Advisor Sales Solutions

Case Study:

Income planning with Social Security and Inflation

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Income Planning with Social Security and Inflation

Income Planning today typically consists of…

- Withdrawal off of a conservative portfolio (4% rule)
- Variable Annuity Income Riders
- Fixed Indexed Annuity Income Riders
- Tax-free withdrawals off of Indexed Universal Life Insurance
- Bond Ladder
- CD Ladder
- Preferred Stock Dividends

What is missing?

Easy coordination with Social Security

Protection from Market Loss

Inflation Hedging

Social Security

With the rising costs of inflation during retirement, many retirees are employing custom strategies to maximize their income from SS

Typically this involves one or both of the household members "delaying" their benefits for some period of time

How are you planning for this "income gap"?

Inflation

69% of retirees and 77% of pre-retirees rank inflation as their highest concern*

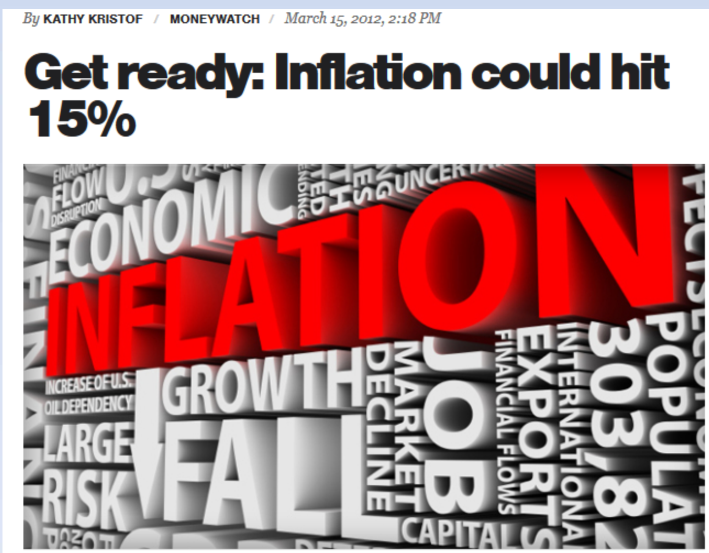
In 15 years, 3% inflation can reduce buying power by 36%

Will the income plan you prepare for your clients keep up?

*Source: Society of Actuaries, Risks and Process of Retirement Survey 2011

Inflation – The Silent Assassin

"Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair" – Sam Ewing


By KATHY KRISTOF / MONEYWATCH / March 15, 2012, 2:18 PM

Get ready: Inflation could hit 15%

The Solution:

A coordinated and strategic income plan that allows for withdrawals to supplement the “income gap” created by delaying social security payments

A plan that is not affected by market volatility

A plan that guarantees income for life

An income plan that keeps up with inflation, whatever it may be, to conserve buying power

The Case:

- Male, age 62
- Retiring at age 63
- $1,000,000 of investable assets
- Social Security Payments (if deferred until age 70) will be $30,000/year
- Needs $50,000/year income, increasing at 3% per year for inflation during retirement
- Concerned with risk

Income Planning with Social Security and Inflation

The Solution:

Step 1

Employ a Social Security Maximization Plan that involves deferring SS payments until age 70 (to receive maximum income of $30,000/year)

Step 2

Utilize an Annuity that allows for 10% free withdrawals based off of <u>original premium</u>, starting at age 63, to cover the income gap in early years

Step 3

Implement an Annuity account with an income rider that can be triggered at age 63, and that allows for income increases based off of the CPI inflation index (assumed at an average of 3%)

Step 4

Strategically place another Annuity to trigger lifetime income at age 78 that will increase payments by 3% annually (guaranteed) to keep up with inflation

Step 5

Place remaining assets into a securities growth account for long term growth

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Age	Income Needed with 3% inflation	Income from Social Security (assuming 3% COLA)	Free w/d from Annuity 1 (assuming 0% growth)	Annuity 2 w/ 3% inflation rider	Annuity 3 w/ 3% inflation rider	Total Income	Securities
	$ 50,000		**$ 483,000**	**$ 250,000**	**$ 164,150**		**$ 102,850**
62	$ -	$ -	$ -	$ -	$ -	$ -	$ 102,850
63	$ 50,000	$ -	$ 40,263	$ 9,737	$ -	$ 50,000	$ 111,078
64	$ 51,500	$ -	$ 41,471	$ 10,029	$ -	$ 51,500	$ 119,964
65	$ 53,045	$ -	$ 42,715	$ 10,330	$ -	$ 53,045	$ 129,561
66	$ 54,636	$ -	$ 43,996	$ 10,640	$ -	$ 54,636	$ 139,926
67	$ 56,275	$ -	$ 45,316	$ 10,959	$ -	$ 56,275	$ 151,120
68	$ 57,964	$ -	$ 46,676	$ 11,288	$ -	$ 57,964	$ 163,210
69	$ 59,703	$ -	$ 48,076	$ 11,626	$ -	$ 59,703	$ 176,267
70	$ 61,494	$ 30,000.00	$ 19,518	$ 11,975	$ -	$ 61,493	$ 190,368
71	$ 63,339	$ 30,900.00	$ 20,104	$ 12,335	$ -	$ 63,339	$ 205,598
72	$ 65,239	$ 31,827.00	$ 20,707	$ 12,705	$ -	$ 65,239	$ 222,045
73	$ 67,196	$ 32,781.81	$ 21,328	$ 13,086	$ -	$ 67,196	$ 239,809
74	$ 69,212	$ 33,765.26	$ 21,968	$ 13,478	$ -	$ 69,212	$ 258,994
75	$ 71,288	$ 34,778.22	$ 22,627	$ 13,883	$ -	$ 71,288	$ 279,713
76	$ 73,427	$ 35,821.57	$ 23,306	$ 14,299	$ -	$ 73,427	$ 302,090
77	$ 75,629	$ 36,896.22	$ 24,005	$ 14,728	$ -	$ 75,629	$ 326,258
78	$ 77,898	$ 38,003.10	$ -	$ 15,170	$ 24,728.00	$ 77,901	$ 352,358
79	$ 80,235	$ 39,143.20	$ -	$ 15,625	$ 25,469.84	$ 80,238	$ 380,547
80	$ 82,642	$ 40,317.49	$ -	$ 16,094	$ 26,233.94	$ 82,645	$ 410,991
81	$ 85,122	$ 41,527.02	$ -	$ 16,577	$ 27,020.95	$ 85,125	$ 443,870

Guaranteed Free Withdrawals

Guaranteed Lifetime Income +CPI increases

Guaranteed Lifetime Income + 3% increases

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Solution Snapshot:

- Money earmarked to create income is completely protected from market downturn and loss
- Assuming 0% growth in all annuities (worst case scenario), client is guaranteed the rising income they need every year for as long as they live
- Money not needed in income plan can be invested in a securities growth account for aggressive growth
- Income keeps pace with inflation and conserves buying power throughout retirement

Income Planning with Social Security and Inflation

Learn more about detailed SS strategies as well as the specific annuities that complement them!

This story sells! Help us help you...

Contact a Relationship VP to discuss how to incorporate this sales concept today!

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