

SPIA Wealth Replacement Strategy

Situation

The purpose of this strategy is to provide the client with a consistent, guaranteed lifetime income stream while maintaining the asset value off of his balance sheet. This strategy would allow the client to move assets out of his taxable estate and utilize a mortality arbitrage opportunity that would significantly increase the net amount of dollars that will ultimately be passed to his heirs.

Client Snap Shot

Male, age 74 (assumed Standard Health)
 \$35,000,000 Net Worth
 \$18,000,000 Investment portfolio (bulk of assets in non-liquid stock)
 \$12,000,000 Estimated Estate Tax (considerable estate planning already done)
 \$450,000 Net after tax annual income need

Strategy Concept

Part 1:

Take \$4,000,000 out of liquid bond portfolio (at the time was yielding approx 2.3%, with risk of principal) and purchase a \$4,000,000 Life Only, Single Premium Immediate Annuity (SPIA) resulting in:

\$410,981	Gross annual payment to client (gross return of 10.27%)
<u>\$ 30,941</u>	Estimated Income Taxes on gross annual payment
\$380,040	Net Income to client (net return of 9.5%)

Part 2:

Purchase a \$4,000,000 Guaranteed Lifetime insurance policy with a level premium to replace the assets used to purchase the SPIA. This policy is owned by a trust so that the proceeds are excluded from the client's balance sheet at death and thus not includible for estate tax purposes.

\$180,290	Guaranteed lifetime premium for \$4,000,000 policy
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Results of SPIA/WRT

- Reduced the clients net estate by \$4,000,000, saving his heirs approx. \$1,800,000 of potential estate taxes
 - Life Only SPIA payments stop at annuitants death, thus no value for estate purposes
- After insurance premium is paid, the client nets \$199,750 (net/net return of 4.99%) of income
 - Provides over 44% of total after tax income need, guaranteed for his lifetime
 - Client has sufficient other income for remaining need
 - \$4,000,000 Death Benefit is excluded from estate and payable to his trust
- Increased his yield by approx 117% (4.99% up from an average of 2.3%) after insurance premium is paid
 - This yield is guaranteed by SPIA payment and guaranteed level life insurance premium
 - No risk of principal