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

Summary

Bill and Betty, in their mid-60's, expect Social Security and a pension to address most of their income needs in retirement. Their initial modest monthly income gap of $500 can be filled by using just over 60% of their $480,000 available assets, leaving the remainder to grow.

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Case Details

Bill and Betty would like to guarantee income, starting at ages 65 and 64, until they are 85 and 90, respectively. They plan to take Social Security upon retirement, and assume a 1% annual increase in their benefits. Bill will also receive a $1,000 monthly pension upon retirement that reduces by 45% upon his passing. They also assume that their monthly income need will reduce by 30% upon Bill's passing. Bill and Betty use an assumed inflation rate of 3% for their need, and would like to keep approximately $50,000, or roughly 10% of their assets, liquid at all times. They would like to maximize the legacy left to their heirs, assuming a modest 5% long-term growth rate on assets. Through diligent savings, Bill and Betty have accumulated nearly $500,000, 75% of which is non-qualified.

Facts

Current age, Bill Current age, Betty	64 63
Pension, Bill (monthly) Survivor benefit	$1,000 55%
Social Security at age 65, Bill Social Security at age 64, Betty	$900 $1,100
Social Security annual increase	1%

Goals

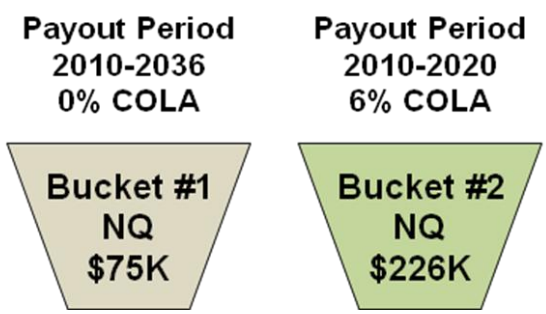
Retirement age, Bill Retirement age, Betty	65 64
Plan-to age, Bill Plan-to age, Betty	85 90
Retirement need (monthly) Survivor need (monthly)	$3,500 $2,450
Annual increase	3%
Minimum asset liquidity %	10% (approx $50K)
Legacy	Maximize
Legacy growth rate	5%
Tax rate	20%

Resources

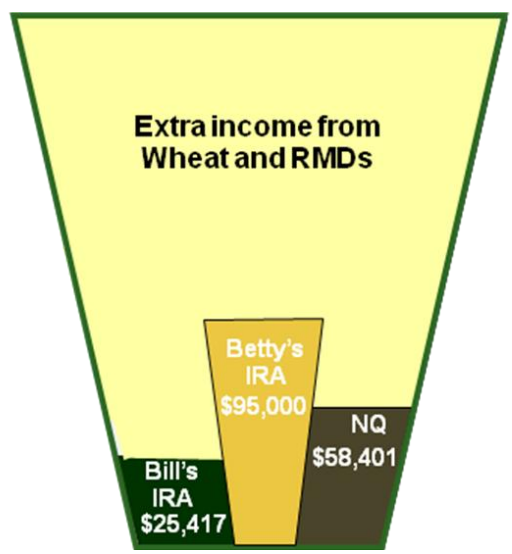
Solution

Given their modest needs, a large portion of Bill and Betty's income requirement will be met by Social Security and Bill's pension. Their resulting initial $500 monthly income gap should be filled with income from income annuities. Thrive® recommends Bill and Betty purchase two designated-period single premium income annuities (SPIAs), using a portion of their non-qualified assets. A premium of $74,923 will provide a monthly income of $383, beginning at retirement and lasting the length of their planning period (25 years, 10 months). 63% of the income is excluded from taxes ($241)[1]. A premium of $226,259 will provide a monthly income of $612 at retirement with a 6% annual increase, for a designated period of 25 years, 10 months. 52.7% of the income is excluded from taxes ($323 in month 1)[1]. Thus, a total of $301,182 is used for income. The remaining non-qualified assets ($58,401) and all of the qualified assets ($120,417) are "growth" assets, left to accumulate to meet legacy goals. At the 5% tax-deferred growth rates, the growth asset balance is projected to potentially grow to $521,294 at the end of their planning horizon.

Income Annuities
$301,182



Growth Assets
$178,818



Results

This Thrive® solution utilized both SPIAs and DIAs; it shows that the power of designated periods can apply to SPIAs as well as DIAs. Bill and Betty's Thrive® solution income is precisely matched to supplement their other sources of guaranteed income[2]. The $301,182 income annuity deposit provides contractual payments to the contract owner or the owner's heirs of $548,284. The actual rate of return on the income annuity assets is 4.26% for *guaranteed*[2] income.

[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.