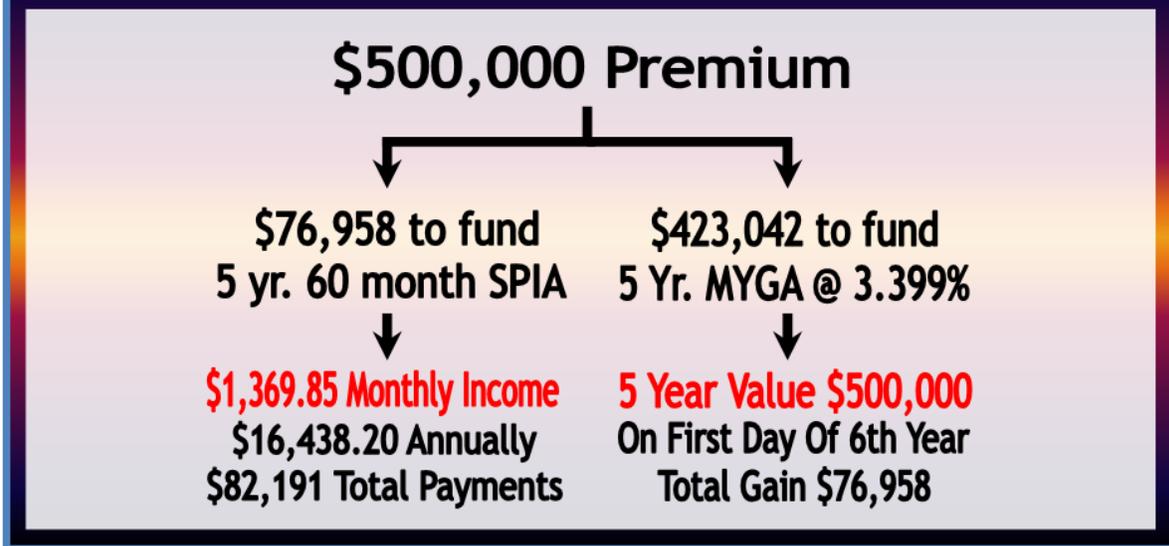


We Split \$500,000 and Look What We Found



THE SPLIT ANNUITY CONCEPT - TWO FIXED PRODUCTS COMBINE TO MAXIMIZE INCOME

By: Jeff Affronti—January 09, 2018

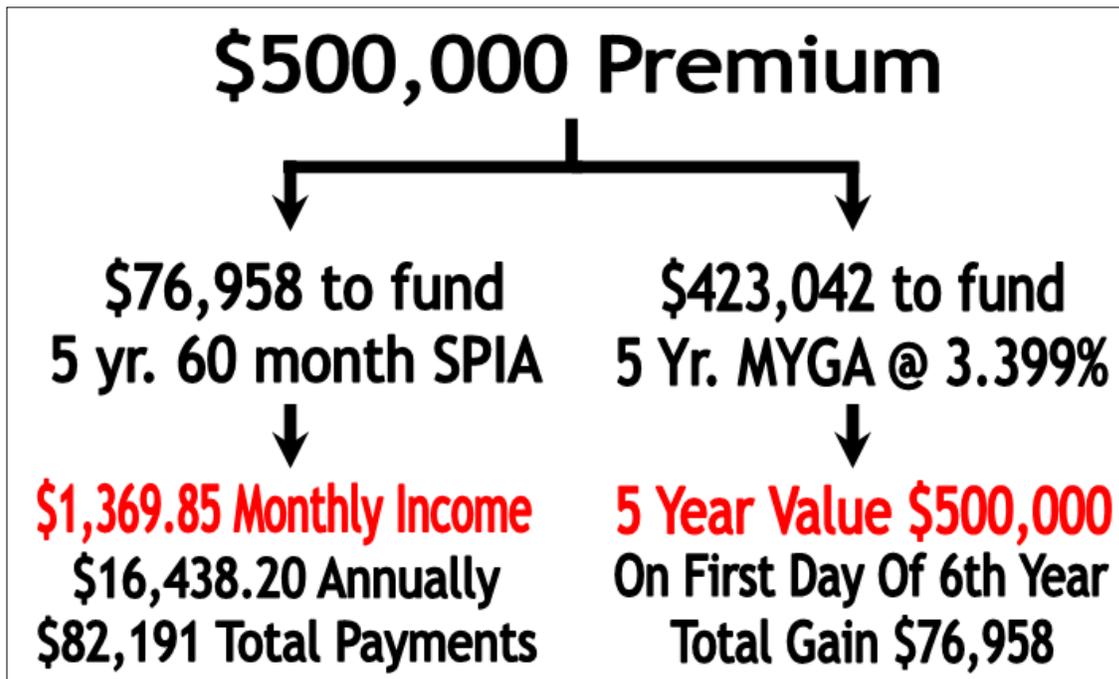
Here is a fantastic example of how case design and product evaluation can increase a client's yield. A client with \$500,000 is looking for a 5 year fixed rate MYGA and wants to immediately use the interest as additional income. A simple approach would be to find a MYGA product that offers free withdrawals of interest. Assuming this MYGA has a guaranteed rate of 3.00%, the immediate interest income would be approximately \$1,233.15 per month. The client's non-qualified premiums have a 100% cost basis but the interest withdrawals are 100% taxable. Now, assuming a 22% tax bracket, the tax per payment would be about \$271. This leaves **\$961 as spendable income after tax**. The accumulation value and cost basis of the MYGA remains at \$500,000 during the entire term and the income can be turned off and back on at any time. Overall this is a very simple way to accomplish the client's goal of guaranteed supplemental income with added flexibility.

A more detailed split annuity case design allows agents to incorporate an enhanced rate non-liquid MYGA with the highest paying period certain SPIA. This approach can increase income yield and may have less taxes. For example, the MYGA market's top yielding product currently has about a 3.40% rate for 5 years. This 3.40% rate is 13% higher than a product at 3.00% offering more features like interest withdrawals. Additionally, the immediate annuity has a tax exclusion ratio on non-quali-

fied premiums. This 100% cost basis \$500,000 split annuity would produce \$1,369.85 per month of income with a tax exclusion ratio of about 93%. Since 93% of the payment is tax excluded only \$96 of the payment is taxable. Using the 22% tax bracket, the tax is \$21 and leaves **\$1,348 as spendable income**. This more complex design also has more complicated beneficiary settlement options as the MYGA accumulation value will start at \$423,042.00 and increase to \$500,000 over the 5 years. The cost basis for the MYGA is now \$423,042.00 as well. See below graphs, MYGA rate assumes 4.20% Year 1 then 3.20% Years 2-5, the SPIA is guaranteed for 60 payments and both have no additional liquidity.

Single Premium: \$423,042.00						
		Guaranteed		Current		Surrender Charge Percentage
Year	Age	Contract Value	Cash Surrender Value ±	Contract Value	Cash Surrender Value ±	
1	68	440,809.76	405,544.98	440,809.76	405,544.98	8%
2	69	454,915.67	423,071.57	454,915.67	423,071.57	7%
3	70	469,472.97	441,304.59	469,472.97	441,304.59	6%
4	71	484,496.11	460,271.30	484,496.11	460,271.30	5%
5 *	72	499,999.99	499,999.99	499,999.99	499,999.99	0%

Payout Period		
Single Premium Immediate Annuity SPIA		
Payout Option: Specified Period		
Monthly Payout Amount: \$1,369.85		
<u>End of Certificate</u> <u>Year</u>	<u>Age</u>	<u>Annual Contract Payout</u>
1	77	\$16,438.20
2	78	\$16,438.20
3	79	\$16,438.20
4	80	\$16,438.20
5	81	\$16,438.20
		<hr/> \$82,191.00
		<hr/> \$82,191.00



After 5 years the client will have **collected \$82,191** in income and recaptured \$76,958 returning the nest egg to its original \$500,000. Case design and diversification can open up agents to use products they may not realize offer such advantages. Overall this client can receive **\$23,220 more spendable income over the 5 years.** \$8,202 in increased overall pre-tax income from using a split annuity over a lower yielding fixed rate MYGA with interest withdrawals.

This example uses limited feature to maximize yield in this low interest rate environment. As rates rise, split annuities will again allow invasion of principal through the MYGA for emergency income needs with no hit to the rate. The fixed marketplace has had to limit some flexibility to increase rates and this should change quickly as rates rise and the fixed market becomes more attractive.

A simple, safe and guaranteed option for immediate income now, the Split Annuity.

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#splitannuity #MYGA #SPIA #FixedAnnuities #GuaranteedIncomeAnnuity