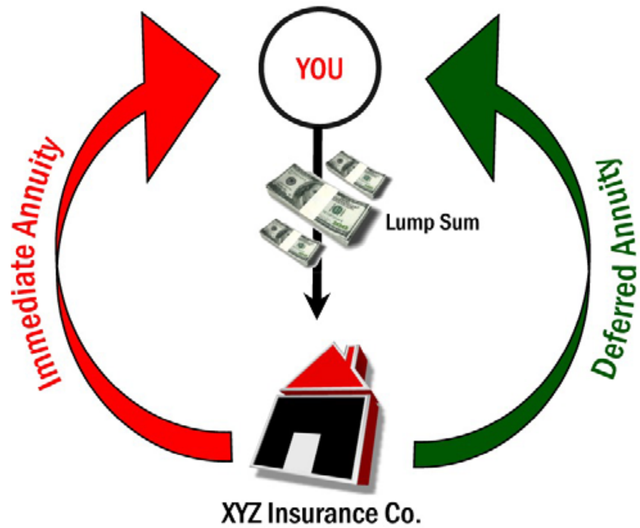
What Is A "Combination" or Split Annuity?

Combination annuities include two separate annuities. It is also called a "split annuity" because the principal is split between an income annuity and a growth annuity.

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 25% marginal income tax bracket*.

	Plan One	Plan Two	
Interest Rates Shown are Hypothetical	**$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	$1,781	$315** (85% tax free)	$0
Net return after taxes	$5,344	$8,091	$0
Monthly return after taxes	$445	$674	$0
Amount left after 6 years	$150,000	Fully paid out	$150,000***

*CDs are generally protected by federal deposit insurance for amounts up to $100,000. A fixed annuity is guaranteed by the insurance company. ** 85% of the annual payment is a return of principal. The balance is taxable at 25%. *** At the end of six years, the $150,000 in the CD may be withdrawn income tax free as a return of the investor's principal.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.