

Randy's Annuity Notebook



Anatomy of a Fixed Annuity Income Rider Part 5: A Unique Income Rider

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In my last article, I explained traditional annuity withdrawal options when using an income rider. In this article, I will explain about a unique income rider that allows clients to receive increasing income on a decreasing asset.

Over three years ago, while reviewing new annuity product filings, I came across one that caught my eye. The income rider on the product allowed clients to receive an increase in income even though their principal balance was decreasing.

This raises a couple of interesting questions. Would you choose to receive the same monthly income check for the rest of your life? Or, would you rather receive a lower monthly income payment now with the potential for your monthly check to increase each year?

For a better understanding on how this income rider works, here's an example.

A client age 75 has \$100,000 in annuity premium. He wants to turn on lifetime income payments under the terms of the annuity income rider immediately. He selects the single life payout option. According to the rider, the client, age 75, is eligible to receive a 5.5% guaranteed lifetime income withdrawal payment which equals \$5,500.

Based on the interest percentage that is calculated on the underlying annuity, the client's income payments can increase annually. In this hypothetical example, the fixed indexed annuity was issued on March 6, 1990 with a 6.25% annual cap. In the following year, the client's payment increases by 6.25% and is locked-in. This practice continues each year. The payment will increase by the index rate and remain at that amount until the index rate is determined for the following year. As shown in the chart, when the index rate is "zero", the income payment will continue at the same amount as the prior year and does not suffer a negative effect. As you can also see from the chart, the client's payments continue and even increase even when the accumulation value has been depleted. In fact, the annuitant's income payment stream will continue until he dies.

In this example, the client has not annuitized the policy. If he decides to stop his payments at a later date or if he dies, the residual accumulation value will remain in the annuity for the client's use or his beneficiary's use.

In the chart, positive interest years have been highlighted in blue and the years the accumulation value is "zero" have been highlighted in yellow.

See next page for chart.

Year	Date	Age	Premium	Index Rate	End of Year Accumulation Value	Income Benefit Base	End of Year Lifetime Income Payment
March 2, 1990		75	\$100,000			\$100,000	\$5,500 At issue
1	3/2/1991	75	\$0	6.25%	\$99,981	\$100,406	\$5,844
2	3/2/1992	76	\$0	6.25%	\$99,594	\$100,473	\$6,209
3	3/2/1993	77	\$0	6.25%	\$98,795	\$100,155	\$6,597
4	3/2/1994	78	\$0	3.78%	\$95,263	\$97,090	\$6,846
5	3/2/1995	79	\$0	4.37%	\$91,877	\$94,189	\$7,145
6	3/2/1996	80	\$0	6.25%	\$89,627	\$92,484	\$7,592
7	3/2/1997	81	\$0	6.25%	\$86,769	\$90,198	\$8,066
8	3/2/1998	82	\$0	6.25%	\$83,238	\$87,265	\$8,571
9	3/2/1999	83	\$0	6.25%	\$78,963	\$83,612	\$9,106
10	3/2/2000	84	\$0	6.25%	\$73,868	\$79,163	\$9,675
11	3/2/2001	85	\$0	0.00%	\$63,876	\$69,487	\$9,675
12	3/2/2002	86	\$0	0.00%	\$53,922	\$59,812	\$9,675
13	3/2/2003	87	\$0	0.00%	\$44,007	\$50,136	\$9,675
14	3/2/2004	88	\$0	6.25%	\$36,265	\$42,990	\$10,280
15	3/2/2005	89	\$0	5.31%	\$27,182	\$34,445	\$10,826
16	3/2/2006	90	\$0	6.25%	\$17,233	\$25,096	\$11,502
17	3/2/2007	91	\$0	6.25%	\$5,982	\$14,443	\$12,221
18	3/2/2008	92	\$0	0.00%	\$0	\$2,222	\$12,221
19	3/2/2009	93	\$0	0.00%	\$0	\$0	\$12,221
20	3/2/2010	94	\$0	6.25%	\$0	\$0	\$12,985
Total Payments							\$192,432

Here's a quick recap:

- 1) Initial income payments are slightly lower.
- 2) Income payments have the opportunity to increase annually (even though the annuity's accumulation value is decreasing).
- 3) Payment amounts are locked-in each year.
- 4) Payments not only continue but can also increase even when the accumulated value is "zero".

So, the next time you discuss annuities with your client, ask them two questions. Would you choose to receive the same monthly income check for the rest of your life? Or, would you rather receive a lower monthly income payment now with the potential for your monthly check to increase each year?

Note: When explaining annuities to your clients, it is important to **always** discuss the primary benefits annuities provide first. These benefits include tax-deferral, a guaranteed minimum interest rate, safety of principal, and the possibility of avoiding probate. Once the benefits of the underlying annuity have been clearly defined, you can discuss optional income riders and their benefits.

In Part 6 of this series, we'll delve deeper into income rider options. If you would like to receive a carrier-approved consumer tool to demonstrate this concept, please contact us at Brokers International, Ltd. at 800.362.1097.

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