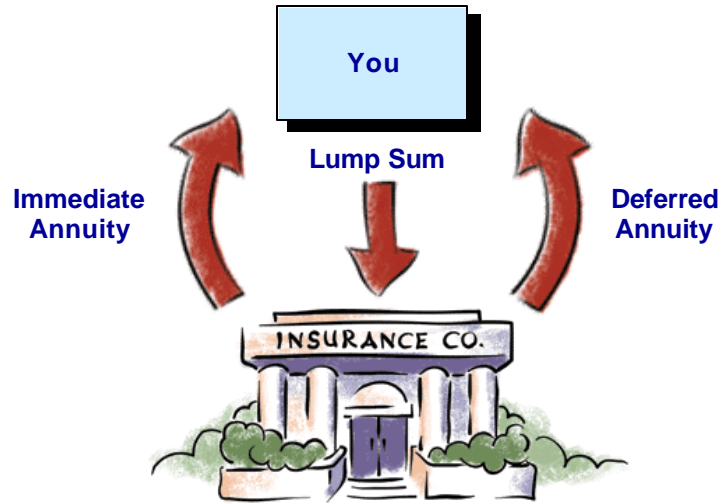


Combining Annuities

Combining annuities includes two separate annuities:

??**Fixed immediate annuity:** Begins to return monthly payments currently; and

??**Fixed deferred annuity:** Accumulates the interest payments (tax deferred) until a future time; e.g. in 5 years.



Note: If two contracts are issued by the same company to the same person within the same calendar year, they will be treated as one contract. See IRC Sec. 72(e)(11)(A)(ii). To make this plan work, consider two policyholders; e.g. husband and wife or two different calendar years.

The following hypothetical example compares the combination annuity technique using a fixed rate immediate annuity and a fixed rate deferred annuity with a certificate of deposit (CD). The comparison assumes the taxpayer is in the 34% marginal income tax bracket.¹

Interest Rates Shown Are Hypothetical	Plan One	Plan Two	
	\$150,000 in a 4.75% CD	\$42,747 in a 5.75% Immediate Annuity for 6 Years	\$107,253 in a 5.75% Deferred Annuity Begins in 6 Years
Annual return for 6 years	\$7,125	\$8,406	\$0
Taxes on income portion	\$2,423	\$436 ² (85% tax-free)	\$0
Net return after taxes	\$4,703	\$7,970	\$0
Monthly return after taxes	\$392	\$664	\$0
Amount left after 6 years	\$150,000 ³	Fully paid out	\$150,000 ³

¹ CDs are generally protected by federal deposit insurance for amounts up to \$100,000. A fixed annuity is guaranteed by the insurance company.

² 85% of the annual payment is a return of principal. The balance is taxable at 34%.

³ At the end of six years, the \$150,000 in the CD may be withdrawn income tax free as a return of the investor's principal. The \$150,000 in the deferred annuity will be composed of \$107,253 of principal, and \$42,747 of taxable earnings. Withdrawals from an annuity prior to age 59½ may be subject to a 10% penalty tax.