

Think about this: “**Single premium into annuity or life policy?**”

Ms. Betty Marshall, 70 years old, is a widow and has a CD worth \$50,000 coming up for renewal. She has invested wisely over the years and does not need the CD payout to meet retirement needs. She has one grandchild and she wants to leave a tidy sum for the grandchild in the event of her death. She comes to you with a dilemma – Do I put this lump sum into an annuity or purchase a life policy?

**Let us examine both scenarios:**

\$50,000 into an annuity- If Betty purchases a single premium deferred annuity for 5 years and assuming 6% interest annually, the payout will be \$66,911\*. Assuming Betty passes away after 5 years, the grandchild named the policy beneficiary will have access to the payout but the gain of \$16,911 would be fully taxable as ordinary income to the child. Also, a point to note is that annuities do not receive a step up in basis upon the death of the owner.

\$50,000 into a life policy- If Betty purchases a UL policy guaranteed to age 100, the death benefit is \$146,938\*\* on the guaranteed side with guaranteed interest of 3%. It is important to note that most single premium policies are usually MEC policies. What that means is lifetime distributions, including policy loans, are subject to income tax to the extent the gross cash value of the policy exceeds the taxpayer's basis in the contract. In addition, a 10% penalty tax may apply if the distribution was made prior to owner's age 59 1/2. The penalty tax does not apply in Betty's case due to her attained age of 70 years. Also, if she passes away after 5 years, the entire death benefit of \$146,938 is given to her grandchild tax free. This income tax exclusion makes life insurance a very attractive financial planning tool.

Finding an annuity to match up to the life policy numbers is a challenge and may not be possible. ***In this case, going for a single premium UL policy and getting a guaranteed return that is almost 3 times the initial amount and income tax free death benefit is a sure winner.***

It is important to analyze and choose the better option based on client's specific financial condition, objective and health status.

\*Future Value of \$50,000 initial amount, 6% IR and period of 5 years.

\*\*Betty is classified as female, standard non smoker with A+ rated carrier offering a competitive UL to age 120 product.

\*\*\*Please note each annuity/life policy is subject to its own rules under current tax law and regulation. Contact a tax advisor for details. This is a sales concept and might not be suitable for all clients.

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