



# Robert and Jackie Krantz

**ANNUITY INCOME ANALYSIS**  
**June 02, 2010**

**PREPARED BY:**  
Matt Rogers

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# Annuity Income Analysis

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# *Trends Impacting Retirement*

## **Trends Impacting Retirement**

In 2008, the first of the “Baby Boomer” generation will be turning 62. The “Boomers” who are retiring or considering retiring will have to ask themselves several questions. At what age should I retire? What is the trade off if I postpone retirement? How much should I withdraw from my nest-egg each year? What are reasonable growth rate and inflation assumptions?

A successful transition from accumulating assets, to spending down those assets in retirement, requires answering these questions. But it also requires an understanding of certain trends when answering them. These trends, when not considered, can dramatically impact your retirement savings and how long those savings will last.

### **Decline in Traditional Pension Plans:**

Employees covered by defined benefit pension plans, have been steadily declining over the years. This impacts retirement in a couple of different ways. First, social security and pensions are the primary sources of guaranteed income throughout retirement. With the decline in private sector pension plans, many retirees will be relying on social security as their only guaranteed income throughout retirement.

Second, this decrease in traditional pensions has been offset with defined contribution plans such as 401(k)'s. The big difference is that these defined contribution plans shift the investment responsibility from the employer to the employee. With this added responsibility, comes the risk associated with picking your own investments and shouldering the burden of your own retirement security.

### **Increased Life Expectancy:**

With advances in health related sciences, life expectancy has significantly increased in the last 50 years. This means that retirees have a much greater likelihood of living well into their 80's and even 90's, resulting in potentially 30 plus years in retirement. This “longevity” risk requires retirees to consider 2 things as they plan for sustainable retirement income:

- What is a reasonable withdrawal rate, considering I may live to be 90 or older? The higher the percentage, the greater the likelihood that you will run out of money.
- Should you convert some of your nest-egg to guaranteed lifetime income products? This locks in a certain level of income, no matter how long you or your spouse live.

While there is no right or wrong answer to these longevity risk questions, one thing is certain, going through the exercise increases your ability to make informed decisions.

### **Rising Health Care Costs:**

The financial realities of current retirees can be dramatically impacted by the state of their own health. Increased life expectancy and the steady reduction in the level of health related benefits provided by private employers, is resulting in increased funding needs for retirement. The following areas should be given specific consideration:

- Expected out of pocket health care costs to supplement Medicare—This cost may be even more acute for early retirees in the years prior to Medicare availability.
- Insurance premiums for long term care insurance coverage—The lack of coverage may inflict serious damage to retirement savings should a prolonged nursing home stay be necessary.

These types of costs should therefore seriously be considered, as basic and essential expenses, when looking to secure guaranteed lifetime income.

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## Income Analysis Steps

This income analysis compares guaranteed income sources with certain expenses that you deem important enough to cover with guaranteed income. Through four simple steps, you can determine if there is a shortfall in guaranteed income and see how much of your non-guaranteed investment assets could be repositioned to eliminate any shortfall. The chart below outlines the four steps and includes common examples.

### Step 1:

- ▶ Inventory Basic Expenses - Housing, Food, Healthcare
- ▶ Inventory Discretionary Expenses - Travel, Entertainment, Gifts
- ▶ Determine how much of each you want to cover with guaranteed income
- ▶ This is your guaranteed income goal

### Step 2:

- ▶ Inventory Qualified Guaranteed Income - Pensions
- ▶ Inventory Non-Qualified Guaranteed Income - Social Security
- ▶ Total your qualified and non-qualified guaranteed income.
- ▶ Compare this to your guaranteed income goal and determine if a shortfall exists.

### Step 3:

- ▶ Inventory Qualified Investment Assets - 401(k) plans, 403(b) plans, IRAs, SEP-IRAs
- ▶ Inventory Non-Qualified Investment Assets - Mutual Funds, ETFs, Stocks, Bonds, CDs
- ▶ Determine Total Investment Assets.

### Step 4:

- ▶ Reposition a portion of your non-guaranteed investment assets to an annuity with a guaranteed withdrawal or income benefit to eliminate any shortfall.

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## Retirement Expenses and Guaranteed Income

Just as in your working life, you will have both expenses and income during your retirement. The first step in doing any analysis of new sources of retirement income is determining what the additional income need will be during retirement.

### Retirement Expenses

During retirement, you can expect to have both basic and discretionary expenses. Basic expenses are just that; expenses required for day to day living. If necessary, you can forego discretionary expenses. For this analysis, you can expect basic expenses to be **\$60,000** per year and discretionary expenses to be **\$10,000** per year. You may wish to cover all of this, part of this, or have enough income to cover it with some buffer. For this analysis, **100.00%** of the basic expenses and **50.00%** of the discretionary expenses will be covered. This amounts to a total of **\$65,000**.

Annual Retirement Expenses

**\$70,000**

Retirement Expenses to Cover

**\$65,000**

Annual Guaranteed Income

**\$49,500**

Guaranteed Income Shortfall

**(\$15,500)**

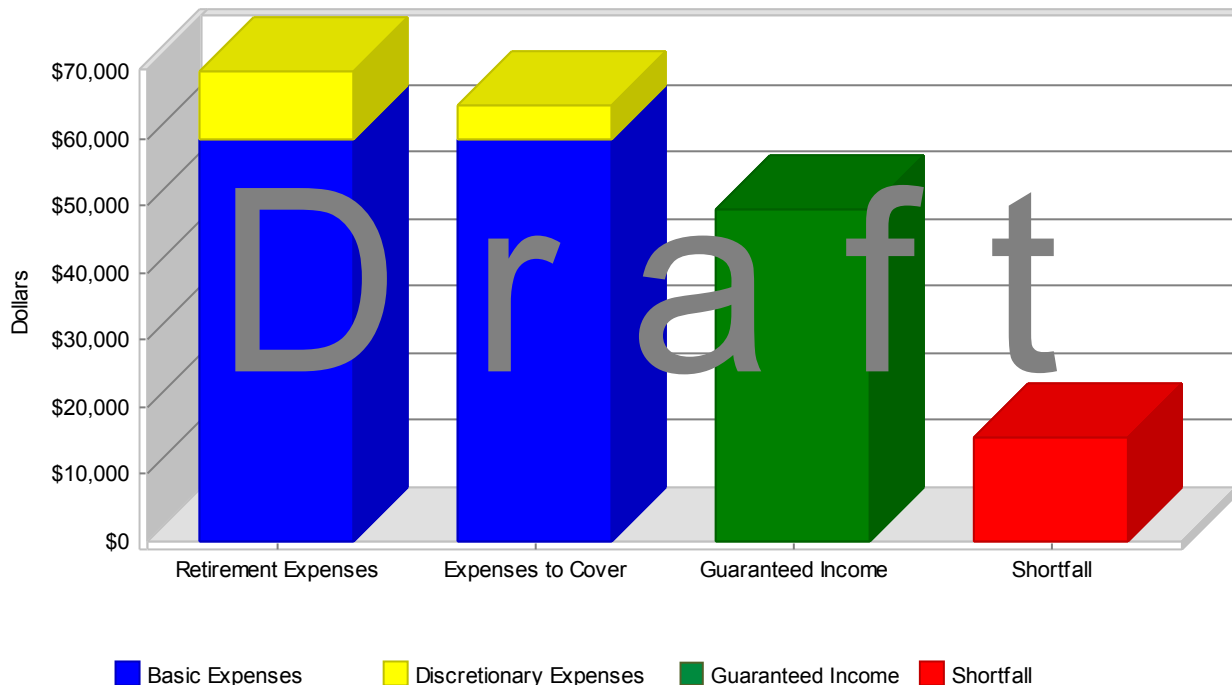
### Guaranteed Retirement Income

Most people will have some form of guaranteed retirement income available to them. Guaranteed retirement income includes sources such as Social Security, pensions, and existing annuities (subject to the claims paying abilities of the issuer). For this analysis, you expect to retire in 2012 and your guaranteed retirement income to include the following:

- ▶ Robert's Social Security **\$24,500/yr** 2012-2040
- ▶ Jackie's Social Security **\$13,000/yr** 2015-2040
- ▶ Jackie's Pension **\$12,000/yr** 2012-2040

Looking at the above, we can see that there are **\$65,000** in annual expenses you wish to cover with guaranteed income during retirement. You expect to receive **\$49,500** annually in guaranteed retirement income. This means that you can expect to have a **shortfall** of **\$15,500** in guaranteed income during retirement.

Retirement Expenses vs. Guaranteed Income



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## Creating Guaranteed Income

Variable annuities are long-term, tax-deferred investment vehicles designed for retirement purposes and contain both an investment and insurance component. They are sold only by prospectus. Guarantees are based on claims paying ability of the issuer. Withdrawals made prior to age 59 1/2 are subject to 10% IRS penalty tax and surrender charges may apply. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. The investment returns and principal value of the available sub-account portfolios will fluctuate so that the value of an investor's unit, when redeemed, may be worth more or less than their original value.

An annuity can be used to guarantee income for one's lifetime. Funds, which may consist of both qualified and non-qualified assets, could be repositioned into an annuity. Many annuities have guaranteed minimum withdrawal benefits which can guarantee income for life. There is no end to the payments prior to death, no matter how long the owner lives or how the financial markets perform.

Non-Guaranteed Sources of Income	<b>\$950,000</b>
Assets to be Repositioned	<b>\$281,818</b>
Remaining Non-Guaranteed Sources of Income	<b>\$668,182</b>
Guaranteed Income Shortfall	<b>\$0</b>

## Retirement Assets

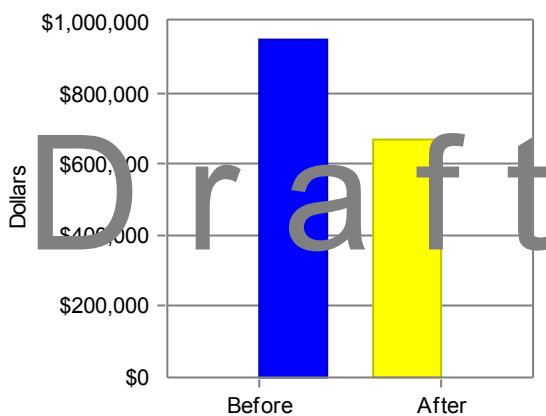
Because they are subject to market risk, common assets such as 401(k) plans, IRAs, and brokerage accounts are considered non-guaranteed sources of income. For this analysis, you currently have **\$950,000** of non-guaranteed sources of income.

## Annuity Repositioning

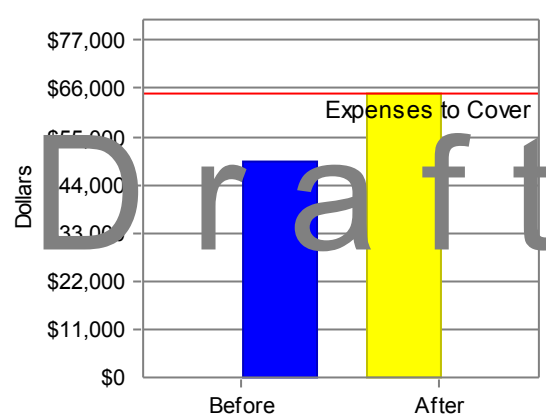
By comparing your retirement expenses to your guaranteed retirement income, we see that you have a shortfall of **\$15,500**. For the annuity, we assume a guaranteed minimum withdrawal rate of **5.00%**, and expect to start withdrawal **in 2 years**. We also assume a benefit base guaranteed growth rate of **5.00%** Using these figures, we estimate that you would need to reposition **\$281,818** to an annuity to make up the shortfall.

	Before Reposition	After Reposition
Non-Guaranteed Sources of Income	\$950,000	\$668,182
Annual Retirement Expenses	\$70,000	\$70,000
Retirement Expenses to Cover	\$65,000	\$65,000
Guaranteed Income	\$49,500	\$49,500
New Guaranteed Annuity Income	\$0	\$15,500
<b>Guaranteed Retirement Income Shortfall</b>	<b>\$15,500</b>	<b>\$0</b>

**Non-Guaranteed Sources of Income**



**Guaranteed Income**



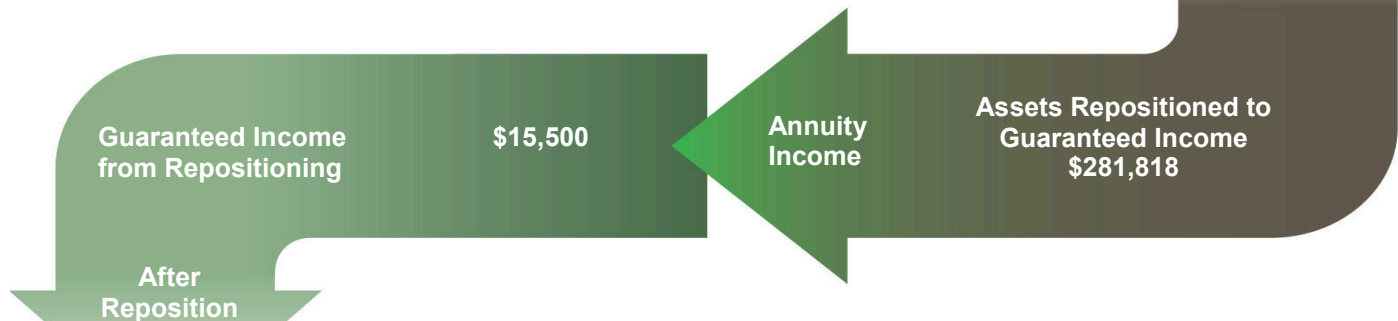
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# Annuity Repositioning Process

## Before Reposition

Guaranteed (\$)	
Expenses to cover through Guaranteed Income	\$65,000
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<b>Expected Guaranteed Income</b>	
Robert's Social Security	\$24,500
Jackie's Social Security	\$13,000
Jackie's Pension	\$12,000
<b>Total Expected Guaranteed Income</b>	<b>\$49,500</b>
<b>Guaranteed Income Annual Shortfall</b>	<b>\$15,500</b>

Non-Guaranteed (\$)	
<b>Investment Assets</b>	
Qualified Assets	\$550,000
Non-Qualified Assets	\$400,000
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<b>Total Non-Guaranteed Sources of Income</b>	<b>\$950,000</b>



Guaranteed Income (\$)	
Expenses to cover through Guaranteed Income	\$65,000
<b>Previous Guaranteed Income</b>	<b>\$49,500</b>
<b>New Guaranteed Income</b>	<b>\$15,500</b>
<b>Total Guaranteed Income</b>	<b>\$65,000</b>
<hr/>	
<b>Shortfall</b>	<b>\$0</b>
<b>Desired Annual Expenses Covered with Guaranteed Income</b>	<b>100.00%</b>

Investment Assets (\$)	
<b>Total Non-Guaranteed Sources of Income</b>	<b>\$668,182</b>
<b>Guaranteed Source of Income</b>	<b>\$281,818</b>
<b>Total Invested Assets</b>	<b>\$950,000</b>

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## *Analysis Result Summary*

This report summarizes the results of the analyses for Robert and Jackie Krantz. It provides the information that is the basis for the "takeaway" message. All of the details concerning the process of how these results were arrived at are contained in the specific chapters for each selected analysis.

### *Family Information*

Client: Robert and Jackie Krantz  
Address: 123 Main Street  
Anytown, US 10203

Client: Robert Krantz  
Date of Birth: 1/1/1947  
Current Age: 63

Spouse: Jackie Krantz  
Date of Birth: 1/1/1950  
Current Age: 60

### *Financial Representative Information*

Prepared By: Matt Rogers

### *Analysis Performed*

- Annuity Income Analysis

### *Annuity Income*

Non-Guaranteed Sources Of Income <b>\$950,000</b>
Assets to be Repositioned <b>\$281,818</b>
Remaining Non-Guaranteed Sources of Income <b>\$668,182</b>
Guaranteed Income Shortfall <b>\$0</b>

An annuity can provide lifetime income during your retirement. Assets, both qualified and non-qualified, can be converted to an annuity which in turn pays out a guaranteed\* income. This guaranteed income is then available for payment of your expenses, both basic and discretionary, during retirement. Guarantees are contingent upon the claims paying ability of the issuing company(s).

*\*Guarantees are contingent upon the claims paying ability of the issuing company(s).*

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## Information Summary

The following financial information and assumptions were used in the preparation of this analysis.

### Family Information

Client: Robert and Jackie Krantz  
Address: 123 Main Street  
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Client: Robert Krantz  
Date of Birth: 1/1/1947  
Current Age: 63

Spouse: Jackie Krantz  
Date of Birth: 1/1/1950  
Current Age: 60

### Annuity Income

#### Basic Assumptions

Analysis for: Robert and Jackie Krantz

#### Retirement Expenses and Guaranteed Income

##### Basic Retirement Expenses

Total Basic Expenses	\$60,000
Percent to Cover	100.00%
Basic Expenses to Cover	\$60,000

##### Discretionary Retirement Expenses

Total Discretionary Expenses	\$10,000
Percent to Cover	50.00%
Discretionary Expenses to Cover	\$5,000

##### Guaranteed Retirement Income

Robert's Social Security	\$24,500
Jackie's Social Security	\$13,000
Other Guaranteed Income	\$0
Jackie's Pension	\$12,000

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Total Retirement Income:	\$49,500
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### Annuity Repositioning

#### Investable Assets Available for Repositioning

Brokerage	\$400,000
Robert's 401K	\$550,000

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Total Non-Guaranteed Sources of Income:	\$950,000
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Assumed Withdrawal Rate	5.00%
Withdrawals Start	in 2 years

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