



Getting Income From Fixed Annuities



Ways To Get Immediate Income From Fixed Annuities.

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A big problem facing seniors today is the risk of outliving their money.

Several factors effect the situation for seniors including longer life spans, historically low interest rates and an unstable economy. Many seniors still possess enough assets to insure a guaranteed lifetime income at levels which provide a decent standard of living – one which they can't outlive. One solution is of course, the guaranteed lifetime annuity and it has been around since 1720 when it was used by the Presbyterian Church to secure retirement income for ministers*. Additional information and comments on the guaranteed lifetime annuity will appear later in this post. I am a huge advocate of lifetime income guarantees.

Today, seniors are also faced with another financial issue, lower income from their safe money investments and savings. If we look at the good CD rates from several years ago we find that a \$100,000 CD might have generated an income of about \$400 per month, not bad. That same \$100,000 CD today will generate much less per month. The traditional CD owner is now looking for, or should be shown, alternatives so they can increase income. If you listen to people who ask the tellers at your bank what the current CD rates are, you will hear the moans and groans complaining about how those low rates hurt their lifestyle. These are the clients who should review insurance in the form of a fixed annuity to maximize their income.

Using fixed annuities to generate immediate income can be done in a couple of basic methods.

The decision on which method to use is based on the desire to retain the principal, the amount of income desired and/or the tax treatment on the income. The bottom line is that an individual's guaranteed income can be drastically increased by using a fixed annuity income method. Some seniors will not use their principal under any circumstances. "I am leaving this to my heirs" they often say. This does not preclude the use of fixed annuities to generate income. Here are ways to generate a competitive income from a fixed annuity without losing principal.

- 1. Multi-Year Guarantee Annuity (The MYGA)** Use a deferred annuity with a systematic withdrawal of interest option. To illustrate this method I will simply compare the annuity rate against say a CD rate. In today's interest rate environment, fixed annuity rates with a 5 year guarantee are between 1% and 2% higher than CD rates. A person with a \$100,000 CD would receive a monthly income of perhaps \$85 - \$160 per month, while the annuity holder would get perhaps \$246 per month. This is an increase of 50% or more. How many seniors living on a fixed income would like to get a 50% increase? This is just one simplified example; the idea is higher guaranteed yield equals more interest income without invading principal. The fixed annuity will also have a minimum guaranteed rate. If rates continue to fall, the clients know their annuity's minimum rate and this can be a positive factor for future planning. Example: most of the fixed annuities I have marketed over the last 18+ years have had at least a 3.00% minimum guaranteed rate. Now, as those policies I marketed matured the clients knew their new rate would never be less than 3.00%. This has really turned out to be a great deal for those clients as they have no surrender charges left and are earning a very good interest rate. These guarantees have dropped to about the 1.00% range on new products. Who knows if that 1.00% will be a good return in 5 years. The 3.00% minimum was not considered very good years ago, but now that has sure changed. At least fixed annuity clients still know the lowest rate they can renew after the guarantee period and plan accordingly. **Quickly related opportunity note:** Here is where a substantial benefit can be provided to seniors and other savers. The reality is that an ENORMOUS amount of money is sitting on "the sidelines" in accounts earning next to nothing. If those savers are earning 0.25% the increase to them would be nearly **12 times higher** in a 3.00% rate product. 12 years of interest in 1 year! So, with those kind of numbers there is really no reason to have long term saving sitting in those super low yielding accounts. Safe alternatives do exist! Look around and increase that yield at least to 0.75% on fully liquid funds and 2.00% to 3.40% for long term savings of 3 to 5 years.
- 2. Lifetime payout Single Premium Immediate Annuity (The SPIA).** This approach is all about peace of mind and maximizing guaranteed income. The SPIA returns principal and interest in

guaranteed installment payments. By using a SPIA with \$100,000, a 65 year old male could take a monthly income of \$512.41 per month for life. The income in this example starts 1 month after premiums are received. That is 6.15% of the premium returned each year for life without having to worry about running out of money, ever! In 10 years over \$61,489 (61.5%) of the premium has been returned to the client and they are still receiving the \$512.41 monthly! Sure beats a 4.00% rule! Additionally, in this example up to **70.9% may be tax excluded** to life expectancy age. Look into exclusion ratios on non-qualified SPIA's for more on that! I always suggest the lifetime annuity with a money back guarantee (life with a refund) at a minimum. Prospects respond quite well to the insurance company **not** keeping any of the premium. The refund works like this: if the annuitant passes before all the premium is paid out, the remainder will go to the beneficiary in lump sum or installment payments. The above \$512.41 is based on a lifetime income with an installment refund "money back" guarantee. There are no fees on these SPIA's either.

So, without having to worry about re-positioning assets or doing an annual analysis, someone looking to maximize income using their retirement savings should check out a SPIA. Where else can a 65 year old take 6.15% immediate lifetime payments each year and be guaranteed not to lose any of that principal's power or run out of money? Getting that income ever month, not a bad thing for piece of mind.

Getting income from a fixed annuity is an option the risk adverse client or anyone needing a guaranteed income should review. Many people, if not most people, have no idea these products or ideas exist. I truly believe more education and attention is needed when it comes to fixed annuities and the options they provide.

These tax-deferred fixed annuities have a very strong history of being super low risk insurance contracts that are reliable and guaranteed. If you haven't, do a search yourself to see the safety of these MYGA and SPIA products and the companies that issue them. Look at the satisfaction rate of MYGA and SPIA clients, it is outstanding!

Withdrawals from a MYGA under 59.5 years of age may have a 10% excise tax. That would be like taking off 0.30% from a 3.00% rate, still leaves 2.70%.

** Statistic From Wikipedia, the free encyclopedia - Annuity (US financial products)*