%, when the average expense of VA+GMWB is 1.4%! Yes, the VA+GMWB did provide a guaranteed 5% withdrawal rate on an amount that is locked in annually if the amount in the VA+GMWB is larger than the year before. So, even though your portfolio of mutual fund subaccounts in the VA+GMWB might dip during times like these, the guaranteed amount would stay flat, and your withdrawal amount would be based upon 5% of the guaranteed amount.**

Other papers discussing VA+GMWB indicated that all the money in the VA+GMWB needed to be invested in stocks in order for the portfolio value and distributions to keep up with inflation. However, many people are uncomfortable with having all of their investments in stocks, even with the guarantees.

Thus, after carefully reading the paper, I came away with the strong suspicion that the sponsorship by a producer of Variable Annuities caused Ibbotson to use assumptions that made the Variable Annuity look much better than a fair comparison would. I voiced these concerns to Ibbotson as well as several professional publications and there has been a lively discussion of the issues.

Meanwhile, product salesmen are touting the paper from the rooftops as proof that overpriced Variable Annuities with token guarantees are superior to a portfolio of mutual funds.

Note: I have at least two Variable Annuities available without commissions, with lower costs, and with guaranteed minimum withdrawal benefits. If my analysis showed that my clients would be better off using them, I would use them. However, the extra cost for the guarantee, lack of inflation protection on the guaranteed income and negative tax consequences prevent me from using them at this time.