



Utilizing Longevity - Life Insurance Funding With Immediate Annuities

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\$24,000 Total Outlay For A Guaranteed \$100,000 Death Benefit To Age 95!

By: Jeff Affronti—August 22, 2017

The Death Benefit Offered Through A Universal Life Policy

Designing life insurance programs to reduce overall premium costs and increase participation is a fun challenge. Saving clients money and meeting their long term needs can be simplified and guaranteed. Skipping assumptions based modeling and using proven insurance products may just get a client where they need to be without all the ups and downs in between. If a client has the resources to guarantee today what they need in beneficiary protection, why take on any additional risk for more reward than is even needed? Today, clients can use longevity to their advantage and save premium by pricing two insurance products during the case design process. Recently, we priced a life policy for a 50 year old female who wanted a \$100,000 death benefit guaranteed to age 95. The Standard Rating annual premium quoted was \$1,048.93 (\$980.75 if preferred rating) Assuming the premiums are paid out of pocket to age 90, the total outlay equals \$41,957. Now, what if the client could guarantee the same results with \$23,935 today and not trigger a Modified Endowment Contract (MEC). Pricing two insurance products to work in conjunction may be a solution. Below is an example of the life illustration with a guaranteed \$100,000

death benefit to age 95. The death benefit and premium outlay stay constant to age 96.

Age	Year	Premium Outlay*	Cumulative Premium	Guaranteed Assumptions			Non-Guaranteed Assumptions		
				2.50% Guaranteed Interest Rate Maximum Policy Charges			3.75% Initial Current Interest Rate Current Policy Charges		
				Policy Value	Surrender Value	Death Benefit Notes †	Policy Value	Surrender Value	Death Benefit Notes †
51	1	1,048.93	1,049	369	0	100,000	377	0	100,000
52	2	1,048.93	2,098	718	0	100,000	738	0	100,000
53	3	1,048.93	3,147	1,041	0	100,000	1,079	0	100,000
54	4	1,048.93	4,196	1,336	0	100,000	1,395	0	100,000
55	5	1,048.93	5,245	1,599	0	100,000	1,712	0	100,000
56	6	1,048.93	6,294	1,828	0	100,000	2,010	0	100,000
57	7	1,048.93	7,343	2,014	84	100,000	2,287	357	100,000
58	8	1,048.93	8,391	2,154	867	100,000	2,544	1,257	100,000
59	9	1,048.93	9,440	2,243	1,600	100,000	2,779	2,136	100,000
60	10	1,048.93	10,489	2,280	2,280	100,000	2,989	2,989	100,000
61	11	1,048.93	11,538	2,261	2,261	100,000	3,171	3,171	100,000
62	12	1,048.93	12,587	2,179	2,179	100,000	3,323	3,323	100,000
63	13	1,048.93	13,636	2,026	2,026	100,000	3,443	3,443	100,000
64	14	1,048.93	14,685	1,797	1,797	100,000	3,527	3,527	100,000
65	15	1,048.93	15,734	1,484	1,484	100,000	3,831	3,831	100,000
66	16	1,048.93	16,783	1,075	1,075	100,000	4,120	4,120	100,000
67	17	1,048.93	17,832	557	557	100,000	4,393	4,393	100,000
68	18	1,048.93	18,881	0	0	100,000	4,653	4,653	100,000
69	19	1,048.93	19,930	0	0	100,000	4,899	4,899	100,000
70	20	1,048.93	20,979	0	0	100,000	5,131	5,131	100,000
71	21	1,048.93	22,028	0	0	100,000	5,345	5,345	100,000
72	22	1,048.93	23,076	0	0	100,000	5,538	5,538	100,000
73	23	1,048.93	24,125	0	0	100,000	5,707	5,707	100,000
74	24	1,048.93	25,174	0	0	100,000	5,849	5,849	100,000
75	25	1,048.93	26,223	0	0	100,000	5,964	5,964	100,000
76	26	1,048.93	27,272	0	0	100,000	6,085	6,085	100,000
77	27	1,048.93	28,321	0	0	100,000	6,176	6,176	100,000
78	28	1,048.93	29,370	0	0	100,000	6,235	6,235	100,000
79	29	1,048.93	30,419	0	0	100,000	6,257	6,257	100,000
80	30	1,048.93	31,468	0	0	100,000	6,241	6,241	100,000
81	31	1,048.93	32,517	0	0	100,000	6,073	6,073	100,000
82	32	1,048.93	33,566	0	0	100,000	5,722	5,722	100,000
83	33	1,048.93	34,615	0	0	100,000	5,160	5,160	100,000
84	34	1,048.93	35,664	0	0	100,000	4,365	4,365	100,000
85	35	1,048.93	36,713	0	0	100,000	3,304	3,304	100,000
86	36	1,048.93	37,761	0	0	100,000	1,936	1,936	100,000
87	37	1,048.93	38,810	0	0	100,000	239	239	100,000
88	38	1,048.93	39,859	0	0	100,000	0	0	100,000
89	39	1,048.93	40,908	0	0	100,000	0	0	100,000
90	40	1,048.93	41,957	0	0	100,000	0	0	100,000
91	41	1,048.93	43,006	0	0	100,000	0	0	100,000
92	42	1,048.93	44,055	0	0	100,000	0	0	100,000
93	43	1,048.93	45,104	0	0	100,000	0	0	100,000
94	44	1,048.93	46,153	0	0	100,000	0	0	100,000
95	45	1,048.93	47,202	0	0	100,000	0	0	100,000
96	46	1,048.93	48,251	0	0	0	0	0	0

Premium Outlay Using An Immediate Annuity With Lifetime Guarantees

Instead of out-of-pocket annual funding, a client could purchase a lifetime income an-

nuity today and fund the life insurance annually guaranteed. Using a Single Premium Immediate Annuity (SPIA) the client can generate the income needed to fund the guarantees in the life policy with a single premium of just under \$24,000 today. Life insurance cases funded with immediate annuities usually incorporate the Life Only option. The life only option makes sense in theory, it kicks off the most income and the life insurance will pay at death and offset any loss of immediate annuity premiums. However, for a small increase in premium, \$142.06 in this case, the client can guarantee both the life insurance death benefit and guarantee a full premium return on the immediate annuity. Below is the illustrative information on the immediate annuity. Pricing is better in most states as they will have no premium tax.

Annuitant:	Valued Client BY SPIAquote.com 800-373-9697	Age: 50	Gender: Female
Owner Name:	Valued Client BY SPIAquote.com 800-373-9697		
State:	California		
Contract Type:	Non-Qualified		
Income Payment Amount:	\$1,048.93		
Payment Frequency:	Annual		
Cost Basis ¹ :	\$0.00		
Deferral Period:	1 Month(s)	California Premium Tax Rate:	2.35
Increasing Payout Option:	0%	Premium Tax ² :	\$562
Income Options		Required Premium	
Lifetime Only ²		\$23,792.32	
Lifetime with Installment Refund		\$23,862.92	
Lifetime with Cash Refund		\$23,934.38	

End of Payment Year	Annuitant's Age	Annual Payment	Cumulative Payment
1	51	\$1,048.93	\$1,048.93
2	52	\$1,048.93	\$2,097.86
3	53	\$1,048.93	\$3,146.79
4	54	\$1,048.93	\$4,195.72
5	55	\$1,048.93	\$5,244.65
6	56	\$1,048.93	\$6,293.58
7	57	\$1,048.93	\$7,342.51
8	58	\$1,048.93	\$8,391.44
9	59	\$1,048.93	\$9,440.37
10	60	\$1,048.93	\$10,489.30
11	61	\$1,048.93	\$11,538.23
12	62	\$1,048.93	\$12,587.16
13	63	\$1,048.93	\$13,636.09
14	64	\$1,048.93	\$14,685.02
15	65	\$1,048.93	\$15,733.95
16	66	\$1,048.93	\$16,782.88
17	67	\$1,048.93	\$17,831.81
18	68	\$1,048.93	\$18,880.74
19	69	\$1,048.93	\$19,929.67
20	70	\$1,048.93	\$20,978.60
21	71	\$1,048.93	\$22,027.53
22	72	\$1,048.93	\$23,076.46
23	73	\$1,048.93	\$24,125.39
24	74	\$1,048.93	\$25,174.32
25	75	\$1,048.93	\$26,223.25

Example: If the client decided to purchase a life and cash refund option SPIA and death occurred in year 15, the clients beneficiaries would receive the \$100,000 life insurance death benefit plus \$8,200 lump sum cash refund from the SPIA. The immediate annuity income is about 64% tax excluded life expectancy, approximately age 86.5, for this

client. Designed correctly, an immediate annuity funding life insurance can lower overall premium outlay, guarantee the funds will be available annually for prompt payments of life premium and guarantee that any unused SPIA premium will be returned. An immediate annuity can help keep a policy in-force because the funds will always be there, with minimal intrusion and no surprises.

Male age 50 with standard rating and same \$100,000 death benefit had a premium of \$1,286.83 annually. The SPIA premium for life with cash refund was \$28,198.15, \$509.27 more than a life only payment.

Helping clients accomplish their goals does not have to be a complicated and an ever adjusting puzzle. Some clients have the ability to guarantee their needs today. As agents, we have the duty to lay out all options. If a simple and guaranteed fixed annuity option is available and solves a clients most immediate and important need, that option should be presented.

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