

## Scott Brooks Video Transcripts

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What I'm going to do now is show you some alternate ways that you can explain how the annuity works to the client, all right?

SCOTT: So, what I want to do is I want to show you how the annuity works. I want to show you mechanics of how it moves, okay? Now, on this, remember there's two columns. There is the guarantee on the income account value and then there's income account value, and then there's the account value, which you would call the profit sharing. So, I'll give you an example of how these could potentially work, okay? So, what we have is this. You have the account value, which is, we call that the profit sharing, right? And then we have the income account value over here, which is the guarantee, correct?

ROY: Uh-huh.

SCOTT: Now, let's just make our math simple. I'm just going to use \$100,000 to use round numbers, okay? If you deposit \$100,000 into this account, here's what happens. They immediately create two columns, each with \$100,000 in them. Now, you don't have 200,000, you only have a hundred, okay, but they

just create two accounting columns. Now, remember we talked about how they pay a guaranteed, they pay you that eight percent bonus to sign on to start with?

ROY: Uh-huh.

SCOTT: So, the first day you deposit your money, it gets eight percent, so your account becomes worth how much?

ROY: 108,000.

SCOTT: 108,000, right? All right. Then they're going to pay you a guaranteed six percent increase on the income account value, right? So, here's what we know. We know that at the end of one year, your income account value is going to be worth roughly \$114,000, okay? Now, by the way, I'm not doing . . . I'm going to do approximate on the compounding here, okay? I'm going to use round numbers, okay? We know that a year from now it's going to be worth about 121,000. We know three years from now it's going to be worth 128,000. Then we know it's going to be worth 135, and then probably about 142. Now, I know that's not perfect compounding. I'm just trying to demonstrate how they work, okay? So, we know at the end of any given year approximately what your income account value is going to be worth, because it's a set, fixed amount that's guaranteed, right? So, this is the way it works. Now, how do they pay you an

income from that, all right? Well, in this middle portion here, there's something called payout factors, and they work like this. Let's mark off the years. I'm going to give you approximate ones just to drive home the point here guys, okay guys? The payout factors look something like this. 4.1, 4.2, 4.3, 4.4, 4.5, and here's how they work. We know how much your account value is going to be worth in any given year, right?

ROY: Uh-huh.

SCOTT: We know that if you decide one year from now, let's say you decided to retire earlier than expected. We know one year from now that your income account value is going to be worth at least 114,000, right? The company guarantees you, remember we talked about how once you turn the account on they only pay you the profit sharing portion, all right? We know that if your account is worth 114,000 at the end of one year, the payout factor is 4.1 percent. You will get a guaranteed 4.1 percent income per year for the rest of your life based on that 114. So, you take 114 times 4.1 and that's what your annual income is. That's how they figure it out. That's what the payout factors are. So, if you don't turn your income on, so two years, you get 4.2 percent of 121. Do you know what's happened? This is actually working exactly like a regular pension does, all

right? See, every year in your pension, you have an assumed interest rate and that rate goes up every year with the guaranteed payout. In addition to that, the factors that they'll pay you increase a little bit each year. Do you know why the factors increase a little bit each year? Because every year you live, you're one step closer to what? The death. One step closer to the end. So, they can pay you a little bit higher payout, can't they? Does that make sense, guys? All right. So, what you see here is exactly how a pension works, right here, all right? Now, this is a high-level description, all right, but this is how a pension works. All right. So, that's the way the guaranteed income account value grows and these are the payout factors. But how does the account value; remember we call that the profit sharing, how does that work? Let's take a look at that. Remember we talked about how it's based on that basket of stocks?

ROY: Uh-huh.

SCOTT: All right, the dividend aristocrat stocks basket, all right? So, here's what happens. You put \$100,000 in and this column immediately becomes 108, just like that one does. Now, again, you don't have 216, you just have 108, okay? And we'll just put down the years, one, two, three, four, five, okay? So, let's do this. Let's say you put 100,000 in and it immediately becomes 108, all right? Let's

say the market crashes. Let's say the market just goes down. Let's say it goes down ten percent. If the market goes down ten percent over that first year, how much will you account with worth the the end of one year?

ROY: 98,000, something like that.

SCOTT: No, because remember it doesn't go down, right? So it would be worth 108. Now, technically they will charge you a .9 percent fee, but I'm going to make my math simple and just call it 108, okay?

PATTY: Yeah.

SCOTT: So, let's say next year the market goes up and the income account value goes to 115. Now, here's the way you look at this. Let's say that one year from now or two years from now you guys decide you want an income. You're going to get paid 4.2 percent of what? 121 or 115? You get to pick the higher of the two, so which one do you want to pay 4.2?

ROY: 121.

SCOTT: Do you get that? You get one paying on the 121, all right? Let's say next year the market goes down again, all right? How much is your 115 worth if the market goes down?

PATTY: 115.

SCOTT: 115. Now, of course, there's that .9 percent fee. I'm just making it simple; I'm not going to use it just to make my math easy, okay? But then next year the market goes up to 125, all right? So, in the fourth year, if you say I want an income, how much income do you get, 4.4 of what?

ROY & PATTY: 135.

SCOTT: Or the 125. Which one are you going to pick?

PATTY: The 135.

SCOTT: You see that?

PATTY: Yeah.

SCOTT: Now, let me use an extreme example just to drive home my point. Remember I told you don't worry about this column, always worry about the guaranteed column? But what if, what if, what if the market shot up and this went to 150? Now you get paid how much?

PATTY: 4.5.

SCOTT: Of what number?

ROY: 142. No?

SCOTT: 150. You get paid on the higher of the two numbers. You see that there, guys?

PATTY: Uh-huh.

SCOTT: You see that there, guys? That's the way it works. Very simple, very straightforward. You get the higher of the two. That's how the profit sharing could beat the income account value, but don't ever worry about the account value beating it. Just concentrate on this, because this is how you're going accomplish all your goals. Does that make sense, guys?

ROY & PATTY: Uh-huh.

SCOTT: All right. Now what I want to to next is I want to ho you how the money actually behaves during the distribution phase. Remember I talked about how the money behaves in accounts during the accumulation phase versus the distribution phase on these accounts?

ROY: Uh-huh.

SCOTT: Let's take a look at this. Before I do, can I erase what's on the board here?

PATTY: Yeah.

SCOTT: Okay. So, remember as you learned in the class, money behaves differently in the distribution phase than it did the it accumulation phase, and that holds true even for big insurance companies. So, how do they look at this? Well, to make my math simple, I'm just going to use \$100,000, okay? Let's say you have an account value of \$100,000, and just to make the math easy, let's say they're paying you \$5,000 a year income off of that. Now, they don't pay you 5,000 per year, they'd pay you 433 or \$416 a month. Is that right? Yeah, that's right, all right? So, let's just call it \$5,000. So, if you have a 100,000 in your account value they pay you \$5,000, your account value goes down to what?

ROY & PATTY: 95,000.

SCOTT: Let's just say that year that the market delivers a zero percent return. How much interest do they credit to your account during the distribution phase? Remember, during the distribution phase they only get the profit sharing part, right? So, if there's no profit sharing, what are do they pay you that year?

PATTY: Six percent.

SCOTT: No.

ROY: No?

PATTY: No, nothing.



SCOTT: They don't pay you anything that year, because there's no gain that year. Because, remember, this is in the distribution phase. So, your account is worth \$95,000. So, if the two of you died, what would your children inherit?

ROY: 95,000.

SCOTT: 95,000, exactly right. That's exactly the way your investments behave right now. Your accounts right now, if you take out . . . if you have \$100,000, take out five, and your account earns no value, your account is worth the 95, your kids will inherit 95. It's exactly the same as your account right now, all right? Let's look at it a different way. Let's say there's \$100,000 in your account value, and they pay you \$5,000. It goes down to 95, right?

ROY & PATTY: Uh-huh.

SCOTT: All right. But let's just say that particular year, that the basket of stocks, you know the dividend achievers index we talked about -- or excuse me, the dividend aristocrats; I apologize -- that we talked about, all right? Let's just say for that particular year they deliver a six percent return, okay? They credit the account with \$6,000, your account's worth 101,000 that year. So, if you both died, what would your children receive?

ROY & PATTY: 101,000.

SCOTT: You get that? And by the way, just to make things simple, I'm not take into consideration that .9 percent fee. It makes my math easier here, okay guys? So, you see how that works?

ROY: Uh-huh.

SCOTT: And this is exactly pretty much how your accounts work right now. If you have money, if you had \$100,000 in your Fidelity account or your Edward Jones account and you took out 5,000, and it earned six percent during the year or earned \$6,000, your account would be worth \$101,000. So, everything seems to be the same so far, right? Here's the key difference. \$100,000 dollars minus five percent takes it down to 95, right?

ROY & PATTY: Uh-huh.

SCOTT: Let's say we have another stock market crash like we did in '08 and it goes down 50 percent. In the accounts you're in right now, today, with Edward Jones, if they gave you 5,000 of that 100, you've got 95, and then the market goes down 50 percent in your Edward Jones or Fidelity account, how much do you lose?

ROY: Forty-seven.

SCOTT: Let's just call it 50. Let's just make it simple. Call it 50, so your account is worth how much?

ROY & PATTY: 45,000.

SCOTT: Right. So, if you died, what would your children get?

ROY: 45,000.

SCOTT: That doesn't sound too good, does it, all right? But with your private pension annuity, \$100,000 minus 5,000 takes you down to \$95,000, right? The market goes down 50 percent; how much do they subtract from your account?

ROY & PATTY: Zero.

SCOTT: Zero! You get that? Zero. That's the key. At this stage of your life, those losses are your biggest enemy. You guys get that? This is what we're trying to take off the table. We're willing to give up some upside returns to protect against the downside. If you remember, as you learned in the class that night, a very good wise and good-looking man once said to you "Losses hurt you more than gains help you," right? That's what we're trying to focus on. Now, there's another nice little perk to this. Let's go back over to here, where it's the same as your current investments. Let's use a ridiculous example. Let's say this particular

investment earns a zero percent return for 20 straight years, like your investments right now. If you had money with Edward Jones and it earned a ten percent return for 20 years, which, can we agree that that's probably ridiculous? But let's just say it happens, okay? If they gave you \$5,000 a year for 20 years and they paid you no interest, at end of 20 years, what would your account be worth?

ROY: Zero.

SCOTT: Zero. So, if you died, how much would your kids get?

ROY: Zero.

SCOTT: Zero. Now, if that happened to you with your Edward Jones or your Fidelity account, and there's no more money in the account, how much money would they send you next year?

ROY & PATTY: Nothing.

SCOTT: There's no money there to send. They would say "You're out of money, too bad." But, with your private pension annuity, if the account's out of value, how much money would they send you?

ROY: 7,000.

SCOTT: No.

ROY: Oh, 5,000.

SCOTT: They would send you the \$5,000 of income. Do you all see that?

PATTY: Uh-huh.

SCOTT: You get your income. So, what they're saying to you this. They will guarantee you that no matter what happens, you will always get your income for as long as you live, so you never have to worry about running out of money, right? As long as you've got your income, you can accomplish all your goals and enjoy it. And they're also indemnifying you against what? Market losses. They're protecting you from the downside of the market. That's a pretty good compromise, isn't it guys?

PATTY: Uh-huh.

SCOTT: They indemnify you against market losses and they indemnify you against loss of income, so that no matter what, you have the peace of mind to know that you're always going to have that income for as long as you live -- all the income you need to accomplish all of your goals.