

An Old Source of Income With a Modern Twist

Immediate annuities have been offered since medieval times when English retirees gave land and assets to the Church in exchange for lifetime income. In the modern version, the investor makes a single deposit with an insurance company and then receives a fixed lifetime income. Many investors have been cautious about such arrangements worried that the fixed income may not keep pace with the rising cost of living.

The insurance industry has addressed these concerns with the immediate variable annuity, which supplies an income based on the underlying investment accounts in the annuity. The idea is that the investment accounts will hopefully rise over time and provide an increasing income. Below is a picture of what could happen under the hypothetical scenario that our investment selection within the annuity averages 8% annually and that the base interest rate selected by the investor, on which to base their initial annuity payout, is 3.5%.

Figure 2.
Breakdown of Annual Payments

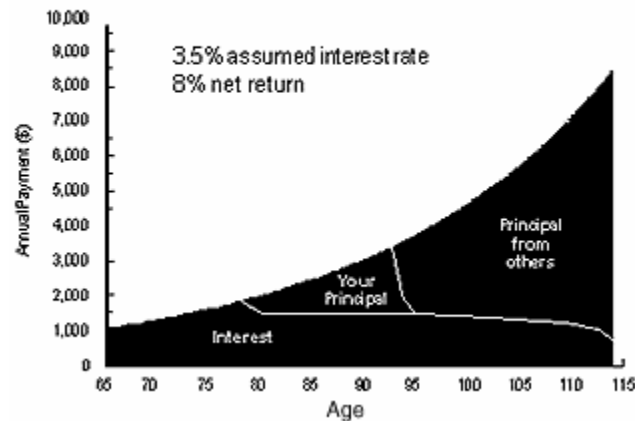


Chart Source: AAIL Journal, February 1994

In such a case the annual payment keeps increasing because the actual rate of return is beating the initial selected payout rate. Of course, the experience can go the other way. If the investment sub accounts decline in value, so does the investors annuity income. Some insurance companies do however offer a minimum income guarantee (for an extra annual fee).

The other item to consider is the tax benefit. The monthly annuity payments are partially tax free because IRS considers part of each payment a return of principal. For example, an investor with a 20 year life expectancy depositing \$50,000 would receive a annual payments of which \$2500 (\$50,000/20 years) would be non-taxable.

If you like the idea of a fixed known income, than a fixed immediate annuity is the best choice. If you believe that the stock market will rise over time and it does so, than the immediate variable annuity would be more suitable and will provide more income over time.

For a brochure on the fixed or variable immediate annuity, please check on the coupon and supply your age for an illustration we can mail to you.