Income Distribution System
THRIVE®

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

Summary

John and Amy, age 56, are high-net-worth clients with $1.6M in assets. They were small business owners for years, recently selling their business. They are working as consultants for the next five years to the company that purchased them, and will then retire. By harnessing the incredible tax benefits[1] of annuities, John and Amy will receive over $7,000 a month in pre-tax guaranteed[2] income and yet pay less in taxes.

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Case Details

John and Amy would like to guarantee income, starting at age 60, until they are both 90. Social Security, which they will both take at age 66, is their only source of income in retirement, and they plan to receive a 3% annual increase in their benefits. John and Amy use an assumed inflation rate of 3% for their needs, and would like to keep approximately $100,000, or roughly 6% of their assets, liquid at all times. John and Amy 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 on assets. John and Amy have significant assets, both qualified and non-qualified.

Facts

Current age, John	56
Current age, Amy	56
Social Security at age 66, John	$1,625
Social Security at age 66, Amy	$1,050
Social Security annual increase	3%

Goals

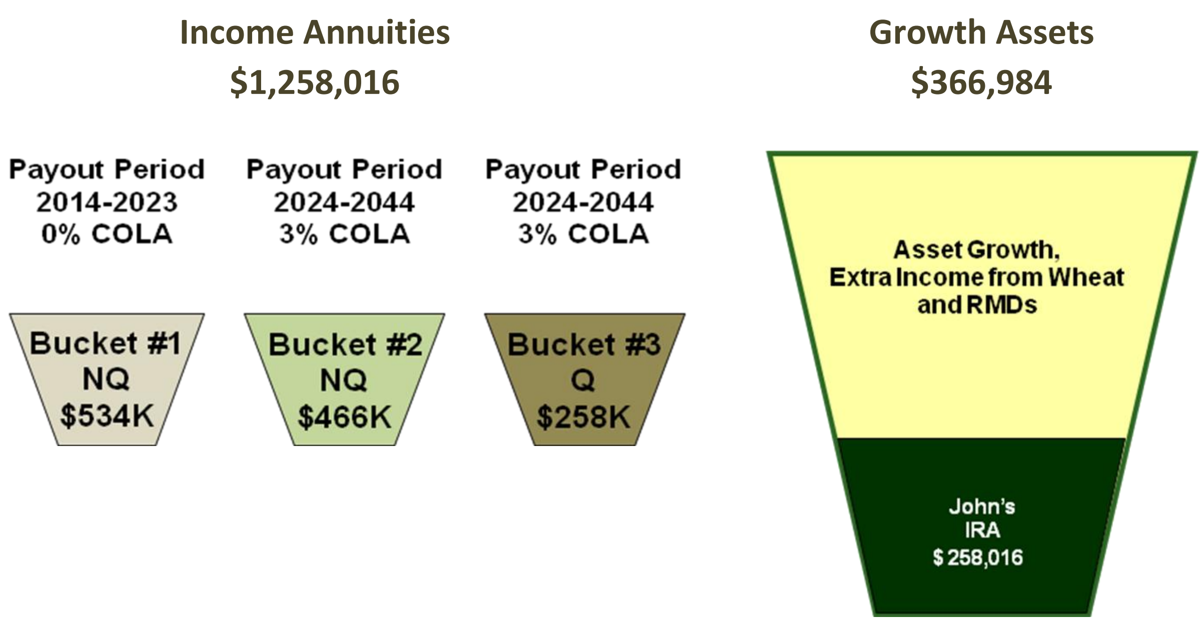
Retirement age, John	60
Retirement age, Amy	60
Plan-to age, John	90
Plan-to age, Amy	90
Retirement need (monthly)	$7,083
Annual increase	3%
Minimum asset liquidity %	6.1% (approx $100K)
Legacy	Maximize
Legacy growth rate	5%
Tax rate	25%

Resources

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

Solution

From age 60 to the start of Social Security (66), John and Amy's entire income need of $7,083 must be filled with income from income annuities. Taking into consideration the changing income gap, Thrive® recommends John and Amy purchase three deferred income annuities (DIAs) using their non-qualified assets. A premium of $533,645 will provide a monthly income of $5,733 after a roughly a 4-year deferral, for a designated period of 118 months (9 years, 10 months). 78.9% of the income is excluded from taxes ($4,523)[1]. A premium of $466,355 will provide a monthly income of $4,089 with a 3% annual increase after a nearly 14-year deferral, for a designated period of 242 months (20 years and 2 months). 35% of the income is excluded from taxes ($1,431 in month 1)[1]. Another annuity with the same deferral, payout, and annual increase is purchased with $258,016 of qualified assets will provide a monthly income of $2,262. Thus, a total of $1,258,016 is used for income annuities. The remaining $366,984 of qualified assets are "growth" assets. RMDs from the growth assets are used for the balance of income needs in the last 20 years; an annuity income rider was used for the growth asset IRAs to guarantee[2] the projected RMDs. The remaining portion of the initial of growth assets is maintained for accumulation to meet legacy goals. At the 5% tax-deferred growth rates, the growth asset balance is projected to potentially grow to $1,360,416 at the end of their planning horizon.



Results

The Thrive® laddered DIA approach provided John and Amy a way to precisely meet their significant income requirements, both before and after receiving Social Security. The $1,258,016 for income annuities provides contractual payments to the contract owner *or the owner's heirs* of $2,747,404. The actual rate of return on the income annuity assets is 4.15% for *guaranteed*[2] income. Because of the growth asset guarantees[2] and coordination with the income annuity income, the total income gap was fully guaranteed[2] for the entire retirement period.

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