



MATT DIVIRGILIO,  
CRFA, CSA  
PUBLISHER

# Income in Retirement

A MONTHLY RESOURCE FOR PROTECTING YOUR INCOME

OCTOBER 2006

## How to Get Income from an Old Life Insurance Policy

**D**o you or your spouse own a life insurance policy that you bought years ago? Perhaps it was to provide an income for the survivor in case anything happened to either one of you.

Or maybe you acquired it to make sure that there would be money to pay off the mortgage, or fund the children's college education in case you died. Whatever the reason you had for buying life insurance, there's probably a good chance that your needs have changed, and now you may be looking for a way to increase your income each month.

You could just cash in the policy or even sell it for more than its surrender value and re-invest the proceeds, but then you might face charges, fees, or possibly income taxes. There may be other options that can offer a stream of tax-free income.

Through a series of withdrawals or loans, cash value life insurance policies can often provide tax-free money. This could be as a lump sum or systematic payments to accommodate your needs. Then when you die, your beneficiaries will receive the greater of the remaining cash value or the death benefit, income tax free.

Also you might want to exchange your policy for one with a lower death benefit. This can be a tax-free transaction, and you could end up with a higher income, since the cost of the insurance

within the new policy may possibly be less.

For a no-obligation proposal on the income you may be able to receive from your old life insurance policies, please check off and return the enclosed coupon.

## Want to Invest in Bonds, but Not Ready to Pay Income Tax

The drop in income tax rates on long-term capital gains and dividends may be great for most stock investors since they will pay no more than 15% in federal taxes. But what about bondholders who are not using their interest income, or people who believe that they should own some real estate to create a diversified portfolio? These taxpayers could pay the IRS up to 35% on income that they don't even need right now.

Earnings (growth and income) within a variable annuity accumulate tax deferred. Then when money is taken out it is generally taxed at ordinary income rates. However, you can structure the withdrawals around your cash flow needs and tax bracket. Risks are associated with variable annuities. For example; the value of the variable accounts will fluctuate, and that when redeemed, your contract may be worth more or less than the original investment. Please note that death benefits and withdrawals prior to age 59½ may be subject to penalties and charges. Please consider investment objectives, risks, charges, and expenses before investing. For this and other information about any variable annuity and its

underlying investments please call the variable annuity provider to request a prospectus. Read it carefully before you invest. Furthermore, you have the option to annuitize the account and receive a portion of each systematic payment income tax-free.

Several annuity companies offer bond portfolios and real estate investment trusts (REITS) within their assortment of investment selections. This gives you the opportunity to own bonds and real estate without paying current income tax on the earnings.

Would you be better off paying income taxes now or deferring them for a few years? That depends on your tax bracket, your present and future income needs and your other investment holdings.

For a free brochure on a variable annuity with tax-deferred bonds and real estate investments, please check off and return the enclosed coupon.

### **Pass-through Annuities Can Offer Competitive Returns**

Many seniors purchase fixed annuities for potential safety, tax savings, and asset protection. In some cases insurance companies will offer a higher interest rate for a limited time period to encourage those investments. But what happens after that time period ends? Other than the minimum rate guarantee, do you have any assurance that you will still get a good return?

Pass-through annuities could possibly reduce that concern by limiting the amount of money the company makes on your investment.

To achieve a basic understanding about how this works, let's look at a hypothetical example (please note that this example is for illustration purposes only and is not based upon the performance of any particular annuity product). Say you bought a fixed annuity that had the

traditional method of crediting interest. If the first year's rate included a 5% bonus, plus the 3% minimum, you could be looking at 8%. And you might think that's pretty good.

Then year two rolls around and it's time for rate renewal. The annuity company might only be contractually required to the minimum interest rate, even if they earned more than that on your premium payments.

With a pass-through annuity you can potentially achieve a better result since there is a contractual guarantee in place that limits how much of the earnings an insurance company can keep. Once an insurance company takes its share, the rest of the investment return is "passed through" to you.

Of course, any additional fees that are charged for this guarantee could reduce your overall return. The interest rate and pass-through features of these annuities can also vary from company-to-company. Annuities are designed for long-term investing. Ordinary federal income taxes and a 10% tax penalty could apply to withdrawals taken prior to age 59½. Annuity benefits and guarantees are based upon the claims-paying ability and financial strength of the underlying insurance company, and are not government-insured. Surrender charges can also apply to withdrawals, based upon the time the insured has been invested in the annuity.

If you would like some additional information about these annuities, please complete and return the enclosed reply coupon.♦

**As federal and state tax rules are subject to frequent changes, you should consult with a qualified tax advisor prior to making any investment purchase decisions.**

**For a free booklet on  
"Helping You Avoid IRA Distribution  
Mistakes" or "Annuity Owner Opportunities"**

**Please call 1-888-262-7950**

# Get this Valuable Free Information

**Mail back to:**  
Matt DiVirgilio  
252 Maple Street  
Lynn, MA 01904

**Please send me information on these items mentioned in your newsletter:**

- I would like to learn more about income opportunities from an old life insurance policy.
- Please send me more information about lowering my taxes and increased monthly income.
- Please send me free information about higher returns on a safe annuity investment.

**I would like to have a copy of these booklets (enclose \$1 for each)**

- Avoid Mistakes in Buying Long-Term Care Insurance
- Annuity Owner Opportunities (a must read if you own an annuity)
- Mistakes in Selecting Mutual Funds
- Six Ways Retirees Can Cut Taxes
- IRA Distribution Mistakes
- CD Shoppers' Guide

**To receive electronic versions of this Newsletter and News Alerts please provide us your email address or email [brian@dfgedge.com](mailto:brian@dfgedge.com):**

I think these people would like to receive your newsletter and an invitation to your next public presentation:

**Name** \_\_\_\_\_

**Address** \_\_\_\_\_

**Name** \_\_\_\_\_

**Address** \_\_\_\_\_

**Name** \_\_\_\_\_

**Address** \_\_\_\_\_

*(Please provide names and addresses with zip codes.)*