NicheAlert

Split Annuity Solution Turns $300,000 into over $625,000 Overnight

Retired clients have a primary fear: Outliving their assets. This strategy addresses that fear on two fronts: Providing a growth opportunity while creating a benefit pool to tap should they need care as they age.

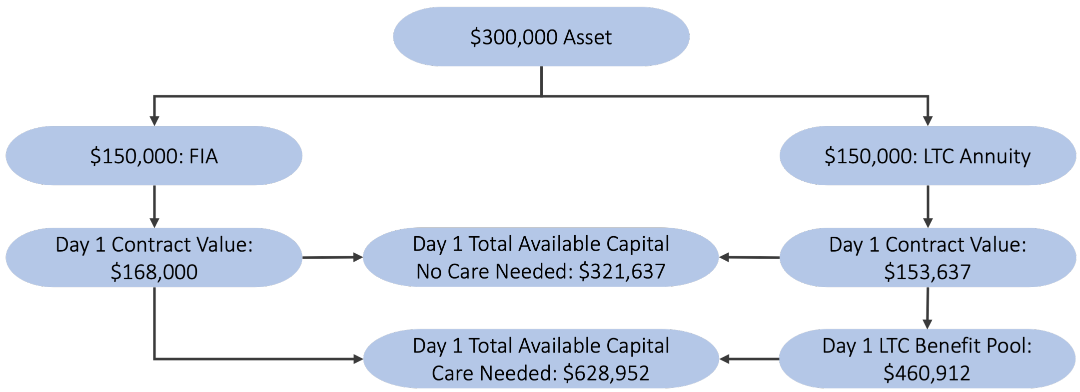
The fact that retirees fear outliving their money comes as no surprise. For those earlier in retirement or even pre-retirees, lifestyle changes or increasing their rate of savings can make a big difference in preventing that eventuality. That said, a good planning approach can do even more.

In this case, a retired client has some under-utilize assets that are not delivering any real growth to hedge against a potential increased future income need. A simple solution is to reposition those assets into something like a Fixed Indexed Annuity (FIA) to deliver both growth potential and protect against losses. Of course, if the primary driver of the client's fears is paying for care when they need it, that strategy does little to put them at ease. The temptation in that instance may be to look at a care planning product as the solution, but even the annuity-based care planning products don't offer any real growth potential and fail to address the client's need for future income even if they remain healthy.

The solution here may be to do both. Using a 70-year-old male with $300K in under-utilized assets as our example client, it's possible to turn that $300K into more than $625K by repositioning the funds. The combination of the FIA and an Annuity-Based Long-Term Care Annuity unlocks a flexible, tax-efficient solution.

In the example below, the use of a bonus annuity replenishes some of the funds used for care planning at day 1, and the client's combined account value increased to over $308,000 on day one.

Figure 1: Split Annuity Solution Results



The superiority of the strategy if the client needs care is obvious. The other element, actual growth of the asset even if he remains healthy, is also quite positive. Year one combined contract value is $321,637 and continues to grow into the future.

The bottom line? A strategy that delivers the growth potential the client desires while hedging the cost of care later in life. Should the client need care, the benefits from the annuity are generally income tax free, making this dual solution approach even more appealing.

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