

BSI Annuity Sales & Service Center

Ramp Up Income Annuity Sales by Popping the Illusions (and don't forget the incredible exclusion ratio)

Retirement-age clients are increasingly interested in just one thing—the new ROI—Reliability of Income.

This is the first in a series of articles presenting helpful information on providing just that with a do-it-yourself pension—better known as an income annuity.

Some people—like those sweating away pounds on treadmills at 6:00 a.m.—love watching big numbers turn small.

Others hate it. Especially when they watch the biggest pile of money they'll ever see—their 401(k)—turn into a seeming molehill of retirement income.

It's called the “wealth illusion”—one of a number of illusions burdening agents and advisors working with retirees. It's a tough one to pop. Tell someone they can receive a big lump-sum payment—or get \$300 a month for life—and it's no contest; they'll almost always grab the money and run no matter how much time you spend trying to explain the lack of logic of their decision.

My suggestion? Don't waste your time trying to explain if you're butting your head against a brick wall. Instead, focus on the guarantees offered by a Single Premium Immediate Annuity and concentrate on popping the *combatable* illusions surrounding SPIAs. Finally, turn to the most critical benefit in your arsenal—the exclusion ratio.

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First, the two most common combatable illusions.

The “Vanishing Purchase Payment” illusion

The illusion: “Once I die, all my money is gone.”

This is a tough illusion to pop because it used to be true. You’d turn over \$100,000 at age 65 and if you died two years later your heirs would get nothing, while you would have pocketed only about \$15,000.

Today’s reality: Your clients can now purchase a benefit guaranteeing that total payments won’t be less than the purchase payment amount.

The “Untouchable Money” illusion

The illusion: “I won’t be able to get at my money if I need it.”

This, too, used to be true. Money in an annuity could only be accessed through established payments.

Today’s reality: Some carriers offer options allowing clients to access part of their future payments. For example, Symetra Financial’s Advance Access benefit allows access to as much as 30 percent of the value of future payments. It’s available after three years, and as often as every 36 months thereafter, during the annuitant’s life expectancy.

Incredible exclusion ratio

After deflating the illusions, turn to the critical benefit that’s closed more annuity sales than you’d imagine—the exclusion ratio.

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Here's the simplest explanation:

- The exclusion ratio develops when the accumulated value in an annuity is converted to an income stream.

Part of each payment the client receives—calculated using the exclusion ratio (Investment in the Contract/Expected Return)—is considered return of original principal. It is, therefore, not subject to income tax when received.

And here's an example you might use of the incredible exclusion ratio in action:

1. Explain to your client that income from a CD is fully taxable, so \$30,000 of income at a 25 percent tax rate provides \$22,500 of net income. Plus the accumulation within the account is taxed every year.
2. Mention that living benefit income from a VA is also taxable. So, just as with the CD example, \$30,000 of income at a 25 percent tax rate provides \$22,500 of net income.

And then explain how that same amount of income—\$30,000— from a SPIA may have an exclusion ratio of 80 percent. Meaning that only that amount is taxed at the 25 percent rate—providing \$28,500 of net income!

Guaranteed income for life. The option of getting your deposit back upon death. The flexibility to change your mind. And the power of the exclusion ratio. When simply and properly explained, your clients will see how income annuities can be the best solution to the new ROI.

To learn more about income annuities, please go to www.dontfear65.com.
