Page Source: https://www.annuityadvantage.com/annuity-type/split-funded-annuities-2/

Split Funded Annuities

Primary Benefit: Get Income Now

Secondary Benefit: Guarantee Future Income

A split funded annuity is better defined as an annuity strategy, rather than a separate type of annuity. This strategy aims to provide immediate tax advantaged income by combining two annuities to achieve a specific goal. The goal in this case, is to increase after tax income when compared to taking systematic interest withdrawals from one annuity. This strategy only works with non-qualified funds, those not in a tax-qualified retirement account or IRA, and the benefits are most dramatic for individuals in higher income tax brackets.

The two annuities that are combined to form a split annuity strategy are a period certain immediate income annuity and a fixed rate multi-year guaranteed annuity of the same duration, structured in such a way as to produce immediate tax-advantaged income for a guaranteed period of time and to restore your original principal at the end of that time period, most commonly 10 years.

Advantages of a Split Annuity

1) Dependable Income: The immediate annuity supplements your income by providing a safe, predictable, and guaranteed cash flow.

2) Tax Savings: Since a significant portion of the income payments from the immediate annuity are considered a return of your original premium deposit, it is tax-advantaged. In our example below, nearly 88% of your income payments would be excluded from taxation.

3) Tax-Deferred Growth and Principal Preservation: The fixed rate multi-year guaranteed annuity portion of the split-annuity strategy offers tax-deferred growth, and, you can earn interest that is typically better than average bank CD rates. In addition, your original principal is restored at the end of the guarantee period which

provides you with multiple options, including the ability to repeat the split annuity process again at then prevailing interest rates.

To learn more about split annuity strategies and how they can help you generate more income from your non-qualified retirement savings in a tax advantaged way, please watch this short video:

Hypothetical Example Using a Split Annuity Strategy

Let's assume that you have $100,000 to deposit and that your combined federal/state income tax bracket is 28%.

Option 1 – Systematic annual interest withdrawals from one 10-year fixed rate annuity yielding 4.00%. Annual interest withdrawals of $4,000 are fully taxable resulting in $1,120 in taxes paid, with a net after tax income of $2,880.

Option 2 – Structure a split annuity strategy with $67,557 going into the 10-year fixed rate annuity yielding 4.00% and the balance of $32,443 going into a 10 year period certain immediate income annuity paying annual income of $3,700. The $67,557 allocated to the fixed rate annuity is left to grow and compound so that it equals your original $100,000 at the end of 10 years, while the immediate annuity provides income that will be fully paid out at the end of the 10 year term. At first glance, it would appear that Option 1 provides more income than the split annuity strategy. But we're after net, spendable, after tax income. With the split annuity, only $456 of the $3,700 annual income payment is taxable, because the rest of the payment is considered a return of your original premium deposit. As a result, only

$128 in taxes are paid, leaving net after tax income of $3,572 which is $692 more than with Option 1.

If you'd like to further explore split annuity strategies and see an actual illustration customized to your individual needs, please give us a call at 1-800-239-0356. One of our licensed Annuity Specialists would be happy to assist you and answer any questions you may have.