JR | KATZ℠

FAQs

Protection from Market Losses and Market Volatility

In our previous FAQ, we discussed how the super affluent can leverage Private Placement Investments to further enhance their tax mitigation strategies. In this FAQ, we turn our attention to how clients can protect against market losses while still having the opportunity to participate in significant gains.

Overview

What are Buffered Annuities?

Buffered annuities allow the client to secure guaranteed levels of protection against market losses while still providing the potential to capture compelling returns in a rising market environment. The growth of the investment is typically tied to the S&P 500 Index (price return).

The client chooses the duration of the investment, the level of protection and the level of market participation. All gains are tax deferred.

Protecting Against the Downside

How Does a Guaranteed 20% Protection Level Protect the Client Against Market Losses?

Different insurance companies offer different levels of protection over various investment periods. At the end of the investment period, the client only experiences a loss if the protection level is breached.

For example, if the protection level is 20%, and the market performance is –22%, the client will only experience a loss of 2% of principal. If the market return is negative, but the protection level has not been breached, the client will not experience any loss.

A Hedge Against Volatility

Market Volatility Remains Historically High. Are Buffered Annuities a Good Hedge Against Volatility?

The short answer is yes. Typically clients use bonds to reduce the volatility of their overall portfolio. However, because current bond yields are extremely low, most clients need to maintain significant exposure to equity risk in order to achieve investment and financial objectives.

A buffered annuity allows the client to participate in market gains while significantly protecting downside risk.

Taxation

How are Gains Taxed?

Within the buffered annuity structure, all gains will be tax-deferred. If funds are withdrawn from the annuity, the gains will be taxed at ordinary income rates.

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Participating in the Upside

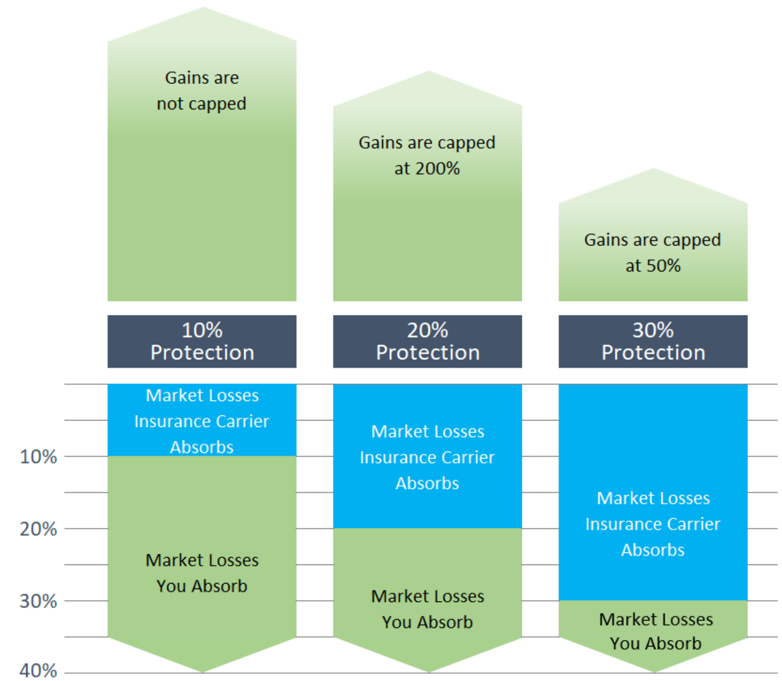
If the 20% Downside Protection is Guaranteed, is the Client Giving up Market Upside?

No, the client will still have the opportunity to realize significant market gains.

The degree of participation in market gains depends on the level of protection the client elects and the duration of the investment segment.

For instance, within a 6-year investment segment:

- With 10% downside protection, the gains may be uncapped.
- With 20% downside protection, the gains may be capped at 200% of the initial investment.
- With 30% downside protection, the gains may be capped at 50% of the initial investment.



Hypothetical example for illustrative purposes only.
The caps are representative and subject to change

Structure

Annuities offer tax deferral. Does it make sense for a client to hold an annuity inside a qualified account?

One of the tax advantages of annuities, including buffered annuities, is tax deferral. The conventional wisdom for many financial planners is that annuities should not be held in qualified accounts because both structures offer tax deferral. However, the feature that makes the buffered annuity so compelling is the downside protection levels. The ability to transfer a significant portion of market risk to the insurance company creates a true, differentiated asset class. In this instance, tax deferral is simply an ancillary benefit.

Buffered annuities allow the client to protect themselves from losses while also creating the opportunity to capture potential gains with the same investment. This risk mitigation tool can be contrasted with other hedging strategies which have binary outcomes for clients that could prove quite costly (e.g. buying puts for protection) or hedging strategies that offer very little upside (e.g. buying bonds). Whether a client should deploy qualified or non-qualified money to fund a buffered annuity will depend on a client's individual circumstances.

Tax and Legal
JR KATZ, LLC and its representatives do not provide legal, tax or accounting advice. Any tax or legal references provided are for general informational purposes only, and should not be relied upon for legal, tax or accounting advice. The services of an appropriate professional should be sought regarding your individual situation.

Buffer annuities are a long-term investment designed for retirement purposes. They have limitations, exclusions, charges, termination provisions and terms for keeping it in force and are not guaranteed by the broker/dealer, the insurance agency, the underwriter, or any affiliates of those entities from which they were purchased. All representations and contract guarantees, including the death benefit and annuity payout rates, are subject to the claims-paying ability and financial strength of the issuing insurance company. Contract owner agrees to absorb all losses beyond the chosen buffer percentage, so there is a risk of loss of principal. Please refer to “Risk Factors” in the contract prospectus for more details. Please consult your representative for a copy of the product prospectus which contains information about the contract’s features, risks, charges, and expenses. You should read the prospectus and consider its information carefully before investing.

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