Income Distribution System

THRIVE®

In retirement, will your clients survive…or *Thrive*®?

Summary

Dick and Jane, a couple in their early 60's, have close to $700,000 in a variety of accounts, gained primarily through successful real estate transactions. They need $5,000 a month in pre-tax income when they retire, with some coming from Social Security and pensions. They would like to retire in six years and fill as much of their income gap as possible with guaranteed[1] income. The Thrive® approach allowed them to utilize their non-qualified assets to meet their guaranteed[1] income needs, while leaving significant assets for growth.

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Case Details

Dick has a monthly pension of $1,100 that reduces to $605 after his passing. Dick and Jane have already elected to receive their Social Security benefits at ages 66 and 70, respectively. They plan conservatively to receive only a 1% annual increase in their benefits. They would like to guarantee income until ages 85 and 90, and assume that Jane will need 30% less after Dick's passing. They use an assumed inflation rate of 3% for their needs, and would like to keep approximately $50,000, or roughly 7% of their assets, liquid at all times. Dick and Jane would like to maximize the legacy left to their heirs, with a goal of doubling the portfolio over the time horizon of the retirement plan – they assume a modest 5% long-term growth rate. Most of their assets are non-qualified (72%), but both Dick and Jane have Roth IRAs.

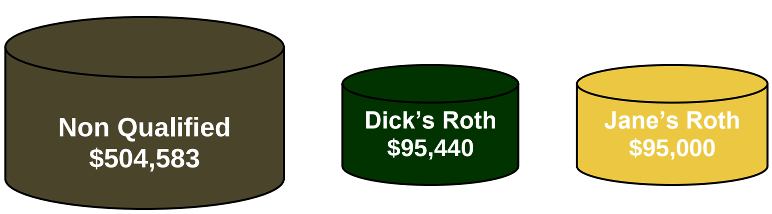
Facts

Current age, Dick	60
Current age, Jane	59
Pension (monthly), Dick	$1,100
Survivor benefit (55%)	$605
Social Security at age 66, Dick	$950
Social Security at age 70, Jane	$1,653
Social Security annual increase	1%

Goals

Retirement age, Dick	66
Retirement age, Jane	65
Plan-to age, Dick	85
Plan-to age, Jane	90
Retirement need (monthly)	$5,000
Survivor need (70%)	$3,500
Annual increase	3%
Minimum Asset Liquidity %	7% (approx $50K)
Legacy	Maximize
Legacy growth rate	5%
Tax rate	20%

Resources



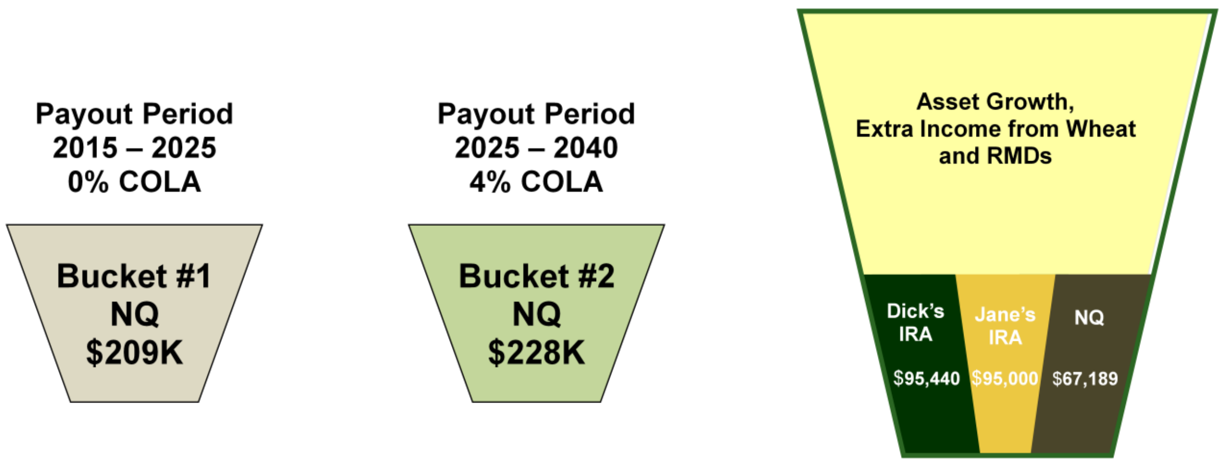
[1]Guarantees are subject to the claims-paying ability of the issuing company.

Solution

The Thrive Income Distribution System® calculates the beginning monthly pre-tax income gap to be $2,950. Taking into consideration the changing after-tax income gap, Thrive® recommends Dick and Jane purchase two deferred income annuities (DIAs) using their non-qualified assets. A premium of $208,912 will provide a monthly income of $2,424 for a designated period of 119 months (9 years and 11 months). 72.4% of the income is excluded from taxes ($1,755)[2]. A premium of $228,482 will provide an initial monthly income of $2,524, with a 4% annual increase for a designated period of 181 months (15 years and 1 month). 37.4% of the income is excluded from taxes ($944 in month 1) [2]. Thus, a total of $437,394 is used for income annuities. The remaining non-qualified assets ($67,189) and all of the Roth IRA assets are growth assets; a total of $267,629 is maintained for accumulation to meet legacy goals. At a 5% tax-deferred growth rate, the growth asset balance is projected to potentially grow to $1,118,981 at the end their planning horizon.

Income Annuities
$437,394

Growth Assets
$267,629



Results

The Thrive® laddered DIA approach provided Dick and Jane with several benefits, making it competitive with and possibly superior to other approaches. The $437,394 deposit for guaranteed income annuities provides contractual payments to the contract owner *or the owner's heirs* of $$899,481. The actual rate of return on the income annuities is 4.09%, for *guaranteed*[1] income. Finally, Jane was able to delay taking Social Security, maximizing her benefit while using the first DIA to bridge their income.

[1]Guarantees are subject to the claims-paying ability of the issuing company.
[2]Applies to the potential tax treatment of non-qualified annuities only.