

CD Maximization

Multiply spendable income for life.

For Agent use only.

The Concept

One BIG problem for seniors today is the persistent low interest rate environment on CDs and other low-yielding vehicles. **We can double, triple, or even quadruple spendable income** while preserving a tax-free death benefit to heirs and creating a funding stream for LTC expenses.

The Scenario

Marty Maxwell of California is 70, healthy, and doesn't smoke. He owns a \$500,000 CD earning today's highest rate at 1.85%. With a combined tax rate of 33% (25% Federal and 8% CA State), his annual **interest income is quickly eroded from \$9,250 to \$6,198**. He has started to withdraw his principal plus interest for living expenses, increasing the risk of outliving his funds.

He needs more income, must have liquidity for long term care, and wants to pass the \$500,000 principal to his heirs. We've got a solution:

The Strategy

1

Calculate the annual interest the CD is paying:

CD: \$500,000
Rate: 1.85%
Pre-Tax Interest: \$9,250
Tax Rate: 33% (combined)
Post-Tax Interest: **\$6,198**

2

Qualify & Purchase Life Insurance with LTC Rider

Death Benefit: \$500,000
Annual Premium: \$14,512
LTC Benefit: \$10,000 / mo.

Premiums are paid from a portion of the SPIA, leaving the balance for discretionary income.

3

Purchase SPIA (Single Premium Immediate Annuity)

SPIA: \$500,000
Income: \$36,122 / year

Note: Typical penalties for early withdrawals on CDs are only 3-6 month's interest, so waiting for maturity is usually not advantageous.

4

Calculate the after-tax payment from the annuity

SPIA: \$500,000 - Life Only
Income: \$36,122 / year
Tax Rate: 33% (combined)
Taxable Portion: \$5,816
Tax Due: \$1,919
Post-Tax Income: **\$34,202**

5

Calculate the new spendable income

SPIA: \$500,000
Post-Tax Income: \$34,202
Life Premium: \$14,512
\$19,690 Net Post-Tax income for life

6

What have we done?

Before: Marty was earning **\$6,198** post-tax and starting to deplete principal.

After: **\$19,690** in net spendable income for life, a **318%** increase!

Contact us today for custom illustrations on solving your clients' income challenges!

CD Maximization

The details for Marty's case

The CD: As of 1/15/2013, the highest paying CD on Bankrate.com was 1.85% (5 year Jumbo).

- $\$500,000 \times 1.85\% = \$9,250$
- Taxes due: Federal bracket 25% + California 8% = 33%
- $\$9,250 \times 33\% = \$3,896$ due in taxes
- $\$9,250 - \$3,053 = \mathbf{\$6,197 \text{ NET AFTER TAX}}$

Search Summary			
Your Search	Results Range	Bankrate.com National Average	Bankrate.com Site Average
3 month CD	0.03% APY - 0.65% APY	0.12% APY	0.29% APY
6 month CD	0.05% APY - 0.90% APY	0.17% APY	0.45% APY
1 yr CD	0.10% APY - 1.05% APY	0.27% APY	0.70% APY
2 yr CD	0.15% APY - 1.20% APY	0.43% APY	0.83% APY
3 yr CD	0.35% APY - 1.31% APY	0.54% APY	0.96% APY
5 yr CD	0.35% APY - 1.80% APY	0.89% APY	1.34% APY
1 yr jumbo CD	0.25% APY - 1.02% APY	0.30% APY	0.78% APY
5 yr jumbo CD	0.95% APY - 1.85% APY	0.91% APY	1.43% APY

The SPIA: \$500,000 CA Non-qualified funds (incl. 2.35% CA premium tax)

- As of 1/15/2013, Lincoln Financial pays \$36,122 annually
- Taxable portion \$5,816 annually
- Taxes due: Federal bracket 25% + California 8% = 33%
- $\$5,816 \times 33\% = \$1,919$ taxes due
- $\$36,122 - \$3,102 = \mathbf{\$34,322 \text{ NET AFTER TAX}}$

Rank	Financial Institution	Annual Income	Annual Taxable Portion	Guaranteed To End Of
1	Lincoln National Life Insurance Company	\$36,121.53	\$5,815.57	JAN-21-2013
2	American National Insurance Company	\$35,975.69	\$5,684.16	JAN-21-2013
3	Minnesota Life Insurance Company - A Securian Co.	\$34,370.54	\$4,055.72	JAN-24-2013
4	Symetra Life Insurance Company	\$34,076.29	\$3,782.47	JAN-24-2013
5	American General Life Insurance Company	\$34,033.21	\$3,743.65	JAN-21-2013
6	Integrity Life Insurance Company (W&S)	\$33,964.42	\$3,668.16	JAN-28-2013
7	Principal Financial Group	\$33,674.16	\$3,367.42	JAN-23-2013
8	New York Life Insurance & Annuity Corporation	\$33,570.85	\$3,256.37	JAN-28-2013

The Life Policy: \$500,000 Death Benefit UL

- Fixed Annual Premium of \$14,512
- Fixed UL Policy through John Hancock - underwritten at Preferred Non-tobacco
- Rider accelerates death benefit for LTC - 2% of face / month (\$10,000 / month for 50 months)
- Preferred Non-Tobacco rate class, guaranteed to age 100 & projected for lifetime

Summary:

- Annual after-tax spendable income goes from \$6,198 to \$19,690 (a 318% increase!)
- Principal has been preserved as a tax-free death benefit to heirs.
- \$10,000/month LTC available as an accelerated death benefit on life policy.