Navigate through retirement with a little extra income

Do you have a Certificate of Deposit (CD) renewing? Consider an alternative strategy that offers a guaranteed lifetime income stream and may provide the extra income you need to live more comfortably in retirement.

A different kind of income strategy

In the following example, we will compare the income-generating efficiency of two different strategies. Both assume an immediate need for income at age 66. Both strategies are funded with $200,000 in nonqualified investable assets.

CD income strategy

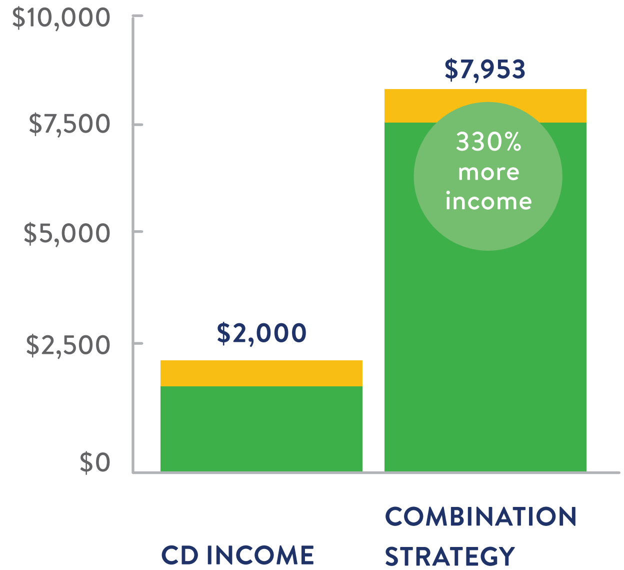
The CD income strategy invests the entire $200,000 in a five-year CD that earns 1% annually, generating $2,000 in income each year. An assumed 24% tax bracket results in a $480 tax liability, leaving $1,520 in net income.

The combination income strategy

This time we'll divide the $200,000 in half. We will use $100,000 to fund **a traditional deferred fixed annuity (TDFA)** with a five-year rate guarantee and surrender charge period. The contract is credited with 1.6% interest annually, which generates $1,600 in interest each year. This amount can be withdrawn as income without exceeding the contract's free withdrawal provisions and incurring a surrender charge.[1]

The remaining $100,000 is used to fund a **single premium immediate annuity** (SPIA). A Life with 10-year Period Certain annuity option generates an income of $5,453 annually, guaranteed for life. Together, the TDFA and SPIA generate gross annual income of $7,053.

CD INCOME STRATEGY VS. COMBINATION STRATEGY



$2,000	Annual income	$7,053	Annual income
– $480	Taxes owed	– $521	
$1,520	After-tax income	$6,532	After-tax income

After-tax Before-tax

This hypothetical example is for illustrative purposes only. The rates used to calculate annuity payments are effective as of February 1, 2021, and are subject to change. Income amounts are based on a 24% tax bracket. Actual payments will vary based on the client's age, gender and rates in effect when the contract is issued.

[1] Withdrawals are subject to income tax and, if taken prior to age 59½, may be subject to an additional 10% federal income tax.
[2] The TDFA accumulates interest on a tax-deferred basis until it is withdrawn as income. A portion of each SPIA annuity represents "cost basis" (the amount of your purchase payment) and is non-taxable. Once you have recovered an amount equal to your purchase payment, the entire SPIA annuity payment becomes taxable.

Two strategies in action

The two annuities generate a total annual income of $7,039. This is where tax efficiency comes into play. The TDFA income of $1,600 is fully taxable since it represents interest earnings. Take the $1,600 income multiplied by the 24% tax rate and you get $384 due in taxes.

However, only a portion of the SPIA income ($572) is taxable. Because the remaining portion represents a return of principal, no taxes are due on that portion ($4,881). Once an amount equal to the original purchase payment has been received, the entire annuity payment becomes taxable. A total tax liability of $521 leaves $6,532 in after-tax income.

The gross income provided by the Combination Strategy is 330% more than the gross income provided by the CD Income Strategy. The bottom line is greater tax efficiency, more retirement income and income that is guaranteed for life.

Additional information

Deferred fixed annuity

Deferred fixed annuities are a conservative type of annuity that offer tax-deferred savings, guaranteed fixed interest rates, and protection from market risk.

Single premium immediate annuity

This type of annuity is designed for individuals who want a stable source of income in retirement and who want their income payments to begin immediately. Income can be guaranteed for life or for a specific period of time. Predictable and stable payments are one reason why many retirees use immediate fixed annuities to help cover their predictable expenses in retirement.

Certificate of Deposit (CD)

CDs are short- or medium-term debt instruments offered by banks. They earn a fixed rate of interest, are taxed annually and are currently FDIC or NCUA-insured up to $250,000 per depositor, per institution. Generally, CDs must be held until the maturity date to avoid a withdrawal penalty.

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