Planning Concepts For Non-Qualified Money

1. Make CD's Your Ally, Instead of Your Enemy.

When your prospect has a lot of money in CD's of varying durations, it is typically because they want to be sure that if they need their money, they can get their cash with little to no penalty (and they are willing to accept low interest rates as a trade-off).

Trying to convince them to move all of this money into a 10 to 12 year annuity contract is telling them that what they have done is wrong; you have indirectly positioned yourself as an adversary to their manner of thinking! Their natural tendency will be to fight you.

Instead, agree that CD's are a good place for money with short-term liquidity needs, and help them identify what those short-term needs are likely to be. Explain that both CD's and annuities are secure savings vehicles, *but the CD is most appropriate for short-term money, while the annuity is more appropriate for mid to long-term money.* Then recommend that they keep that short-term liquidity need in CD's, but reposition the remainder to an annuity (or life insurance policy) that will provide higher interest earnings and tax-deferral.

For example, say Mr. & Mrs. Smith have $200,000 in CD's of varying contract terms.

As part of your fact-finding process, ask the Smith's what they anticipate their short-term cash needs will be.

* *Is he planning a big vacation in a year or two?*
* *Maybe a new car purchase, or a cash gift to a grandchild graduating from school?*
* *New furniture or home improvements?*

The Smith's tell you that:

* They *plan* to take a $6,000 cruise in 6 months.
* They *want* to upgrade their furniture at a cost of $10,000 in 12 months.
* They *intend* to give their grandson a $5,000 graduation gift in 18 months.
* They *might* need to buy a new car requiring $15,000 cash within 24 months.

The Smith's identified $21,000 in *plans, wants, and intentions* over 18 months, and *might need* another $15,000 within 24 months, for a total of $36,000. You can make a case that if they moved the $200,000 to an annuity, the free-withdrawal provision will accommodate these short-term cash needs. ***And you will likely lose the sale, because you are fighting their natural comfort level that their money will be available when and if they need or want it.***

Instead, recommend that they retain $36,000 to $40,000 in short-term CD's to cover these known *plans, wants, intentions, and "might needs".* Recommend that the remaining $160,000 be repositioned to an annuity (or life insurance) in order to take advantage of higher earnings and tax-deferral, while retaining reasonable liquidity of 5% to 10% per year.

By taking this approach, you are reinforcing their belief that CD's are a good place for their money, but improving their overall situation by introducing them to annuities (or life insurance) as a more appropriate place for their longer-term money. They will see you as a planner who is helping them, not as a salesman trying to convince them to take an action with which they are not entirely comfortable. ***Your chances of making the $160,000 sale are greatly increased, as are the odds of getting a referral from the Smith's***

2. Creating Guaranteed & Reliable Income From Savings

Income, particularly guaranteed and reliable income, remains the top concern of many retirees. This is because many seniors have been dependent upon either interest rates or continually increasing stock markets to provide the growth earnings they use to supplement their pension, social security, and retirement plan income. In either case, in the economic environment of the past few years, they have seen their income either reduced or vary greatly. ***Here are a couple of income-generating concepts that continue to attract the senior market.***

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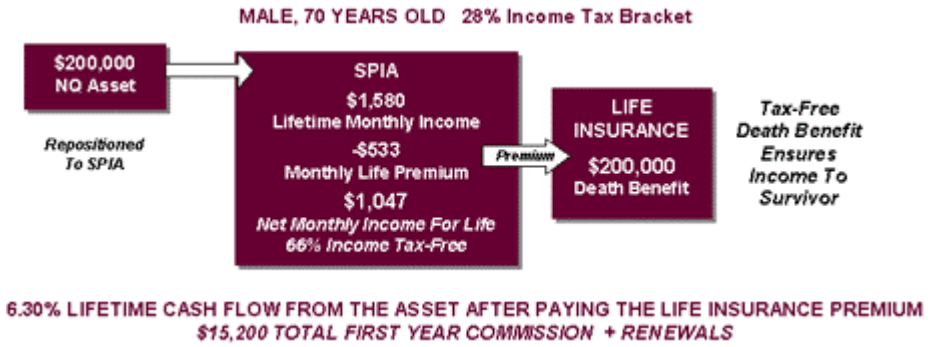
3. THE SPIA-LIFE INSURANCE COMBINATION

For a couple, we use a combination of a Single Premium Immediate Annuity (SPIA) and a life insurance policy. The SPIA provides life-only monthly income (typically on the life of the male). A portion of the monthly income stream is used to fund a life insurance policy that will pay an income tax-free death benefit to the surviving spouse (typically female). If the client is single, then the life insurance death benefit assures a legacy inheritance to the heirs.



- If the insured spouse pre-deceases the other, then the life insurance proceeds provide enough money to ensure continued income to the surviving spouse.
- If the non-insured spouse dies before the insured spouse, then the survivor has the option to keep the life insurance policy with new beneficiaries, or to surrender the policy for its cash value.

CLIENT BENEFITS

- Maximum guaranteed income is achieved from the available asset by using the life-only option with the SPIA.
- The survivor's income is guaranteed by the life insurance death benefit.

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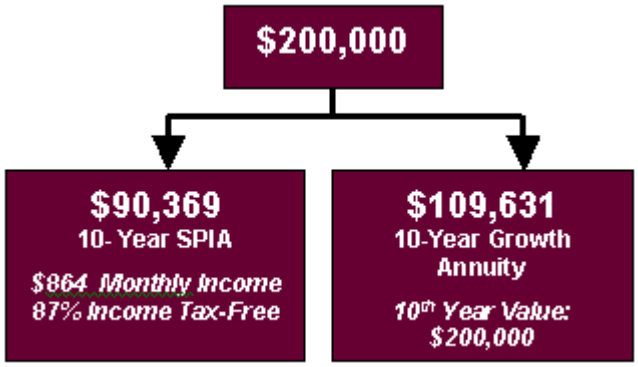
4. Creating Guaranteed & Reliable Income From Savings

SPLIT ANNUITY TECHNIQUES

Split annuity planning, also known as "mapping" or "laddering", is attractive to senior clients because they generate more income than can be had with simply withdrawing interest earnings while still preserving and controlling principal.

The "Traditional Double-Split"

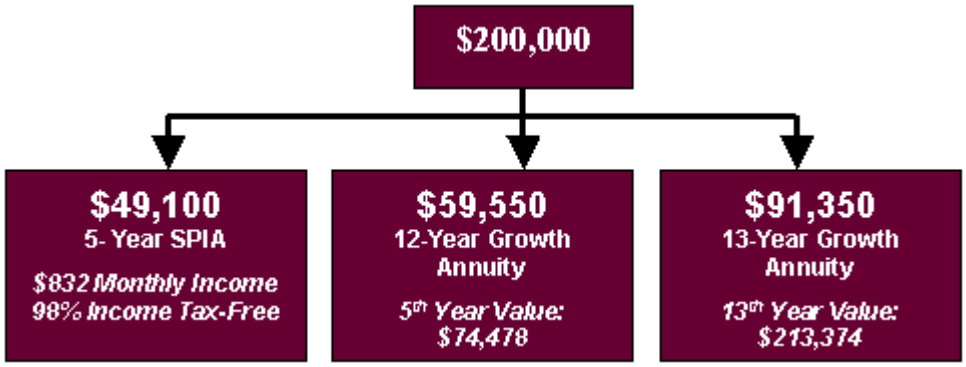


A "traditional" split annuity uses the combination of a period certain SPIA to provide income, while a deferred annuity is used to rebuild principal during the period in which the income is being taken. When using non-qualified money, the client gets a tax-favored income stream because the SPIA returns both principal and interest simultaneously. This can generally be done on a 5-year, 10-year, or 12-year plan (longer works better in a low interest rate environment).

The SPIA generates a guaranteed and reliable annual income of $10,631, 87% of which is income tax-free. ***This is a 5.2% annual cash flow from the $200,000 asset that will not decrease regardless of economic conditions: reliable!***

While the client is taking the income, the growth annuity (recommend equity index or variable) grows back to the original starting amount over the split period (10 years in this example).
Up to $11,289 Total Commission

The "Triple Split"



The "triple split" annuity is similar, but uses three "buckets" instead of two. This generally requires a 13-year plan, but provides the client with an additional flexibility at the end of the 5th year.

The SPIA generates a 5-year annual income of $9,984, 98% of which in income tax-free. The "center bucket" is a 12-year annuity that grows for 5 years, and is then annuitized for 8 years (replacing the income stream from the SPIA), ***for a 13-year 5% cash flow from the $200,000 asset.***

While the client is taking the income, the growth annuity grows back to the original starting amount over 13 years.
Up to $11,773 Total Commission

A consumer advantage with the triple split is that at the end of the initial 5-year SPIA income, they can proceed with annuitizing the center bucket, or if their situation has changed, they may decide not to, or they may decide to annuitize both the center bucket and the third bucket. This does not work well in California, Nevada, and other states with very high premium taxes; in this case, use a traditional split.

5. Life Insurance Is Often The Best Solution

Life Insurance As An Alternative To Annuities

Life insurance offers a unique proposition not found with any other financial option - it takes a small amount of money and turns it into a much larger amount of money at death, and delivers that larger amount to a spouse or heirs income tax-free in a single sum.

Today's senior life insurance policies are benefit-rich and appeal to issues of importance to seniors, such as:

- ***Superior cash accumulation over time when compared with many guaranteed annuities.***
- ***Better liquidity than is available with most guaranteed annuities.***
- ***The added benefit of upwardly leveraging the inheritance value of their cash asset through an income tax-free death benefit for their heirs.***
- ***The principal safety associated with guaranteed annuities.***

In many cases, the policy can be tailored to the client's specific objectives by adjusting the death benefit vs. accumulated cash value.

- ***If cash accumulation is of most importance...***

...then the policy is structured for minimum death benefit for the premium paid.

- ***If the death benefit is of most importance...***

...then the policy is structured for the maximum death benefit for the premium paid.

COMPARISON OF CASH ACCUMULATION AND INHERITANCE VALUES

MALE AGE 75 $100,000 SINGLE PREMIUM Standard Risk Heirs 31% Tax Bracket At Inheritance	Any Taxable Investment 6.50% Growth After-Tax Accumulated Value	Annuity 6.50% Interest After-Tax Accumulated Value	Life Insurance 6.50% Interest Accumulated Value	Life Insurance 6.50% Interest Surrender Value	Life Insurance Minimum Death Benefit
Year 1	$104,485	$104,485	$98,240	$93,007	$150,000
Year 5	$124,529	$125,536	$118,457	$118,457	$150,000
Year 10	$155,074	$160,523	$157,084	$157,084	$164,938
Year 15	$193,112	$208,456	$216,873	$216,873	$227,716
Year 20	$240,480	$274,132	$301,600	$301,600	$304,616
COMMISSION	?	$8,000		$11,000	

How often can you nearly double your commissions and do the very best thing for your client?
Every time with this concept. You and the client both sleep well.

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6. WEALTH TRANSFER
(Defuse The Annuity "Tax Time Bomb" To Heirs)

USE AN ANNUITY RIDER THAT OFFSETS TAXATION AT DEATH TO HEIRS

While deferred annuities are great for accumulation and safety, beneficiaries must pay taxes on the deferred accumulation; this has often been referred to as the "ticking tax time bomb", and it is easy to defuse. Some annuities offer ***a rider that grows at 28% of the deferred gain in the contract,*** and pays that additional benefit to the heirs' income tax-free! The result: ***The inheritance is kept whole!***

Female Age 70 $100,000
Death After 10 Years of Growth At 5% Interest

Effect To Heirs Without Rider Benefit	
Accumulated Value	$162,889
Taxable Gain	$ 62,889
Net to Heirs After 28% Tax	$145,380

Effect To Heirs With Rider Benefit	
Accumulated Value	$158,764
Taxable Gain	$ 58,764
Net to Heirs After 28% Tax	$158,764

$4,125 Less Earnings Over 10 Years ($412 per year) To Provide $13,384 More To Heirs!
The difference in accumulated value represents the internal cost of the rider.

USE LIFE INSURANCE TO LEVERAGE THE MONEY AND LEAVE IT TAX-FREE

In many cases, this is the best solution for money that is intended for heirs, and only emergency or non-routine access to the money is anticipated while the client is living. ***Repositioning the money to a life insurance policy provides an immediate increase in inheritance value, while retaining liquidity if needed.***

Female Age 70
$100,000
↓
Repositioned to Life Insurance
$300,000
To Heirs At Death Income Tax-Free!
$12,321 Commission

Male Age 70
$100,000
↓
Repositioned to Life Insurance
$240,000
To Heirs At Death Income Tax-Free!
$12,380 Commission

CALL YOUR RAM GROUP MARKETING REPRESENTATIVE TO DISCUSS THESE CONCEPTS AND THEIR VARIATIONS
800-686-4238

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