



Retirement   
**Concepts**  
GROUP, LLC

*designed*  
↓  
*Paycheck for Life*

Steady  
Substantial  
Lifetime  
Income

## Easing the Tax Bite:

While the one of the immediate benefits of the immediate income annuity generating a paycheck designed for life is reduced taxes on the income you are receiving there is another benefit that most people overlook, that is reducing the amount of income tax they may have to pay on their Social Security benefits. The tax on Social Security benefits depends on your total income and marital status. To determine how much tax you owe, add one-half of your Social Security benefits to all other income, including tax-exempt interest. If this amount is greater than the base amount for your filing status, a part of your Social Security benefits will be taxable. The reduced taxable portion of income from your immediate income annuity generating a paycheck designed for life benefits you by reducing the taxable income, thereby reducing the potential taxing of a portion of your Social security benefits.

If a steady stream of income is one of your main goals, it's hard to beat an immediate income annuity which is designed to create a paycheck for life when compared to other potential investments.

## The Bottom Line:

Tax saving should be an important consideration when comparing investments. In the case of an immediate income annuity creating a paycheck designed for life, you may find that the after-tax return could be greater than what is available from other conservative fixed-income investments. In addition, you can be guaranteed an income that you can't outlive.

The following pages will discuss how the immediate income annuity can potentially provide a paycheck designed for life along with some examples illustrating how they work.

## Paycheck Designed for Life:

### *An Immediate Income Annuity, Your "Personal" Pension Plan*

After decades of hard work and diligent saving, you've accumulated a nice nest egg and are ready to retire. You probably haven't been losing sleep at night worrying that you will live too long, but maybe you should. The biggest financial risk retiree's face isn't the volatility of investment returns but longevity. In a world of increasing life spans, disappearing pensions and market down turns, the challenge you now face is how to make your nest egg last as long as you live. If outliving your money is your greatest financial fear, then an immediate annuity designed to generate a paycheck for life may be just the answer.

## How it Works:

An immediate income annuity begins with a simple proposition. The investor deposits a lump sum amount of money in exchange for a guaranteed payout for life or a selected period of time (period certain). Generally, with a period certain you are selecting the number of years which guarantees payments equal to or greater than your initial investment. This method usually generates the maximum guaranteed paycheck over the period certain and will continue for the annuitant's life.

## Paycheck Designed for Life:

### *An Immediate Income Annuity Means More Income and Lower Taxes*

When purchasing an immediate income annuity, the income you receive is based on your age, gender, and the amount of your purchase. The IRS has special rules when looking at taxing the income generated from a non-qualified immediate annuity which is referred to as the exclusion ratio. As money is paid to you, the IRS looks at it as if it were in two buckets, interest and principle. The interest is taxed as ordinary income, but the principle is tax-free, because it is viewed as return of your original investment, assuming it was submitted with after tax funds. The amount of principle returned in each payment is determined by the same factors that the annuity company uses to calculate your pay check for life; it assumes that the principle will be returned to you equally over the payout period.

Let's look at the following example of how this IRS exclusion ratio reduces the taxable amount due on your immediate income annuity, generating a paycheck designed for life. When purchasing an immediate income annuity you will receive an illustration which shows the percentage of each payment which is tax free. Let's look at the tax implications for a 65-year old female who purchases a \$100,000.00 immediate income annuity designed to generate a "paycheck for life".

◆	<i>Investment Amount</i>	<i>\$100,000.00</i>
◆	<i>Payout Period</i>	<i>Lifetime (18 yrs. as per IRS)</i>
◆	<i>Annual Payment</i>	<i>\$7,644.00</i>
◆	<i>Total Payments over 18 year life expectancy</i>	<i>\$137,592.00</i>
◆	<i>IRS Exclusion Ratio</i>	<i>72.7%</i>

So, what this means is that of the \$7,644.00 annual income, 72.7% is considered tax-free return of principle, which leaves only \$2,086.81 as taxable income.

## Immediate Income Annuity:

*develop your “paycheck designed for life” from your 401(k) or IRA*

As we know the challenge for many retirees is turning the nest egg they have accumulated through their 401k, IRA savings or other pre tax or qualified investments into a steady sustainable stream of income that will last their lifetime.

Let’s consider some of the basic factors that will impact your decision on how much additional income you will need to meet your needs in retirement.

- ◆ *Anticipated Social Security Income*
- ◆ *Pension Income*
- ◆ *Life expectancy*
- ◆ *Monthly Income needs*

Answering these few questions will help you determine the income still needed to meet your basic monthly expenses.

One solution to this problem can be found using an immediate income annuity designed to provide a paycheck for life. The immediate income annuity will let you determine when your payout starts, and the amount of income necessary. Then, we look at what portion of your retirement assets can be placed into the immediate income annuity to meet these essential needs with the annuity giving you the assurance that you will not out live your income.

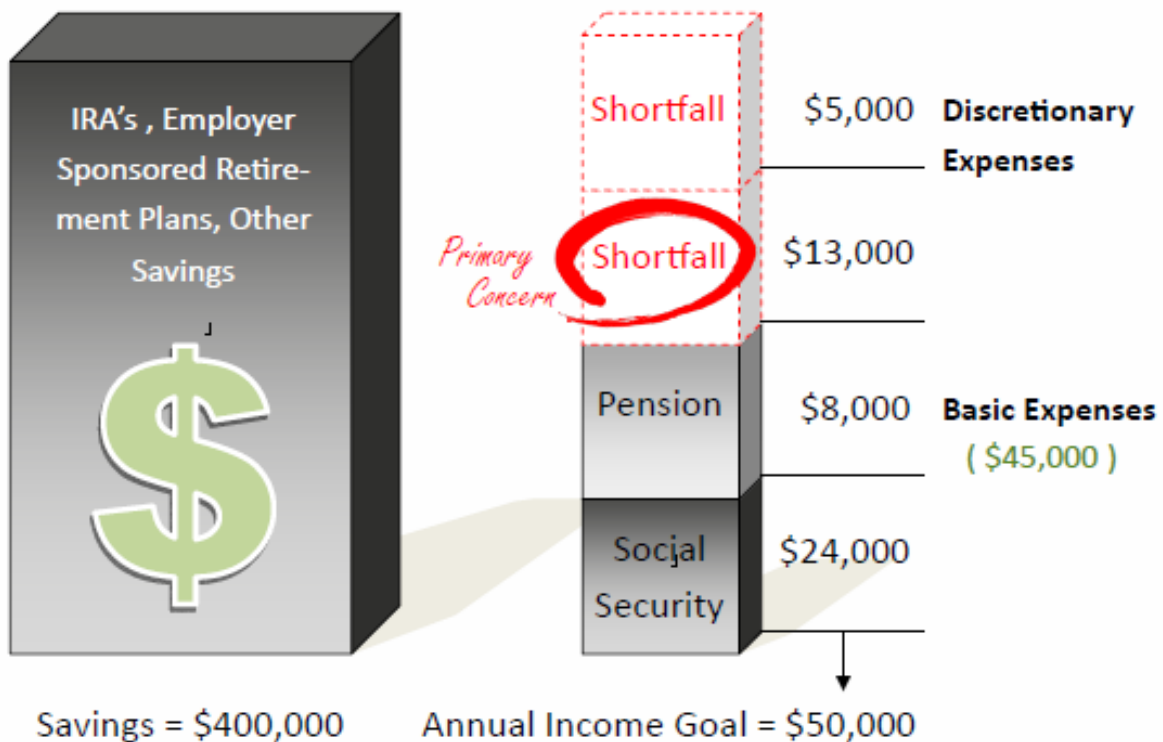
Having an immediate income annuity designed to provide paycheck for life provides you with the several benefits in addition to the peace of mind and security you could have with a steady stream of income to meet your basic needs. You also could have more flexibility and control over your remaining investable assets. You might have liquidity of the remaining assets, should you need additional funds, while knowing your basic income needs are met.

Let's take a look at the following scenario:

First, you have achieved your initial goal by accumulating Investments of \$400,000 in IRAs, employer sponsored retirement plans (401k) and other savings for retirement. Now, the next equally important step is how these assets will be distribution to ensure you can maintain your financial independence throughout your retirement.

## Pre-Retirement

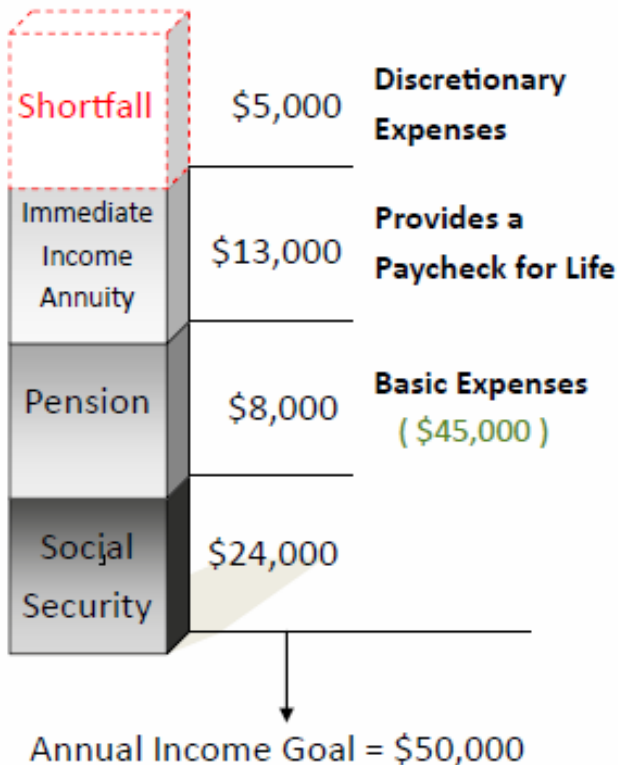
## Retirement



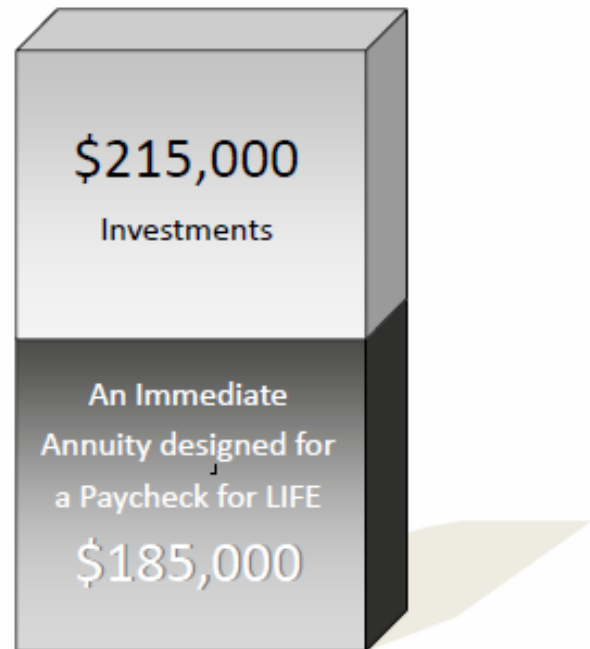
Using a combination of guaranteed sources and his \$400k dollars of savings, this 65 yr. old man wants to create a \$50,000 per year retirement income stream: He needs \$45,000 to cover his basic living expenses (*food, rent, utilities, etc...*), and wants \$5,000 to spend at his discretion (*entertainment, gifts, vacation, etc...*)



## Retirement Distribution



## Repositioning for Retirement Distribution



Savings = \$400,000


His pension and social security guarantee him a life long income of \$32,000 per year. However he still needs an additional \$13,000 per year just to ensure that his basic living expenses will always be covered regardless of market ups and downs. He would also like to cover his discretionary expenses, but that is a secondary concern and will come from the "Earnings" or "Gains" on his remaining investments.

To address the basic expense shortfall, he can convert a portion of his savings into an immediate income annuity designed to provide a paycheck for life to pay the \$13,000/yearly he needs for the rest of his life.

*Compare using CD's or other fixed products as a distribution strategy for income:*

Many retirees seek low-risk products to avoid market volatility and have looked to CDs and annuities to meet this goal. However, the current interest rate environment doesn't generate sufficient interest income to meet their needs as it had in the past.

Current 1-Year CD earns **.80%**



**Certificate of Deposit**

◆ Initial Investment	\$185,000.00
◆ Rate of Return	.80% annually
◆ Taxable Interest/Income	\$1,480.00
◆ Tax Liability	\$414.00
◆ After-Tax Income	\$1,060.00

A 65 Yr. Old couple investing the same \$185,000/year CD earning .80% interest. Using the interest as income, at maturity, they reinvest the \$185,000 in another 1-year CD again earning .80%. They must repeat this cycle to continue generating \$1,480.00 in annual taxable interest income.

Though CDs are a low risk way to protect principal, they are not competitive as income generators. In fact, investors who use the interest from CDs as income may actually experience negative returns if the rate of return fails to keep pace with inflation.

*There is another option, safe from market fluctuations which can generate significantly more annual income.*

An immediate income annuity can increase your after-tax income, and enable you to potentially leave an inheritance for your heirs.

The same individual could take \$185,000 and purchase an immediate income annuity with cash refund payout option. This would provide an annual pre-tax income of \$13,135.00 based on our 65 yr. old couple with an estimated payout rate of 7.10%

	CD	Immediate Income Annuity "Paycheck for Life"
◆ Initial Investment	\$185,000.00	\$185,000.00
◆ CD Rate of return (.08%) / Annuity Payout rate (7.10%)	.80% annual Interest rate	7.10% payout rate
◆ Annual taxable interest / Annual taxable income	\$.1,480.00	\$5,740.00
◆ Tax Free income	\$0.00	\$7,395.00
◆ Tax owed 28%	\$414.00	\$1,607.00
◆ After-Tax Income	\$1,066.00	\$11,528.00

The immediate income annuity can provide a guaranteed income regardless of the volatility of the market. At the time of his death, the Cash Refund option returns to beneficiaries any difference between the initial premium (\$185,000) and the total amount already paid out.

At the end of the maturity term, the full investment amount of the CD, plus interest, becomes available again, whereas with a lifetime income annuity, the annual payment each year includes both interest and principal.

If guaranteed life long income is what you are after, consider an immediate income annuity designed to provide a paycheck for life.



You have worked a lifetime to accumulate the assets to finance your retirement dreams. How these assets are distributed will have a dramatic impact on your retirement. Today, the retirement world is more complex than at any time period in the past. Inflation, longevity, medical expenses and unknown long-term care needs have made it nearly impossible to predict all your future living expenses. As the once dependable pension plans were replaced with the self directed retirement plans of today, many retirees are at risk of being under funded for their retirement. Various retirements income strategies have used the 4% rule for distribution from assets; however, many of these strategies are based on models which do not account for the unforeseen risk. An immediate income annuity, your immediate annuity is intended to provide a reliable, guaranteed income stream for life during your retirement.

An immediate income annuity designed to provide a paycheck for life along with your other guaranteed sources of income, (Social Security and or pension) may help cover your essential living expenses. The balance of your investment portfolio then can support your discretionary spending and provide liquidity for unforeseen emergency expenses should they arise. Having a pay check designed for Life can provide you with the security and peace of mind by eliminating the fear of running out of money in retirement. An immediate income annuity designed to provide you a pay check for life can be your retirement solution.

*It's  
your Paycheck  
designed  
for  
your Life  
take advantage of it...*

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An annuity contains guarantees and protections that are subject to the issuing insurance company's ability to pay them. An annuity is a contract between you and an insurance company, and it's sold by offering materials. You should read these documents. They describe risk factors, fees and charges that may apply to you. There is no additional tax deferral benefit for contracts purchased in an IRA or other tax-qualified plan, since these are already afforded tax-deferred status. Thus, an annuity should only be purchased in an IRA or qualified plan if you value some of the other features of the annuity and are willing to incur any additional costs associated with the annuity to receive such benefits. Cambridge does not offer legal or tax advice. Please consult your attorney or tax advisor for answers to specific questions.

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