



## **Maximize Value with a Two-Tier Annuity Rescue**

A typical planning situation that is repeatedly encountered involves rescuing individuals from the two-tier annuity trap. Two-tier annuities (TTA's) are structured so that a policyholder must annuitize, or make systematic distributions from, the contract to access the accumulation value. The most popular TTA requires an individual to complete their distributions over a period certain or be subjected to a significant account loss if the cash value is withdrawn or transferred lump sum. This often turns an expected ten year commitment into a 20-year commitment, plus the beneficiary may be required to withdraw the death benefit over a five year period. *That's a 25-year commitment with one annuity and the only way out involves significant forfeiture of appreciation.*

### **For customers that are interested in remedying this problem, help is on the way!**

We recommend a strategy using a levered financial instrument that will increase the annuity's effective rate of return and eliminate the need for a five year payout to the beneficiary. The systematic distribution from the TTA can be put to work funding the premium of a separate life insurance policy that will transfer the assets to the beneficiary as tax-free cash. Our objective is to realize rates of return comparable to an equity but without the risk.

For example, Ms. Jones deposited \$150,000 into a TTA in 1996. She received a 10% bonus upon her deposit and maintained the account throughout the surrender period without distributions for ten years. At that time she learned that her account value had increased to \$300,000. Pleased with the performance, she hoped to reposition the full account value into an improved annuity contract, only to learn that the full lump sum withdrawal amount was \$152,321 -- only slightly more than one-half the reported account value. A lump sum surrender or transfer would result in a rate of return of only 0.15% annually, before taxes. After confirming the substantial lump-sum withdrawal penalty, Mrs. Jones was receptive to an alternative which would allow her to obtain the full account value.

Ms. Jones is fortunate; she doesn't need the money for her day-to-day living expenses and plans to pass all of her remaining assets to her daughter and two grandchildren at death. Based on this information the following recommendation was made to Ms. Jones:

Instead of taking the lump sum amount and suffering a significant loss from the account value, Ms. Jones elected to withdraw the account balance over a ten year period by taking annual distributions of \$31,675. Ms. Jones then directed \$20,000 of the annual distribution to pay the premium for a life insurance policy with a death benefit of \$325,000. Additionally, her life policy contained a rider that will pay up to \$13,500 monthly for long term health care should she need it in the future.

Final outcome: Ms. Jones obtained protection of \$13,500 monthly for long term health care, created a legacy of \$325,000 for her beneficiary and obtained the full account value from her two-tier annuity. The life insurance policy was issued hassle-free with simplified underwriting in less than two weeks.

Help your customers and prospects free themselves from the two-tier annuity trap. Call BHC Marketing today and request a Two-Tier Annuity Rescue Plan for two-tier annuity owners.