

Accomplishing A Lifetime Income Goal NOW For Less!

\$500,000 Income Nest Egg: Need: 4.00% Annually For Life As Monthly Income Payments



4.00% LIFETIME INCOME COST ANALYSIS BASED ON A \$500,000 NEST EGG

By: Jeff Affronti—January 24, 2017

Managing a nest egg to produce a steady supplemental retirement income may not be necessary if a client is willing to give up control of some premium and let the insurance company carry the longevity risk. A client who is managing a \$500,000 nest egg to produce a 4.00% income or \$1,666.67 per month (\$20,000 annually), could use a portion of that nest egg in an Single Premium Immediate Annuity (SPIA) and guarantee the income for life today! Below are some SPIA breakdowns by age and gender with payments beginning 1 month after premium is received. The SPIA, a lifetime income with installment refund, guarantees payments will continue for as long as the client is alive and will never pay less than the initial premium.

So, how much premium is needed to fund the 4.00%, \$20,000 of income?

- **Male age 59 = \$367,175.84 (67.00% Tax Exclusion Ratio)**
- **Male age 62 = \$346,610.55 (68.70% Tax Exclusion Ratio)**
- **Male age 65 = \$325,299.54 (70.90% Tax Exclusion Ratio)**
- **Male age 68 = \$306,135.98 (74.20% Tax Exclusion Ratio)**
- **Male age 71 = \$286,465.95 (77.10% Tax Exclusion Ratio)**
- **Male age 74 = \$266,517.29 (79.30% Tax Exclusion Ratio)**

- **Male age 77 = \$247,863.23** (82.80% Tax Exclusion Ratio)
- **Male age 80 = \$234,096.84** (82.50% Tax Exclusion Ratio)
- **Female age 59 = \$378,639.87** (68.90% Tax Exclusion Ratio)
- **Female age 62 = \$358,285.83** (70.10% Tax Exclusion Ratio)
- **Female age 65 = \$336,981.22** (75.50% Tax Exclusion Ratio)
- **Female age 68 = \$318,793.36** (75.20% Tax Exclusion Ratio)
- **Female age 71 = \$299,380.23** (78.30% Tax Exclusion Ratio)
- **Female age 74 = \$278,960.78** (80.30% Tax Exclusion Ratio)
- **Female age 77 = \$261,370.31** (84.20% Tax Exclusion Ratio)
- **Female age 80 = \$249,152.09** (89.40% Tax Exclusion Ratio)

The above numbers show how clients can use less premium to guarantee the same income. A female age 59 needs to use 75.7% of the \$500,000 nest egg and a male age 80 only needs 46.8% of his \$500,000. The idea, clients can use the money more freely or continue to grow this unused portion of the nest egg without worrying about producing enough income later. The exclusion ratio assumes 100% cost basis on non-qualified funds and will lower the taxable amount of the payment for a period of time.

Below is an analysis of how the remaining part of the nest egg can grow. Using the original rate assumption of 4.00%, **after 20 years the client would have:**

- **Male age 59 = \$132,824.16 @ 4.00% For 20 years = \$291,034**
- **Male age 62 = \$153,389.45 @ 4.00% For 20 years = \$336,095**
- **Male age 65 = \$174,700.46 @ 4.00% For 20 years = \$382,790**
- **Male age 68 = \$193,864.02 @ 4.00% For 20 years = \$424,780**
- **Male age 71 = \$213,534.05 @ 4.00% For 20 years = \$467,879**

- **Male age 74** = \$233,482.71 @ 4.00% For 20 years = **\$511,589**
- **Male age 77** = \$252,136.77 @ 4.00% For 20 years = **\$552,462**
- **Male age 80** = \$265,903.16 @ 4.00% For 20 years = **\$582,626**
- **Female age 59** = \$121,360.13 @ 4.00% For 20 years = **\$265,915**
- **Female age 62** = \$141,714.17 @ 4.00% For 20 years = **\$310,513**
- **Female age 65** = \$163,018.78 @ 4.00% For 20 years = **\$357,194**
- **Female age 68** = \$181,206.64 @ 4.00% For 20 years = **\$397,046**
- **Female age 71** = \$200,619.77 @ 4.00% For 20 years = **\$439,582**
- **Female age 74** = \$221,039.23 @ 4.00% For 20 years = **\$484,324**
- **Female age 77** = \$238,629.69 @ 4.00% For 20 years = **\$522,867**
- **Female age 80** = \$250,847.91 @ 4.00% For 20 Years = **\$549,638**

In the end, if a client is currently taking or looking for a supplemental income they may be surprised at the premium required to guarantee their lifetime assumptions now using insurance.

The client could become more aggressive on other investments or just be able to plan and spend with the knowledge another check will arrive next month.

Immediate annuities are the insurance product specifically built to guarantee lifetime income.

Let us, as agents, make sure the clients at least know what a SPIA could offer them in guarantees and peace of mind.

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