

# Guaranteeing an Income for Life: An Immediate Income Annuity Review

The biggest financial risk that anyone faces during retirement is the risk that savings will be depleted...the risk that income will be outlived!

Prepared for:

***Brought to you by:***



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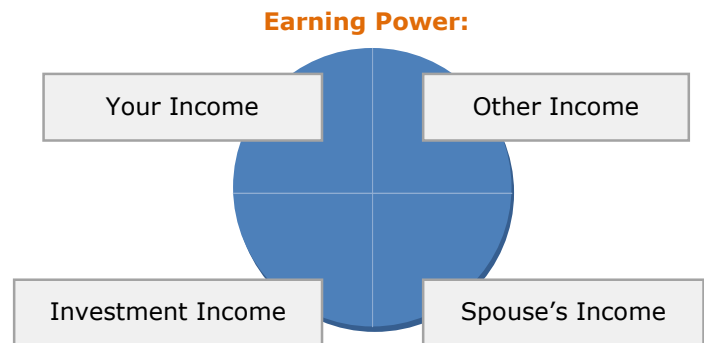
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## Your Earning Power

Your earning power – *your ability to earn an income* – is your most valuable asset.

Few people realize that a 30-year-old couple will earn 3.5 million dollars by age 65 if their total family income averages \$100,000 for their entire careers, without any raises.



### How Much Will You Earn in a Lifetime?

Years to Age 65	Your Future Earning Power If Your Family Income Averages:			
	\$50,000	\$100,000	\$250,000	\$500,000
40	\$2,000,000	\$4,000,000	\$10,000,000	\$20,000,000
35	1,750,000	3,500,000	8,750,000	17,500,000
30	1,500,000	3,000,000	7,500,000	15,000,000
25	1,250,000	2,500,000	6,250,000	12,500,000
20	1,000,000	2,000,000	5,000,000	10,000,000
15	750,000	1,500,000	3,750,000	7,500,000
10	500,000	1,000,000	2,500,000	5,000,000
5	250,000	500,000	1,250,000	2,500,000

**How can you replace your income after retirement?  
What steps can you take to guarantee that your retirement savings will produce a stream of income that you cannot outlive?**

## Failing to Plan

**Most People Do Not Plan to Fail. They Simply Fail to Plan and Set Goals.**

The fact is that, once retirement is reached, it does not matter how much you earned during your working years.

What does matter is how much money you have saved and accumulated, as well as what you choose to do with those funds during retirement.

**The biggest financial risk that anyone faces during retirement is the risk that savings will be depleted...the risk that income will be outlived!**

## How Long Can You Expect to Live After Retirement?

Advances in medical science and healthier lifestyles have resulted in longer life expectancies.

Male Life Expectancy	
Current Age	Life Expectancy (in years)
60	20.64
61	19.85
62	19.06
63	18.29
64	17.54
65	16.80
66	16.08
67	15.37
68	14.68
69	13.99
70	13.32
71	12.66
72	12.01
73	11.39
74	10.78
75	10.18

Female Life Expectancy	
Current Age	Life Expectancy (in years)
60	24.08
61	23.27
62	22.47
63	21.68
64	20.90
65	20.12
66	19.36
67	18.60
68	17.86
69	17.12
70	16.40
71	15.69
72	14.99
73	14.31
74	13.64
75	12.98

**Source:** 2001 Commissioners' Standard Ordinary Mortality Table; based on composite data (combination of smokers, nonsmokers and smoking status unknown); age nearest birthday

**With longer life expectancies, however, comes the increased risk of outliving your retirement income!**

## How Long Will Your Savings Last After Retirement?

**If You Withdraw Both Principal and Interest, How Long Will It Take to Exhaust a \$250,000 Retirement Savings Fund?**

Rate of Return	Amount Withdrawn at the Beginning of Each Month:		
	\$2,500	\$5,000	\$7,500
4%	121 monthly payments (10 years, 1 month)	54 monthly payments (4 years, 6 months)	35 monthly payments (2 years, 11 months)
6%	137 monthly payments (11 years, 5 months)	57 monthly payments (4 years, 9 months)	36 monthly payments (3 years)
8%	163 monthly payments (13 years, 7 months)	60 monthly payments (5 years)	37 monthly payments (3 years, 1 month)
10%	211 monthly payments (17 years, 7 months)	64 monthly payments (5 years, 4 months)	38 monthly payments (3 years, 2 months)

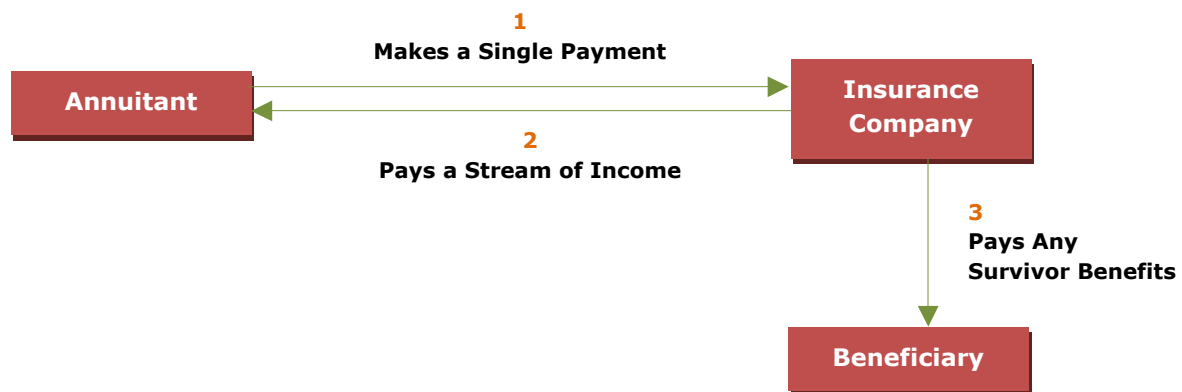
If we knew exactly how long we were going to live after retirement, this arrangement might be satisfactory. The reality, of course, is that none of us knows how long we will live after retirement. This uncertainty is what makes it so difficult to avoid the risk of outliving retirement income.

## A Potential Solution Using an Income Annuity

The purpose of an annuity is to protect against the financial risk of living too long...the risk of outliving retirement income...by providing an income guaranteed\* for life.

In fact, an annuity is the **ONLY** financial vehicle that can systematically liquidate a sum of money in such a way that income can be guaranteed\* for as long as you live!

### Here's How an Income Annuity Works:



1. The annuitant pays a single premium to an insurance company.
1. Beginning immediately or shortly after the single premium is paid, the insurance company pays the annuitant an income guaranteed\* to continue for as long as the annuitant is alive, assuming the annuitant selects a life income option. There are other payout options also available.
2. The insurance company pays survivor benefits, if any, to the annuitant's designated beneficiary after the annuitant's death.

\* Guarantee is based on the continued claims-paying ability of the issuing insurance company. Annuities are not insured or guaranteed by the FDIC or any other government agency.

## Types of Income Annuities

### 1. Fixed Annuities

A fixed income annuity pays a fixed dollar income at regular intervals. The amount of income is determined at the time of purchase, based on age, sex, the single premium amount and the income option selected. Once the income amount is determined, it doesn't change. **Fixed income annuities may be best suited for individuals who:**

- Prefer to rely on fixed rates of return
- Focus on preservation of assets
- Want protection from market volatility
- Prefer to delegate investment decisions and risk to the insurance company
- Understand that a fixed income may not provide a good hedge against inflation

### 2. Variable Annuities

The single premium for a variable income annuity less applicable charges is placed in a separate account of the insurance company, where you can invest it in one or more subaccounts. Variable annuity subaccounts consist of stocks, bonds, money market instruments and other types of investments. Income payments from the annuity will then rise and fall, depending on the investment performance of the subaccounts you selected. **Variable income annuities may be best suited for individuals who:**

- Prefer to invest in equities
- Want to make their own investment decisions
- Understand that assets can decline in value
- Are willing to assume the risk of a decrease in annuity income in exchange for the possibility of higher annuity income and a stronger hedge against inflation

### 3. Combination Annuities

Another alternative is to purchase a combination of fixed and variable income annuities. Fixed income payments then provide a predictable income, while variable income payments offer a hedge against inflation by taking advantage of potential growth in the stock market.

**NOTE:** See page 7 for a discussion of the various annuity payout options available, some of which contain a death benefit feature.

## Income Annuity Payout Options

The income from an income annuity can be structured in a variety of ways, enabling you to select the payout option that best satisfies your unique needs. The most frequently-selected annuity payout options guarantee\* an income that cannot be outlived:

<p><b>Life Income Option</b></p>	<ul style="list-style-type: none"> <li>■ Payments are made for as long as the annuitant is alive.</li> <li>■ Payments cease at the annuitant's death.</li> <li>■ This option produces the maximum guaranteed* lifetime income.</li> </ul>
<p><b>Life Income with Period Certain Option</b></p>	<ul style="list-style-type: none"> <li>■ Payments are made for as long as the annuitant is alive.</li> <li>■ If the annuitant dies before a specified number of payments have been received (e.g., 120 monthly payments), the remaining payments in the period certain are made to the designated beneficiary.</li> </ul>
<p><b>Life Income with Refund Guarantee Option</b></p>	<ul style="list-style-type: none"> <li>■ Payments are made for as long as the annuitant is alive.</li> <li>■ If the annuitant dies before payments equal to all or a specified portion of the purchase price have been received, the designated beneficiary receives the balance of the payments, up to the refund guarantee* amount.</li> </ul>
<p><b>Joint-and-Survivor Option</b></p>	<ul style="list-style-type: none"> <li>■ This payout option covers two lives.</li> <li>■ The same payment can be received for as long as either of the two annuitants is alive or, alternatively, at the death of the first annuitant, the payment to the surviving annuitant can be structured to reduce to a specified percentage (e.g., 75%) of the payment received while both annuitants were alive.</li> <li>■ A joint-and-survivor payout can also include a period certain feature.</li> </ul> <p>* All guarantees are based on the claims-paying ability of the issuing insurance company.</p>
<p><b>Flexibility</b></p>	<p>While these are the four basic annuity payout options most commonly selected, some income annuity contracts offer additional flexibility...ask your licensed financial adviser about contract features that may add flexibility to your use of an annuity to provide retirement income.</p>

# Income Annuity Taxation

## Income Taxation:

Income tax treatment depends on whether the money used to purchase the income annuity came from **"qualified" savings**, such as IRAs or 401(k) plans, or from **"non-qualified" savings**, such as personal savings and investments, an inheritance, life insurance proceeds, sale of a business interest, etc.

### Qualified Savings

- Since money in a qualified plan generally has not been previously taxed, the full amount of each annuity income payment typically will be subject to ordinary income tax as received.
- If a portion of the qualified savings used to purchase the income annuity has already been taxed, that amount is returned in equal income-tax-free amounts over the expected payment period (based on the annuitant's life expectancy).

### Non-Qualified Savings

- The annuity purchase price is returned in equal income-tax-free amounts over the expected payment period (based on the annuitant's life expectancy).
- The portion of each payment in excess of the tax-free return of the purchase price is taxable in the year received.
- In summary, a portion of each annuity payment is received income tax free until the investment in the contract is recovered and the balance is taxable as received.

## Estate Taxation:

- At the annuitant's death, the present value of any remaining annuity payments due is generally included in the annuitant's estate, to the extent of the deceased annuitant's proportional contribution to the annuity purchase price.

**A professional tax advisor should be consulted for more detailed information on income annuity taxation in your situation.**



## Income Annuity Checklist

Once you decide that an income annuity is right for you, there are a number of factors you should consider in evaluating the specific annuity you will purchase. These include:

### Fees and Expenses

The annuity fees and expenses an insurance company charges can include:

- **Premium charges** deducted when the single premium is paid;
- An **annual maintenance fee** (e.g., \$30);
- **Mortality or insurance charges** for a death benefit feature; and/or
- **Investment management fees** in a variable annuity.

Carefully evaluate fees and expenses, since they will impact the amount of annuity income you receive.

### Insurance Company Ratings

Since an annuity is an insurance contract, you need to be able to count on the financial strength and claims-paying ability of the insurance company from which you purchase an income annuity. Ask for company rating information from respected sources, such as A.M. Best, Moody's or Standard & Poor's, before purchasing an income annuity.

The rankings are intended to reflect the financial strength and claims-paying ability of the insurance company and are not intended to reflect the investment experience or financial strength of variable annuity accounts, which are subject to market risk.

### Annuity Features

Make sure you understand the terms and limitations of the annuity contract before you purchase it, including:

- in the case of a **fixed annuity**, the annuity income amount and frequency guaranteed by the contract;
- in the case of a **variable annuity**, the investment choices available, their historical performance (which should not be considered a representation of future performance), any limitations on reallocating funds between different subaccounts and how annuity income payments are calculated;
- the annuity income options available;
- the right to terminate the income annuity within a specific time period and receive the value of the undistributed annuity payments;
- how any death benefit is determined.

## Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, neither VSA, L.P. nor The National Underwriter Company is engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

Annuity contracts contain exclusions, limitations, reductions of benefits and terms for keeping them in force. All contract guarantees are based on the claims-paying ability of the issuing insurance company. Consult with your licensed financial representative on how specific annuity contracts may work for you in your particular situation. Your licensed financial representative will also provide you with costs and complete details about specific annuity contracts recommended to meet your specific needs and financial objectives.

***Before purchasing a variable annuity contract, carefully consider the contract and the underlying funds' investment objectives, risks, charges and expenses. Both the contract prospectus and the underlying fund prospectuses contain information relating to investment objectives, risks, charges and expenses, as well as other important information. The prospectuses are available from your licensed financial representative or the insurance company. You should read them carefully before purchasing a variable annuity contract.***

**NOTE:** This annuity discussion is intended primarily to provide information on immediate income annuities. An income annuity purchased in an IRA or qualified employer-sponsored retirement plan does not provide any additional tax deferral, since tax deferral is provided by the IRA or qualified plan itself. If an income annuity is used to provide income from an IRA or qualified employer-sponsored retirement plan, it should be purchased for the annuity features and benefits other than tax deferral.

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