The Cincinnati Life Insurance Company

ANNUITY MAXIMIZATION

Case Study Series

Client profile:
Tom is a 60-year-old widower who plans to retire in five years.

The situation:
Tom purchased a deferred fixed annuity in an IRA 20 years prior with the intention that it be a supplement for Social Security income during retirement for himself and his wife, Sally, so they could live comfortably. As he neared retirement, Tom found he had sufficient assets in his 401(k) and investment accounts that he did not need the annuity funds for income purposes. Because Sally had passed away, his primary concern shifted to wanting to leave his daughter and son an inheritance. He contacted his life insurance agent to see if his annuity, valued at $100,000, was the best way to provide for his children.

The problem:
Because deferred annuity funds are not taxed until withdrawal, each beneficiary's portion would be taxable as ordinary income after Tom's death – resulting in his daughter and son getting less income than Tom would like to provide.

The solution presented:
Since Tom's goal was to maximize the inheritance for his heirs, his agent recommended he consider executing a qualified transfer of his IRA annuity to a Single Premium Immediate Annuity, then using the income generated from the SPIA to fund a life insurance policy.

The decision:
Tom chose to follow his agent's advice:
- He used the $100,000 from his existing annuity to purchase a 10-year period certain SPIA.
- The SPIA generated $11,026 in annual income for ten years.
- Assuming a 24% tax bracket, this freed up $8,379 for annual life insurance premiums*.
- Using the annual premium of $8,379, Tom purchased a 10-pay whole life insurance policy with a death benefit of $167,281 (male, age 60, Preferred rate class).
- Tom's children are each set up to receive an inheritance of $83,640.50.

Agent Information Only

The takeaways:

- The agent asked questions to determine Tom's primary objective regarding his existing annuity.
- After discovering that Tom's annuity would not perform optimally for his needs, the agent introduced Tom to the idea of using a different annuity to fund a life insurance policy.
- By following his agent's advice, Tom was able to secure the maximum inheritance for his children.

* When using this concept with nonqualified funds, the tax savings for beneficiaries can be enhanced as the SPIA payments will have a tax exclusion ratio, making each SPIA payment partially taxable and partially a return of principal.

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