Michael: Welcome to *Financial Edge with Silver Edge Financial Group*, bringing clarity and expertise to financial planning, every Sunday morning.

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Michael: Good morning, everyone, and welcome back to another episode of *Financial Edge*. I'm Michael Bass, a financial advisor at Silver Edge Financial Group. As always, I'm joined by Howard Silver, founder of our firm and a financial advisor. Howard, it's great to have you here.

Howard: Thanks, Michael. It's always a pleasure to be here. And good morning to all our listeners! We're thrilled to be part of your Sunday morning routine. Every week, we aim to bring clarity and expertise to financial topics that affect your lives—whether you're planning for retirement, managing investments, or looking for ways to preserve your wealth.

Michael: Today, we're diving into a topic that's often misunderstood but incredibly important—annuities. They've come a long way from their old reputation, haven't they?

Howard: Absolutely. Annuities often carry a bit of a stigma. For years, annuities had a reputation for being expensive, restrictive, and not always the best investment. But is that reputation still accurate today? Not at all. Annuities used to be rough. The criticisms were valid—high fees, limited flexibility, and those infamous surrender charges that made accessing your own money feel like navigating a minefield.

Michael: For listeners who might be wary of annuities, it's important to point out that the modern versions are nothing like their predecessors. They're customizable to meet specific needs and can serve as powerful tools for financial freedom, especially in retirement.

Howard: Exactly, Michael. We're going to take a deep dive into annuities today—what they are, how they work, and why they're worth reconsidering. Our goal is to demystify this financial product and explore how modern annuities, particularly registered index-linked annuities or RILAs, offer robust opportunities for growth, income, and protection. Whether you just bought an annuity two months ago, you bought one five years ago, ten years ago, if you don't have an annuity, you need to see us. We need to evaluate it. You need to make sure that what you purchased is still consistent with your needs. Give us a call at 561-300-0090 or visit our website www.silveredgefg.com.

The Evolution of Annuities

Michael: Let's start with the basics. An annuity, in its simplest form, is an insurance contract designed to provide a stream of income during retirement. Decades ago, they were the modern equivalent of pensions. But as pensions faded and 401(k)s became the norm, annuities became one of the few ways to create a guaranteed income stream for life. They fill that gap for those who miss the guarantees of pensions and defined benefit plans.

Howard: That's an important point. Decades ago, pensions were the bedrock of retirement planning. You worked for a company, retired, and received a predictable paycheck for life. That guarantee was what made pensions so wonderful. Pensions were wonderful because they provided predictability. You didn't have to worry about managing investments, market fluctuations, or outliving your savings. But with the shift to 401(k)s, the responsibility for retirement planning has fallen on individuals. With 401(k)s, you're tasked with saving, investing, and managing your money, all while trying to ensure it lasts through retirement. That's a heavy responsibility, and it introduces significant risks. Risks like market volatility, outliving your savings, or withdrawing too much too quickly. For those who miss the guarantees of pensions and defined benefit plans, annuities may be the modern answer—when used thoughtfully. By the end of this episode, we'll explore the pros, the cons, and the incredible potential that today's annuities offer in the right situations. We'll also evaluate new products, like advisory share class registered index-linked annuities—or RILAs— offering a more flexible, transparent way to plan for retirement. By the end of this episode, you'll understand why annuities today may be worth reconsidering, especially if you're looking for growth with built-in protection against major market downturns.

Michael: "Absolutely. But it's not all smooth sailing. Despite their potential, annuities have faced criticism, and much of it is deserved. In the past, many annuities came with high fees, capped returns, and lengthy surrender periods that locked investors into unfavorable contracts. It's no wonder some people remain skeptical. The annuities issued in the low-interest-rate environment of the past decade didn't offer as good of terms as we see today. Many of those contracts had severely capped performance, and people often bought them out of fear—locking themselves into contracts with surrender periods and hefty fees. We've seen firsthand examples of people locked into underperforming contracts because they bought them during a period of low interest rates or without fully understanding the terms. Our approach is always to ensure that an annuity aligns with the specific goals and circumstances of the individual."

Howard: "That's why it's so important to approach annuities with nuance. While they can provide incredible guarantees, like income for life or cost-of-living adjustments, they need to be tailored to your individual needs. That takes detailed fact-finding and careful analysis. And when the stars align—when the right annuity is matched with the right individual—they can provide not just guarantees, but confidence. That's where we want to focus today: the potential benefits and the careful considerations that go into making these products work."

Modern Features and Benefits

Michael: Today's annuities, though, are a different story. Let's talk about what makes annuities so appealing today, especially compared to years past. Unlike older contracts, modern annuities allow for more customization. You can choose options like cost-of-living adjustments, long-term-care riders, joint payouts for couples, or death benefits for heirs. And one of the most exciting developments we're seeing is the resurgence of incredible guarantees. Many contracts offer lifetime income, sometimes with cost-of-living adjustments built in. *Riders are additional guarantee options that are available to an annuity or life insurance contract holder. While some riders are part of an existing contract, many others may carry additional fees, charges and restrictions, and the policy holder should review their contract carefully before purchasing. Guarantees are based on the claims paying ability of the issuing insurance company.*

Howard: Exactly. And for those worried about outliving their money, annuities can be a lifesaver. They provide that predictable stream of income that many people miss from the days of pensions. Immediate income annuities, for example, allow you to turn a lump sum into a guaranteed paycheck for life. Deferred annuities, on the other hand, let you grow your investment while still offering guarantees later on. Let's break this down. A deferred income annuity is essentially a contract where you commit funds today, and in return, you receive a guaranteed income stream starting at a later date—say 5 to 10 years from now. What makes these newer annuities so attractive is the extraordinary guarantees they offer on the income base. Specifically, we're talking about products that offer an 8% compound annual rollup of the income base for up to 10 years, followed by a guaranteed 7.15% withdrawal rate for the rest of your life. That's a game-changer for retirement planning, isn't it? That 8% annual rollup is a guaranteed growth rate, which is virtually unheard of in most other financial products today. It means your income base—the amount used to calculate your lifetime income—is growing at a compounded rate of 8% annually for up to 10 years, regardless of what happens in the markets. And when you combine that with a 7.15% withdrawal rate, you're looking at a solution that can provide far more income than the traditional "5% rule" that most retirees have used for decades.

Michael: Let's pause for a moment and talk about the 5% rule. For years, the 5% withdrawal rule was considered a safe guideline for retirees. The idea was that if you withdrew 5% of your portfolio annually, adjusted for inflation, you could enjoy a steady income and still preserve your principal. That all changed when interest rates hit rock bottom."

Howard: That's right. The 5% rule was developed when market conditions were more favorable. Back then, retirees could rely on higher interest rates and steady stock market growth. Then when interest rates went to near zero, the risk-free rate of return disappeared, and bonds offered yields barely above inflation—or sometimes even below it. This left retirees more dependent on equities, which are much more volatile. And that's where sequence-of-returns risk comes into play, right? If a retiree's portfolio takes a big hit early in retirement and they're still withdrawing 5%, the compounding losses can be devastating. For example, a 10% market decline combined with a 5% withdrawal results in a 15% total drawdown in one year. Recovering from that is tough, especially if the portfolio doesn't have time to rebound. *Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Bonds are subject to availability, change in price, call features and credit risk. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield.*

Michael: And let's not forget that retirees are living longer now, which means their portfolios need to last even longer. Rates in most recent years have rebounded, but what options do retirees have? I doubt lowering the withdrawal rate is anyone's preferred solution.

Howard: That's where these new deferred income annuities come in. By offering a guaranteed 7.15% withdrawal rate for life, these products can provide retirees with significantly more income than they could safely withdraw from a traditional portfolio.

Michael: Let's look at an example to put this into perspective. Imagine you're 55 years old and you invest $100,000 into a deferred income annuity with an 8% rollup for 10 years. By age 65, your income base has grown to $216,000.

Howard: Right, and with a 7.15% withdrawal rate, you'd receive an annual income of $15,444 for the rest of your life. Compare that to withdrawing from a traditional portfolio—those amounts would be far lower and not guaranteed. *This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.*

Michael: And the best part? This income is guaranteed for life. It doesn't matter if the markets crash or if you live to 100. You'll continue to receive that income every year, which provides incredible confidence. With today's higher interest rates, the terms are much more favorable than they were just a few years ago. And flexibility is another major improvement. Many modern annuities have eliminated surrender periods or reduced them significantly.

Howard: That's a huge improvement from the rigid contracts of the past. When designed properly, an annuity can act as the foundation of a retirement income plan, ensuring that basic living expenses are covered, no matter what happens in the markets. That's a powerful tool for anyone looking to reduce uncertainty in retirement. And let's not forget death benefits. Many annuities today come with options that allow you to leave a legacy for your loved ones. It's not just about income—it's about creating stability and security for the people you care about. Now, while annuities can be incredibly valuable, it's important to learn from the mistakes of the past. During the low-interest-rate years, we saw a lot of annuities issued with less-than-stellar terms. These contracts often capped performance, and the growth just wasn't there. And again, let's be honest: some people bought these products out of fear. Baby Boomers are navigating a perfect storm of financial challenges. Rising healthcare costs, inflation, and economic uncertainty are putting pressure on retirement budgets. Many Boomers also worry about running out of money, especially as lifespans increase. It's a daunting prospect. So, over the past few years, people worried about market volatility or running out of money, locked into contracts that weren't necessarily in their best interest. Add surrender charges to the mix, and it created a lot of regret. And as fiduciary advisors, that puts us in a tough position. Annuities, in theory, provide guaranteed income, which is incredibly valuable for retirement. But when you add in high fees, low growth, and penalties, it's easy to see why people started viewing annuities with skepticism."

Michael: "Right, people locked in their money, hoping for growth, but instead saw minimal returns, sometimes struggling just to keep up with inflation. And, of course, high commissions were often built in, which made these products lucrative for brokers but not necessarily for investors. For advisors who want to act in their clients' best interests, those high costs and restrictions made traditional annuities difficult to recommend. But it's important to note that the underlying purpose of an annuity—to provide steady income and security—still holds value. So, the question became: how do we take that core benefit and make it work in today's market?"

Registered Index-Linked Annuities (RILAs)

Michael: Let's pivot to a specific type of annuity that's a game-changer—Registered Index-Linked Annuities, or RILAs. So registered index-linked annuities have been around now for 10 to 12 years. They're structured annuities. That was the other name for them. And that came from the world of structured products, right? So, they really, those aren't new. But what is new is that. They've evolved considerably and there are so many features now that make them look, taste, feel more like a really solid investment versus a product. These have evolved into sophisticated tools that balance market growth potential with downside protection. These products allow you to participate in market growth while protecting your principal from heavy losses. They're designed to put the client first, aligning with the fiduciary standards advisors should follow. They're a great option for people who want a balance of safety and growth potential."

Howard: Over the last decade, RILAs have matured into highly flexible investment vehicles. Unlike traditional annuities, RILAs allow you to participate in market growth while shielding you from heavy losses. They're designed to capture the best of both worlds. Imagine participating with very high upside capture on the S&P 500 with the ability to lock in gains three times a year. Locking in gains in financial investments is incredible because it provides investors with the assurance that their accumulated profits are secure and won't be lost due to market downturns. This is particularly significant for those with substantial embedded gains, as their biggest concern is the potential reversal of these gains. By locking in gains, investors can protect their portfolio's value and avoid the anxiety of losing their profits.

Additionally, in the context of annuities, locking in gains can be done without triggering tax consequences, offering a tax-deferred advantage. That means the right RILA can provide tax-deferred growth while allowing investors to avoid triggering taxes when buying and selling within the annuity. How nice is that? That after years of gains in a portfolio, clients don't have to worry about going backwards. About losing all those gains. When someone has big, embedded gains, their biggest worry is that all of a sudden, it's going to go the other way and all of those gains are going to be for naught. And a lot of folks don't sell for, why don't they? Tax consequences. But when it's in an annuity wrapper, we eliminate that problem. *The S&P 500 is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States. Indexes are unmanaged and cannot be invested in directly.*

Michael: Locking in gains is considered revolutionary in the context of financial investments because it allows investors to secure their profits without the risk of losing them in a market downturn. This feature provides a significant competitive advantage, as it ensures that after years of gains, investors do not have to worry about their portfolio's value decreasing. It transforms the perception of annuities from being merely products to being solid investments, offering transparency, flexibility, and the ability to lock in gains, which is a massive benefit. And they've eliminated many of the issues people disliked about older annuities. No surrender periods, no commissions, and much greater transparency.

Howard: That's right. They're also a great option for tail-risk hedging—protecting against rare but extreme market events like a major crash. And just because we haven't seen a major downturn in a while doesn't mean it won't happen. That's a common trap investors fall into—they assume that if the market has been stable for a while, it will stay that way. But the reality is, markets are cyclical. Planning for tail risks is about preparing for those once-in-a-generation events that could wipe out years of savings."

Addressing Concerns

Michael: Of course, we understand why some listeners might still be hesitant. What would you say to someone who's wary of annuities because of past experiences or misconceptions?

Howard: I'd say, don't let outdated perceptions hold you back. The annuity landscape has changed dramatically. The shift from traditional brokerage channels to the fiduciary model has contributed to the evolution of annuities by aligning interests more closely. According to Cerulli and Associates, the independent and hybrid investment advisor (RIA) channels are growing at a faster rate than other intermediary channels. Over the last decades, the headcount of independent and hybrid RIAs soared from 18% to more than 27% and is expected to surpass 30% in the next five years. Having started in 1968 with the establishment of the first independent broker dealers, there are now >3,000 IBDs and >15,000 RIAs in the

U.S. Increasing consolidation through mergers and acquisitions may reduce that number over the coming years, but the move towards independence will not slow down as new advisory models driven by market demand evolve. In the traditional brokerage model, advisors may not have always had their clients' best interests as the primary focus. However, the fiduciary model requires advisors to act in the best interests of their clients, leading to more transparent and client-focused financial products. This shift has likely driven the development of annuities with features that better meet the needs of investors, such as transparency, flexibility, and competitive advantages, making them more appealing and effective as financial freedom tools.

Michael: That’s great advice. Financial products evolve, and annuities are no exception. It’s about finding the right fit for your unique financial picture. So, how do you go about finding the right annuity in today’s market? It starts with detailed fact-finding. Every individual’s situation is different, and the options available today are more flexible and customizable than ever. Ultimately, the goal is to create a plan that gives you confidence. Whether that’s through guaranteed income, market participation with protection, or legacy planning, the right annuity can make all the difference. This is why we emphasize customization. Annuities are not one-size-fits-all. They need to be tailored to your specific goals, whether that’s guaranteed income, legacy planning, or protecting against market downturns. That takes time, analysis, and, frankly, a lot of listening.

Howard: “That’s why it’s so important to work with a fiduciary advisor—someone who’s not just selling a product but helping you find the right solution for your goals. A good advisor will walk you through the pros and cons of each option, ensuring you make an informed decision. We never recommend an annuity unless we’re confident it’s the right fit for someone’s financial picture. And that means asking a lot of questions: What are your income needs? What’s your risk tolerance? How much flexibility do you need? These are all critical factors to consider. It’s all about finding balance. The right annuity can complement other assets, like stocks, bonds, or real estate, to create a well-rounded plan. But it has to work with your overall strategy—not against it. There are so many things that people don't know about. And the other thing is that going back to how things have evolved on the RIA side, broker dealers don't have selling arrangements with the companies that are offering these advisory share class annuities, in most cases.”

Michael: “And that is precisely why we want to emphasize whether you just bought an annuity two months ago, you bought one five years ago, ten years ago, if you don't have an annuity, you need to see us. We need to evaluate it. You need to make sure that what you purchased is still consistent with your needs. Give us a call at 561-300-0090 or visit our website www.silveredgefg.com. Today’s options keep the benefits of an annuity but in a structure that aligns with modern financial planning needs. For starters, they’ve eliminated commissions and surrender charges, which means you’re not locked into a long-term contract with penalties. That’s a huge step forward.”

Howard: “And it’s not just about market crashes. Even moderate downturns can hurt if they happen at the wrong time, like right before you retire. RILAs give you that cushion, so you don’t have to constantly worry about timing the market perfectly. It’s a way of saying, ‘I’m invested, but I’m also protected.’”

Michael: “This is especially important in what we call the ‘retirement red zone,’ the five to ten years around your retirement date.”

Howard: “That’s right. In this ‘red zone,’ a major loss can derail your entire retirement. With a RILA, often you have a buffer, but we prefer contracts with a floor that can guarantee a max loss over a certain time frame. It’s like setting up guardrails for your retirement. As Baby Boomers continue to transition into retirement, financial freedom becomes a growing concern, especially given recent economic uncertainty and inflationary pressures. For this generation, ensuring that their hard-earned savings last throughout retirement is paramount.”

Michael: “Exactly. So, for clients nearing retirement, this means you’re able to control when you’re taxed on that growth, which can be especially helpful if you’re managing your tax liability in retirement. It’s about optimizing every dollar you have invested.”

Howard: “And let’s not forget confidence. With tail-risk hedging, you’re prepared if the market takes an unexpected dive. You’re not sacrificing growth potential, but you’re protecting yourself from that catastrophic risk—the kind that can change everything. This gives people confidence to enjoy retirement, knowing they’re protected against the unknown.”

Michael: “For our listeners, the takeaway is this: Don’t dismiss annuities based on outdated perceptions. Take the time to explore your options, and work with a fiduciary advisor who can guide you through the process. If you’re considering an annuity or just want to learn more, reach out to us at Silver Edge Financial Group so we can guide you through the process. And remember, financial planning isn’t just about numbers—it’s about building a life of stability, security, and confidence. Annuities can play a pivotal role in that journey, even if they’re just one piece of the puzzle. Whether you just bought an annuity two months ago, you bought one five years ago, ten years ago, if you don't have an annuity, you need to see us. We need to evaluate it. You need to make sure that what you purchased is still consistent with your needs. Give us a call at 561-300-0090 or visit our website www.silveredgefg.com”

Howard: Now we're going to talk about how, up until a certain age, we're all infallible. At some point, either you or a loved one is going to develop a chronic health condition. As soon as anyone develops or is diagnosed with a chronic health condition, they want to buy insurance. They want to buy long-term care coverage or additional long-term care coverage, and they want to buy a lot more life insurance. This contrasts with the attitude of healthy individuals who often disregard the importance of such insurance.

Michael: Yes, life insurance is primarily designed to replace income you are dependent on. Individuals purchasing annuities generally have a longer life expectancy compared to those buying life insurance. This is because many people avoid purchasing a guaranteed income stream for life, if they think they are going to die early.

Howard: And so, insurance companies have developed sophisticated riders and features for annuities. These additions can serve as proxies for long-term care coverage or life insurance. Long-Term Care Riders offer coverage for long-term care needs, often appealing to clients with chronic conditions.

Michael: "That’s a great point, Howard. Long-term care can be a massive financial burden, and these riders help ensure that clients won’t have to dip into other assets to cover those expenses. But what I find particularly compelling is how these riders can also help people who wouldn’t normally qualify for standalone long-term care insurance. An annuity with a rider like this offers a level of flexibility that traditional long-term care insurance just doesn’t provide."

Howard: "Exactly, Michael. Clients diagnosed with chronic conditions may find these riders very beneficial. And let’s not overlook the death benefit riders that are often available with annuities. These ensure financial freedom for beneficiaries, which is especially important for clients focused on legacy planning. The death benefits can provide a lump sum or structured payout to loved ones after the policyholder passes away. They’re essentially additional layers of protection that enhance the overall value of the contract. When structured properly, these annuities can act as a multi-generational tool. Financial planning for us incorporates estate planning and legacy planning as key components. Many clients prioritize leaving a legacy, which often involves family members such as children or grandchildren. Family members, particularly children or grandchildren, may become caregivers or provide financial assistance. If they are beneficiaries and fund the contracts, they can create their own legacy through these annuities. These riders, which come at no cost or a relatively small additional cost, can significantly expand the utility of an annuity. They don’t just provide security for the original policyholder but also set up the next generations for success. Consider this scenario: A parent purchases an annuity with a death benefit rider, and the payout is designed to help fund a grandchild’s education. Or, if a family member steps in as a caregiver, the annuity ensures they’ll be financially compensated in the long term. It’s a way of saying, ‘I value what you’ve done for me, and I want to leave you something meaningful.’”

Michael: "That’s a powerful way to think about annuities—as tools that extend far beyond the individual. It’s not just about creating income during retirement; it’s about creating stability and opportunities for your loved ones. And riders like these make annuities so much more versatile. They’re no longer one-dimensional products—they’ve evolved into flexible, customizable solutions."

Howard: "Exactly. And when you combine these features with the tax advantages of annuities, like tax-deferred growth or stretching a payout over the lifespan of a beneficiary, you’re creating a comprehensive tool for financial and legacy planning. With the right structure, they allow beneficiaries to stretch out payouts over their lifetime, minimizing the immediate tax impact while creating a steady income stream. Instead of the beneficiary receiving a lump sum and potentially being pushed into a higher tax bracket, they can choose to take distributions over their life expectancy. This is often referred to as a ‘stretch provision,’ and it’s a smart way to both manage taxes and create a reliable income source for the beneficiary. Let’s say a parent leaves an annuity to their child. If the child opts for the lump sum, they might face a substantial tax bill in one year, depending on the size of the account. But if they stretch the payouts over their lifetime, they only pay taxes on the portion they receive each year, keeping their tax burden more manageable. This can be particularly valuable for high-net-worth clients looking to pass on wealth in a tax-efficient way.

Michael: "And it’s not just about the tax savings, Howard. Stretching the payout also ensures that the beneficiary doesn’t spend the inheritance too quickly. For clients who want to encourage responsible financial behavior, this can provide some confidence that their legacy will last."

Howard: "Great point. And let’s not forget that this approach also keeps more money invested for a longer period of time, allowing it to continue growing tax-deferred within the annuity. It’s like giving the next generation the gift of compounded growth, even after you’re gone."

Michael: " Clients who prioritize leaving a legacy can use these features strategically to address both their immediate needs—like long-term care—and their long-term goals of supporting their families. And this is why estate planning isn’t just about the big picture; it’s also about the details. By incorporating riders like these into annuity contracts, clients can address multiple priorities at once—protecting their own future, ensuring financial freedom for their families, and leaving a meaningful legacy for generations to come."

Howard: "That’s right, Michael. These riders and features don’t just enhance the functionality of annuities—they transform them into dynamic tools for income and legacy creation. Another way clients can use annuities for tax planning is by pairing them with Roth IRA conversions. By converting traditional IRA funds into a Roth IRA and then funding an annuity, you combine the benefits of tax-free growth and guaranteed income. The upfront tax hit from the conversion can be offset by the long-term tax advantages of the Roth structure. That’s an advanced strategy, but it can be incredibly effective for the right client. Imagine retiring with a Roth IRA-funded annuity that provides tax-free income for life. Pairing that with Social Security or other income sources could result in a retirement where your taxable income is minimal, which can also help you avoid things like Medicare surcharges. For clients who want to ensure their money serves a purpose beyond their lifetime, these options are worth exploring. *Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before* *converting to a Roth IRA. Contributions to a traditional IRA may be tax deductible in the contribution year, with current income tax due at withdrawal. Withdrawals prior to age 59 ½ may result in a 10% IRS penalty tax in addition to current income tax.*

Michael: And that's where working with a fiduciary advisor comes in. Reach out to us Silver Edge Financial Group at 561-300-0090 or visit www.silveredgefg.com for a personalized review. Thanks for tuning in to *Financial Edge with Silver Edge Financial Group*. Join us next Sunday as we continue breaking down the tools and strategies for your financial future.

Both: Take care, and have a great week!

Howard: *To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing. Annuities are long-term investment vehicles designed for retirement purposes. Guarantees are based on the claims-paying ability of the issuing insurance company. Withdrawals prior to 59 ½ may result in an IRS penalty, and surrender charges may apply. This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor. All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy. Guarantees are based on the claims-paying ability of the issuing insurance company.*