Immediate Annuities (SPIAs)

Ideas And Situations in Which They Can be Applied

The sale of single premium immediate annuities (SPIA) preceded that of single premium deferred annuities by many years. The SPIA was the "original" annuity and, at one time, the only type sold. This is reflected in the original dictionary meaning of an annuity: "an amount of money payable yearly or at regular intervals."

Especially for larger cases, the SPIA marketplace can be super competitive, and agents often take on something of a "dog-eat-dog" attitude in their effort to succeed. Not only will a producer need to know the market and how to use a hands-on approach when a client requests a quote, but he must know how to develop the expertise needed to solicit sales and to be able to identify when the SPIA is a possible solution to the problem. Let's explore several of the typical areas of use:

1. Retirement Income. Every owner of a permanent life insurance policy or SPDA has a SPIA built into the policy. These are the settlement options to provide an income, which cannot be out-lived. Various studies have concluded that what seniors fear most is running out of money after retirement. You have an excellent opportunity to be of service to your clients by increasing their lifetime monthly income. Since the SPIA field is so competitive, you can almost always obtain a quote that will provide more income than what the policyholder would receive from the annuitization factors contained in the existing policy or annuity. A simple 1035 exchange will both increase your client's income substantially and earn you a generous commission. Retirees are also a good source for referrals, so be sure to ask.

2. Structured Settlements. In 1979 Congress passed the Periodic Payments Act, a law which states that a stream of annuity payments which meet the specifications listed in Section 104 A2 of the Internal Revenue Code is not considered income but is rather viewed as a *return of the plaintiff's loss*. In order to meet this definition and receive favorable tax treatment, the structured settlement must be purchased and owned by the defendant, with the plaintiff not having anything to do with the annuity except being the one receiving the payments. A true structured settlement, therefore, must be purchased by the **defendant** (often an insurance company or employer) on behalf of the **plaintiff** (the injured party). It is usually purchased to settle a personal injury or wrongful death claim; but can even be used to spread alimony or child support payments in a divorce agreement. Often, the attorneys want their fees structured, also. The usual request is to pay out their fees over a period of several years.

Many companies will not permit agents to propose solutions except through specialist agencies they have designated throughout the nation. The commission is normally a finder's fee of a very low 50 to 100 basis points. However, there are companies paying full SPIA commissions to producers. It is important to understand that if you were contacted by the plaintiff or his or her attorney, you will generally **not be able to earn**

any commission on the purchase of this Structured Settlement annuity, since you are **not** representing the actual buyer (i.e., the defendant attorney).

Where do you enter the picture? If a Property & Casualty company has a claim to settle, it gets in touch with its defense attorney in that region who in turn contacts his contracted Structured Settlement broker. Therefore, one approach would be to contact trial attorneys in your local area and offer to supply quotes for them. This can establish a strong bond over the years. On the other hand, it will be a waste of your time to attempt to sell annuities on behalf of the plaintiff or the plaintiff's attorney because they do not control the "purse strings" in a structured settlement purchase no matter how much they protest to the contrary.

3. Funding Life Insurance. As people approach retirement, their risk tolerance decreases. Once retired, they tend to be *very* conservative with their investments. Many retirees live off a combination of private pensions, Social Security, and savings. So, for many retirees the investment vehicle of choice is the CD, an FDIC-insured investment that can be used to create an income stream off the interest earned. Many retirees also want to leave the principal intact so it can be passed on to their heirs. An innovative approach that meets all these requirements would be to take out a second-to-die universal life policy with the same face amount as your liquid assets and then use those assets to purchase an joint and survivor SPIA that will fund the premiums due over the years as well as provide retirement income. The scenario works for a single life, too. Combining separate UL and SPIA quotes for a 65-year-old nonsmoking male compare even more favorably than the joint life example.

4. Age Rating. Terminally ill or uninsurable clients are valued highly by annuity companies precisely because their life expectancy is shorter than someone who is in good health. Certain companies pass along this benefit to the annuitant in the form of higher monthly income. The prospective client does *not* have to be examined to be age-rated. The information that underwriters will need includes: (1) complete names, addresses, and phone numbers of all doctors that have treated the prospective annuitant during the past 10 years; (2) a complete timeline or history with the dates and reasons for all check-ups and hospital stays related to the condition; and (3) complete reports on the symptoms, tests and studies, diagnoses, and treatments (surgical and pharmaceutical) related to the condition. **Evidence that the condition is deteriorating is especially important**.

A different example of favorable age rating occurs because some carriers quote unisex annuity rates on qualified funds even in non-unisex states. If you have a female applicant, look for a company that uses the male rate for its unisex factors. This can often result in higher income than would otherwise be possible from another company.

5. Split Annuity. A Split Annuity is created by dividing the total amount of dollars a client has available between a deferred annuity and an immediate annuity with a period certain. Suppose your client has $100,000 and would like to earn a good rate of return but he also needs current income, and the systematic withdrawal of interest from a deferred annuity is not sufficient. You propose the benefits and features of "splitting out" enough

money into an immediate annuity to create income, but still have the deferred annuity grow back to the original amount you started with. The $100,000 would be split, for instance, into $34,366 for the immediate annuity to create $492.74 per month for 7 years, and still have the balance of $65,634 grow back to $100,000 at the end of the 7 years. But make sure that you pick an SPDA with a guarantee for the full period. You will have a satisfied client, numerous referrals, and no scheduled court appearances. By being prudent, you won't even have to learn how to spell malpractice.

6. Charitable Gift Annuities. A charitable gift annuity offers the donor(s) lifetime income, charitable deductions, estate tax liability reduction, elimination of capital gains taxes on the sale (by the charity) of highly appreciated assets, as well as the psychological benefits of doing good social work. In exchange, the 501(c)(3) tax-exempt organization receives immediate access to the underlying assets behind a charitable gift annuity arrangement.

6. Long Term Care. Long Term Care insurance can be very expensive, especially when it is purchased at an advanced age. People feel they really need LTC, but wonder how they can pay the premiums in good times and bad. Assume you have just sold an LTC policy on a male, age 60, with a wife age 56. He realizes that he will probably predecease her because she is four years younger and women have a longer life expectancy than men. He does not wish to saddle her with hefty payments to continue her premium after his demise. So, with your help, he purchases a SPIA, which will produce enough income to pay her premiums annually. This scenario gives them both a secure feeling. You sold an LTC policy plus an SPIA to guarantee the payments.

Another reason seniors are reluctant to purchase LTC coverage is the feeling of paying for something that might never be used. A knowledgeable agent can overcome this objection by designing a plan that includes more than just selling long-term care insurance. Many seniors with CDs and/or deferred annuities have the intention of passing these assets on to their heirs. The interest growth in annuity contracts, however, presents an unattractive tax prospect for the beneficiaries. The following proposal allows a prospect to use these assets to fund LTC insurance with a guaranteed income stream and replace the assets upon death with no tax consequences:

1. *Long Term Care Insurance.* Design the proper coverage that will protect the client's assets from spend-down requirements.
2. *Single Premium Immediate Annuity.* Use existing liquid assets to purchase a guaranteed joint lifetime income to fund insurance premiums (both LTC and Life insurance).
3. *Last-to-Die Life Insurance.* This policy will replace the asset used to fund SPIA through death benefit.

In this example, all life insurance premiums are paid by the guaranteed immediate annuity income flow. There are no out-of-pocket expense for insurance premiums. The client's assets are protected from spend-down requirements if the need for long term care should arise. The original asset is replaced upon the death of the last survivor through the

death benefit, which passes on to hears, free of any income tax and without having to go through probate.

7. Find an aggressive brokerage. Make certain the company and brokerage agency you use are aggressively committed to competitive pricing and creative designs. Some companies and brokerage shops have no SPIA products, or SPIA is a sideline just so their agents will have a product to sell. Probably, they have no idea what the competitive companies are offering and do not care. Are you aware that a few companies will set up an annual payment 30 days after the annuity is issued, instead of at the end of one year, so you can use the proceeds to pay for life insurance premiums?

How important is the commission percentage? It stands to reason that companies paying an above-normal rate of compensation have to pay more just to get anyone to sell their products. Which would you rather have? Competitive quotes at a decent commission from highly rated carriers, or quotes so non-competitive that nobody will buy them, but the company pays high commissions? If it is the latter, you will never become a "real player" in this specialized and profitable arena.

One hint: Do you know that by accepting an annual payment at the end of each year you can substantially increase your annuitant's income as the company will pay current interest on the money held for 12 months? Many annuitants do not need the money immediately and would like to earn the additional interest. This idea just may give you the competitive edge you need to secure the case. Believe me, every dollar counts in competition.

Let SPIA increase your bottom line in 1998. Remember, policies are usually issued in three to five days after receipt of the application and commission checks are cut immediately. There are no medical exams, no credit investigations, no underwriting delays, and no telephone interviews. Plus, selling immediate annuities is fun. If you can get excited about SPIA marketing, enter the arena now. People are retiring every month of the year, and court cases and divorce settlements are being structured every day.