



# SBA Special Report

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## Investments 101

### Choosing the right vehicle for your investment needs

Whether you're shopping for a new car or saving for your future, choosing the right vehicle can mean everything. Understanding all your options is critical to making a smart decision. As a potential investor, are you comfortable with your knowledge of the basic types of investments available to you?

#### Know your options

So, you decide you're ready to buy a new car. You visit a showroom and the salesman asks you a series of questions. Sedan or coupe? Manual or automatic transmission? AM/FM stereo or satellite radio? Of course, you can't make such decisions without first understanding each option. Only then can you be sure to drive off in the vehicle that best fits your needs.

Investing for your future is no different. A simple understanding of the basic investment options can help you make smarter decisions about how you invest your money. Only then can you be sure you've chosen the right vehicle to meet your personal investing needs.

#### Annuities

An annuity is an insurance contract and a securities investment that provides regular periodic payments for a specified period of time. Features of annuities include:

- **Tax deferred growth potential** – Your earnings generally aren't taxed until you withdraw from the contract, so your earnings can grow
- **Minimum death benefits** – Provides potential payout to beneficiaries after death

- **Flexible payment options** – Allows you to invest a lump sum or make periodic payments, or even defer payments until after retirement
- **Guaranteed minimum income (optional)** – Includes choice of "payment for life," which allows you to be paid monthly, even if you live beyond the years of the predicted annuity phase

Note with guaranteed minimum income option, if you die prior to the end of the annuity phase, your investment may affect the value of your death benefit. All guarantees with annuities are based on the claims-paying ability of the issuing company.

Annuities are available with a wide range of options and possibilities, each serving different purposes for different types of investors. Fixed annuities, for example, offer investments with a guaranteed rate of interest for a specified time period; while variable annuities typically offer a range of investment options, allowing you to be more aggressive or conservative.

#### Employer Sponsored Retirement Plans

Employer sponsored retirement plans, considered one of the most effective retirement savings plans, are commonly known as 401(k), 403(b) or 457(b) Deferred Compensation plans (depending on the type of employer).



Typical features include:

- **Pre-tax contributions** – You're only taxed on the amount left in your paycheck after your contribution – so you're paying less in current taxes. It's like you're paying yourself to invest in the plan.
- **Tax-deferred growth potential** – Your earnings and contributions generally aren't taxed until you withdraw from the plan, so your earnings can grow tax-deferred as the interest compounds.
- **Paycheck deductions** – Contributions to the plan are automatically deducted directly from your paycheck, allowing you to put a percentage of your gross pay into an account.

Employer sponsored retirement plans typically offer different investment options and contribution limits. With some plans, your employer may match a percentage of what you contribute to the plan – adding to your savings. Note that early withdrawals are generally permitted from most plans; however, a penalty is usually involved, as well as ordinary income taxes.

### IRAs

An IRA, or Individual Retirement Account, is similar to an employer retirement plan, but you set it up for yourself. Typical features of an IRA include:

- **Tax deferred growth potential** – Pay no current income taxes on your investment earnings until you withdraw
- **Pre-tax contributions** – Deduct contributions from your annual income, reducing the amount you owe in current taxes (depends on your employment situation)
- **Investment options** – Take advantage of a wide range of investment options (with most IRAs)

IRAs come in many forms, with different features, benefits and contribution limits. Options for transferring an employer retirement plan into an IRA are available as well.

### Mutual Funds

A mutual fund is an investment vehicle managed by a professional money manager that allows a group of investors to pool their money together with a predetermined objective. Mutual funds range from conservative investments, such as money market funds, to those that invest in more aggressive options, such as new technologies and emerging markets. Among the benefits of mutual funds are:

- **Professional money management** – Provides professional expertise while requiring less personal commitment of time compared to investing in individual stocks or other securities
- **Automatic diversification and asset allocation** – Helps reduce risk by ensuring your money remains spread among a variety of investments and different asset classes consistent with the fund's stated goals
- **Wide range of investment options** – Allows you to choose a fund according to your specific investment goals and risk tolerance

With the right fund management company, mutual funds could provide a good investment opportunity that could complement an employer sponsored retirement plan or IRA.

### Government Bonds and CDs

Government bonds and CDs (or Certificates of Deposit) are two similar investments that are considered less risky (historically) than most other traditional investment vehicles. They're defined as:

- **Government Bond** – An investment guaranteed by the U.S. government (the issuer) and typically held for 10 to 30 years. When held to maturity, they offer value of principal and a fixed rate of return, which varies depending on the type of bond purchased.
- **Certificate of Deposit** – An investment offering a fixed rate of return (like a government bond), but can be purchased from banks, which means it is FDIC insured. When your investment matures (either in months or years, depending on the CD you purchase), you can cash in the CD and receive its face value, plus the interest.

While history does not guarantee future results, government bonds and CDs can help add stability to almost any portfolio by balancing out your higher-risk investments. These types of investments are also appropriate if you have a short span of time before you'll need your money, such as retirement or sending a child to college.

### What vehicle is best for you?

Annuities, employer retirement plans, IRAs, mutual funds, bonds and CDs are a few of the many investment vehicles that are available to you. Your SBA representative can help you learn more about each of these – so you can be sure you pick the right vehicles for your needs and goals.

*You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options, or mutual funds offered through a retirement plan, carefully before investing. The prospectuses/prospectus summaries/information booklets contain this and other information, and can be obtained by contacting your local representative. Please read the prospectuses carefully before investing.*

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