CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

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Individual Insured Annuity: decoupled funding; higher income

In the two previous articles, you were introduced to Mary. She would like more guaranteed income without taking on more risk. She also wants to leave a meaningful legacy for her grandchildren.

Mary found that an Insured Annuity would help her achieve her dual objectives, while providing her with some flexibility now and in the future in terms of access to cash.

Mary has a younger sister, Susan, age 62. Susan is intrigued by the strategy Mary's advisor proposed and helped implement for her sister. She is interested in how this would work for her.

Susan also has a sizeable, fixed income portfolio as part of her overall investment holdings. She has no need for extra income now. She sees an advantage in planning now for extra income down the road, when she hits age 70. Like Mary, Susan is in reasonably good health. Her legacy wishes include leaving some money to her two nieces, Mary's children. How would the strategy work with some advanced planning?

The advisor presents the following recommendation:
Susan can fund the capital replacement portion of the strategy now while she is still healthy and do so over the next 8 years. Since she is younger, life insurance costs will be lower. What's more, the life insurance policy will be fully paid-up when Susan implements the income portion of the strategy at age 70. All of the income coming out of the prescribed annuity can be used for lifestyle purposes.

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Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As a Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

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Empire Life Investments

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Here is what this looks like:

	Fixed Income Investment	Decoupled Insured Annuity
Capital preservation (life insurance premium 8 yrs.)		$16,216.98
Starting balance for income age 70	$278,310.78	$140,440.13
Gross annual income	$6,261.99	$8,684.84
Taxable Portion	$6,261.99	$1,102.25
Tax Payable @40%	-$2,504.80	-$440.90
Sub-Total	$3,757.20	$8,243.94
After tax cash flow	$3,757.20	$8,243.94
Advantage		$4,486.74
Equivalent pre-tax rate of return		4.49%

For illustration purposes only. GIC earnings @ 2.25%.
Single Life Annuity, no min. guarantee period, Mar 6, 2017; Estate Max 100 enhanced insurance F NS.

The advisor recommends that the initial capital replacement portion of the strategy begin at $278,311. This is forecasted to be the value of the fixed income investment when Susan turns 70. This way, the strategy's estate benefit will always match or beat the fixed income investment. The guaranteed income portion of the strategy begins at that time with the purchase of the prescribed annuity. The after tax cash flow from the strategy is much more than the gross income from the fixed income investment.

At Susan's life expectancy, age 86, the estate benefit from the strategy could be $316,809. The alternative investment would remain at $278,310.78 since the growth would be spent each year.

The advantages of decoupling the strategy and implementing it in two steps, may dramatically improve the performance of the insured annuity strategy compared to conventional guaranteed investments.

We've seen from previous examples that the traditional strategy works well at key ages like 70. When you capitalize on some foresight and implement the strategy in two parts, the following things occur:

- You may be healthier today than 8-10 years down the road.
- The cost of the capital preservation portion of the strategy using life insurance is lower at younger ages.
- Beginning the income later offers the opportunity to get higher income amounts and reduced tax burdens on the guaranteed cash flow.
- The end result is higher spendable cash flow for life.
- The reduced taxable income inclusion may positively impact eligibility for government benefits most of which are net income tested.

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