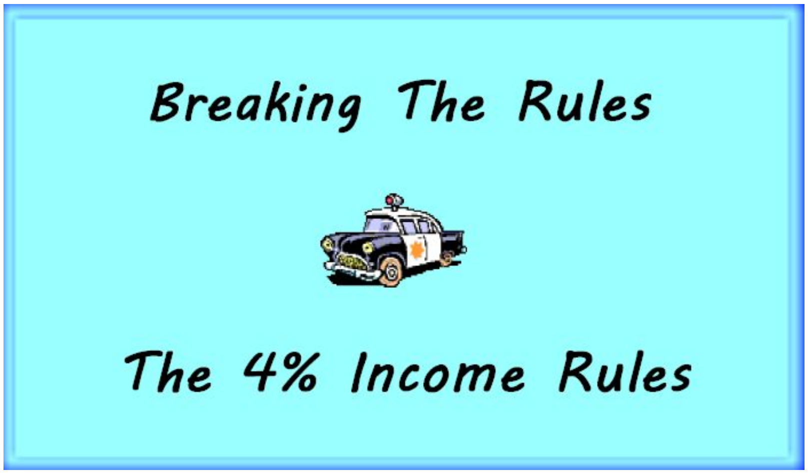

Break The Rule! With a C.O.L.A.
Guaranteed Increasing Lifetime Income

Income is a key part of everyday life. Knowing an income payment is coming allows one to plan ahead. Having an income that can never end or run out is comforting. Being able to take a guaranteed lifetime income that is much higher than ever thought possible, well that is exciting!

Most people who are actively looking at taking an income from retirement savings have heard of or read about the 4.00% rule. Basically this means an average retiree should be able to withdraw 4.00% from their retirement savings starting in the first year of retirement and continue to take the same 4.00%, plus inflation, each year for 30 years before running out of money. As of February 2015 I have seen this being "repriced" as the 3.00% rule. Kind of scary, huh?

Here is something most of those soon to be retirees have not heard of and is where a little know insurance product can break these rules. Single Premium Immediate Annuities (SPIAs) have an option to help with inflation concerns while guaranteeing an income that cannot be outlived. The option is called the Cost Of Living Adjustment (COLA). The COLA guarantees annual increases to the SPIA income payment. The increase can be from 1% - 5% and can be priced as compounding or simple interest increases.

The SPIA returns principal and interest as a payment stream. The ability to use a large amount of premium/principal without having to worry about reducing interest earnings or income is why the SPIA is not bound by the same "rules". In other savings vehicles using principal would require earning a higher interest rate just to get the same earnings before the reduction in principal. Retirees who want income within 2 years will be quite challenged to find a safer or more guaranteed way to match the lifetime payment a SPIA offers.

The SPIA was created and designed specifically to maximize and safely guarantee retirement income. These insurance products have low internal costs and commissions that are priced into the illustrations. **There are no fees or added costs**. The income will just keep coming every month for life. Why worry? Why take a chance? The SPIA can offer a safe and guaranteed income higher than 4.00% **without** risking principal, having to wait for income or having to make regular adjustments to an investment. If maximum income is the goal, check out a SPIA. Set it and forget it!

Using The Single Premium Immediate Annuity To Break The Rule:

Looking at an average retiree, using a SPIA, a male age 60 who places $100,000 premium with the insurance carrier can get a **guaranteed** and **increasing** income for life. The increasing income or Cost Of Living Adjustment (COLA) can be added to an immediate annuity to offset inflation concerns. The longer the annuitant lives the higher the income will grow. The below chart illustrates the annualized income for a male age 60. The income begins at 4.04% and increases to 12.79% at age 100.

- Age 61 = $4,039.04 (4.04% Annually)
- Age 65 = $4,454.98 (4.45% Annually)
- Age 70 = $5,270.04 (5.27% Annually)
- Age 75 = $6,109.42 (6.11% Annually)
- Age 80 = $7,082.49 (7.08% Annually)
- Age 85 = $8,210.55 (8.21% Annually)
- Age 90 = $9,518.27 (9.52% Annually) 30 Yrs 4% Rule Out of Money?
- Age 95 = $11,034.29 (11.03% Annually)
- Age 100 = $12,791.76 (12.79% Annually)

The above income begins 1 year after the premium is deposited. I have shown this annually, divide by twelve to get the monthly income per $100,000 of premium. The illustration is for a lifetime income with return of premium guarantee in the form of an installment refund. This means no less than the $100,000 premium will be returned to the annuitant or a beneficiary. Simple stated it is money back guarantee refund. The COLA increases illustrated are guaranteed at 3.00% and are compounded annually. Assuming the premium was 100% cost basis (after tax dollars) this SPIA would have a tax-exclusion ratio of 66%. That means 66% of the payment would be excluded from income tax up to life expectancy. If you would like to see a copy of the carrier illustration please contact me, Jeff Affronti @ FSD Financial.com

Breaking down the above quote for male age 60:

- Premium deposit was $100,000 at age 60
- Income starts at age 61 at 4.04% Annually
- At age 70 **$46,303** in income has been paid out and his income has increased by 30.48%
- Between age 70 and 80 another **$62,227.52** will be paid out.
- If the annuitant lives to 90 he will have an additional **$83,628.59**
  The **income has increased 135%** (from 4.04% to 9.51%)
- Going for the century mark that will add another **$112,389.82**
- Total income at age 100 is **$304,549.05**
- All this while TAKING AN INCOME ABOVE 4.00% after just 1 year deferral.

Non-Increasing SPIA

The SPIA can have a level payment to boost the upfront income. This SPIA returns the premium faster but will never increase and over time the COLA will pay out more.
Using the same parameters as above only removing the COLA. The annualized level payment for a male age 60 would be $5,801 or 5.80%. Let me compare to the above COLA:

- Premium deposit was $100,000 at age 60
- At age 70 $58,017 in income has been paid out
- Between age 70 and 80 another $58,017 will be paid out.
- If the annuitant lives to 90 he will have an additional $58,017
- Going for the century mark that will add another $58,017
- Total income at age 100 is $232,069

Easy to see how longevity pays out. $72,480 more on the COLA should the annuitant live a long life to age 100.

In either case, COLA or level payments, the SPIA allows use of savings as income right now without the fear of running out of money.

So, fear not the coming 3.00% rule because very safe alternatives are available and have been for a very long time in the form of immediate annuities.

Jeff Affronti

Marketing, selling, studying, illustrating and a huge fan of SPIAs since 1996
SPIAquote.com
Quality, Integrity and Expertise
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