

A WORKSHOP FOR FEDERAL EMPLOYEES

# The Truth about Annuities

*What every Fed should know before saying yes — or no.*

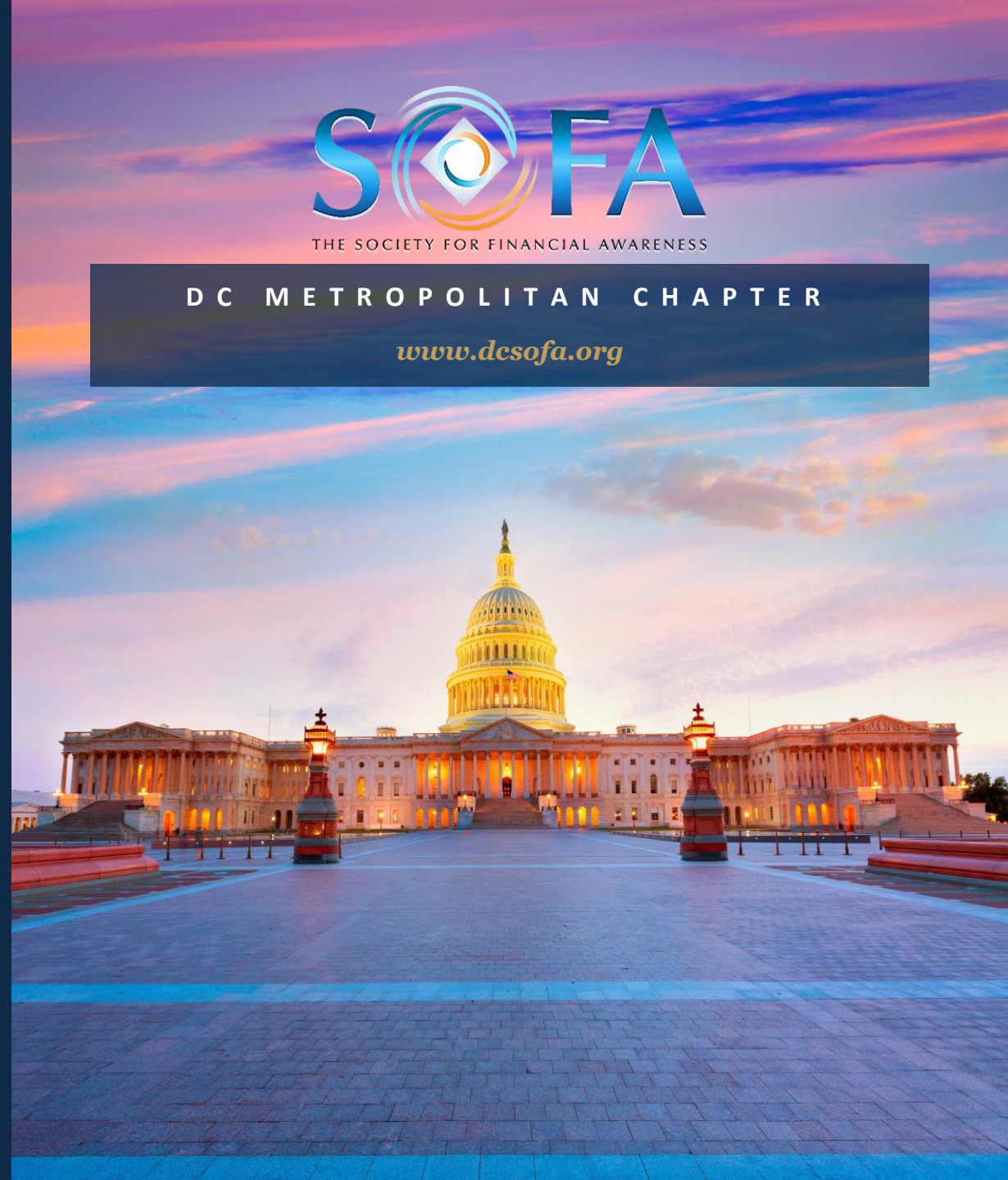
CREATED BY

CLJ **CAMPBELL** & associates  
Financial Services Redefined



DC METROPOLITAN CHAPTER

[www.dcsdfa.org](http://www.dcsdfa.org)



# Two main purposes of annuities.



## 01 Protection & Accumulation

Allow you to prepare for retirement, helping create a future stream of income while protecting savings from loss.

## 02 Guaranteed Income

Offer peace of mind — a source of income that lasts as long as you want, or as long as you live.

# Three types of annuities.

*Each gives up something — and gets something back in return.*

TYPE 01

## Fixed

The insurer promises a minimum interest rate and a fixed amount of periodic payments.

TYPE 02

## Indexed

Combines features of securities and insurance. Returns are credited based on a stock market index, e.g. the S&P 500.

TYPE 03

## Variable

Premiums are directed to investment options, usually mutual funds. Payouts vary with returns and expenses.

# Two accounts, two different stories.

*How the same \$100,000 grows over 7 years inside a variable annuity.*

CASH ACCOUNT	
Initial Premium	\$100,000
Annual Fees (3.5%)	-\$3,500
<i>M&amp;E 1% · Rider 1.5% · Mgmt 1%</i>	
Average RoR	5%
Annuity Period	7 years
<b>TOTAL GROWTH</b>	<b>\$110,984</b>

GUARANTEED ACCOUNT	
Initial Premium	\$100,000
Bonus 8%	+\$8,000
Guaranteed RoR (simple 6.5%)	+\$6,500/yr
Annuity Period	7 years
<b>TOTAL GROWTH</b>	<b>\$157,140</b>

# When income starts, the math diverges.

*Same starting balance. Same withdrawal. Very different durability.*

CASH ACCOUNT	
Account Value	<b>\$110,984</b>
- \$3,500 fees	
- \$7,857 guaranteed withdrawal	
<hr/>	
<b>ANNUAL DRAW</b>	<b>- \$11,357</b>
<hr/>	
<b>LASTS APPROXIMATELY</b>	<b>15 years</b>

GUARANTEED ACCOUNT	
Income Base	<b>\$157,140</b>
× 5% withdrawal rate	
<hr/>	
<b>ANNUAL INCOME</b>	<b>\$7,857</b>
<i>Single life or joint?</i>	
<b>PAYS FOR</b>	<b>Lifetime</b>

# Protection and Accumulation.

*How indexed annuities offer market-linked growth —  
with a floor that protects your principal.*



# Index-linked growth, with a floor.

*Five defining features of an indexed annuity contract.*



## Guaranteed Principal

Your premium is protected — credited interest can't go below zero in any single year.



## Deferral

Tax-deferred growth until you start taking distributions.



## Index-Linked Growth

Returns are credited based on a market index (e.g. S&P 500), subject to caps or participation rates.



## No Direct Fees

Most fixed-indexed annuities have no explicit M&E or rider fees on the base contract.



## Legacy

Remaining contract value passes to named beneficiaries — typically without going through probate.

# The questions everyone asks.

*What people really want to know before they commit — answered plainly.*

## PROTECTION & COST

### **Do I lose my money if I die?**

No — the full contract value passes to your named beneficiaries.

### **Are there fees?**

Typically none on the base contract — no annual or management fees.

### **What is the surrender period?**

A window you choose up front — commonly 5, 7, or 10 years.

### **What are surrender charges?**

A penalty on withdrawals above the free amount. It slides down yearly (10% → 9% → 8%...) and varies by carrier.

## ACCESS & FEATURES

### **When can I take money out?**

Usually starting in year two — up to 10% of the value each year, penalty-free.

### **What is an annual reset?**

Gains lock in each year and the rate resets annually. A one-year reset is ideal.

### **What is a bailout feature?**

It lets you exit without surrender charges if the carrier drops your rate below a set trigger.



INDEXED ANNUITY CREDITING METHOD

# Point-to-Point Participation Rate

You receive 50% of the index gain — uncapped on the upside, still floored at zero.

Year	S&P 500® Return	% Credited	Contract Value
2001	-13.04%	0.00%	\$200,000
2002	-23.37%	0.00%	\$200,000
2003	+26.38%	13.19%	\$226,380
2004	+8.99%	4.50%	\$236,556
2005	+3.00%	1.50%	\$240,104
2006	+13.62%	6.81%	\$256,455
2007	+3.53%	1.76%	\$260,982
2008	-38.49%	0.00%	\$260,982
2009	+23.45%	11.72%	\$291,582
2010	+12.78%	6.39%	\$310,214
2011	+0.00%	0.00%	\$310,214
2012	+13.40%	6.70%	\$330,998
2013	+29.60%	14.80%	\$379,986
2014	+11.39%	5.70%	\$401,626
2015	-0.73%	0.00%	\$401,626
2016	+9.54%	4.77%	\$420,784
2017	+19.42%	9.71%	\$461,642
2018	-6.24%	0.00%	\$461,642
2019	+28.88%	14.44%	\$528,303
2020	+16.26%	8.13%	\$571,254
2021	+26.89%	13.45%	\$648,059
2022	+16.00%	8.00%	\$699,904
2023	-18.11%	0.00%	\$699,904
2024	+24.23%	12.12%	\$784,697

PARTICIPATION RATE

50%

24-YEAR ENDING VALUE

\$784,697

from \$200,000 · 3.92x growth

CREDITING METHOD

S&P 500® annual return × 50% (if positive; otherwise 0%).  
0% floor — no negative interest. No cap on the upside.

KEY

- Half of S&P gain credited
- Floored at 0%
- Negative S&P year

Hypothetical illustration using S&P 500® price returns 2001–2024. Excludes dividends. Starting investment \$200,000, annual compounding. Not indicative of any specific product. Source: publicly available index data.

# Principal protection in retirement.

*Three places this protection earns its keep — especially for Federal employees with TSP and IRA assets.*

01



## Never Sell Low

Avoid selling investments at a loss to fund living expenses — the protected portion lets the rest of the portfolio recover.

02



## RMDs & TSP

Required Minimum Distributions force withdrawals on a schedule the market doesn't care about. A guaranteed bucket smooths the timing risk.

03

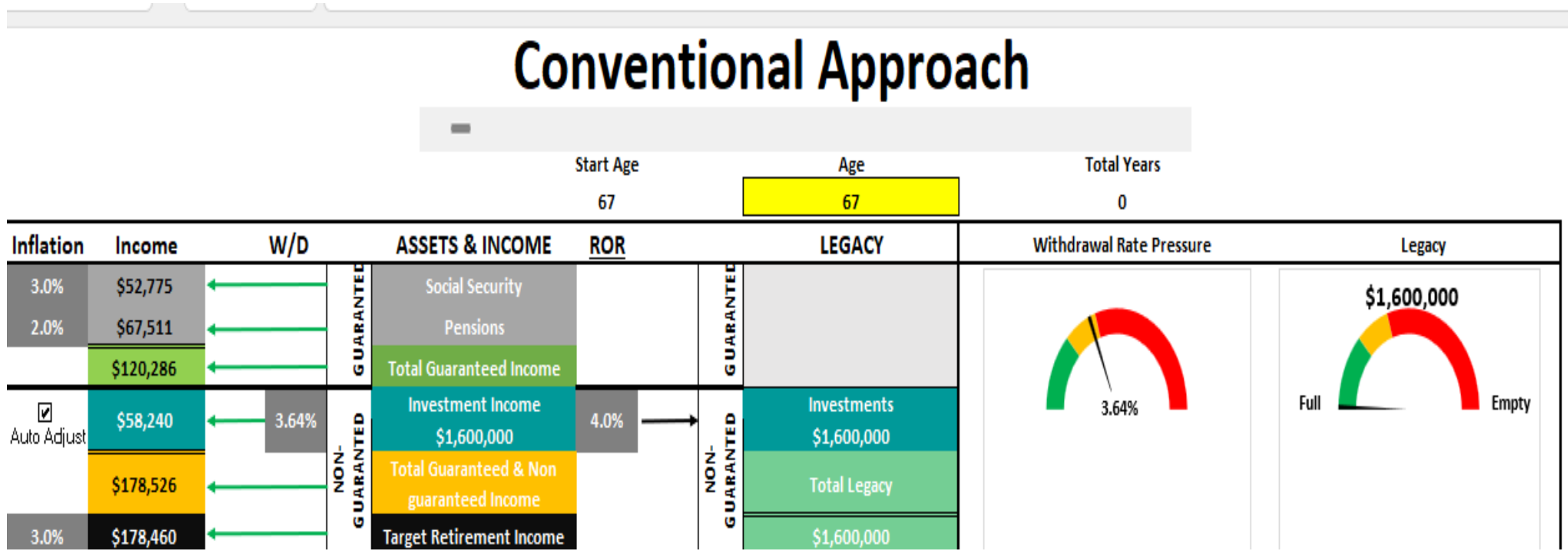


## IRA Distribution

Coordinated annuity income can become the foundation of an IRA distribution strategy — predictable, taxable, and durable.

# Conventional retirement approach.

*Income flows from non-guaranteed assets — investments do the heavy lifting.*



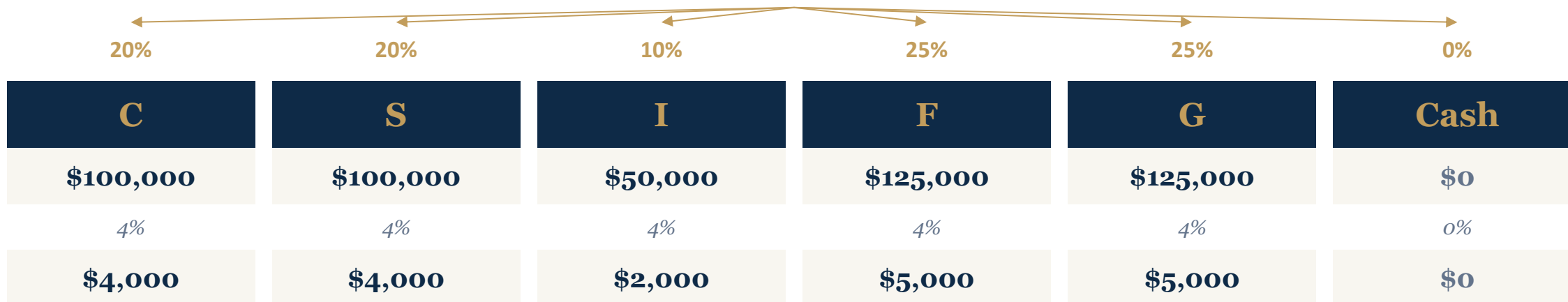
Source: CJ Campbell & Associates Retirement Income Model · age 67 · \$1.6M investments · 4% withdrawal rate.

# What if you took distributions in 2022?



\$ 5 0 0 , 0 0 0 P O R T F O L I O

## \$500,000



*Selling shares during a year like 2022 locks in losses. The portfolio takes years to recover what one bad sequence took in twelve months.*



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Hypothetical illustration using S&P 500® price returns 2001–2024. Excludes dividends. Starting investment \$200,000, annual compounding. Not indicative of any specific product. Source: publicly available index data.

# Median bond return environments.

*How asset classes performed when bond returns were below median, above median, and across the full period.*

	Below median bond returns	Above median bond returns	Overall period
Long-Term Gov't Bonds	1.87%	9.00%	5.43%
Large Cap Stocks	11.43%	9.84%	10.63%
<b>FIA</b>	<b>4.42%</b>	<b>7.55%</b>	<b>5.98%</b>
<b>60 / 40 (Stocks &amp; Bonds)</b>	7.60%	9.50%	8.55%
<b>60 / 20 / 20 (Stocks, Bonds, FIA)</b>	8.12%	9.21%	8.66%
<b>60 / 40 (Stocks &amp; FIA)</b>	8.63%	8.92%	8.77%

Source: 2017 SBBI Yearbook, Roger G. Ibbotson, Duff & Phelps; Zebra Capital; AnnGen Development, LLC.

# Behavior drives results.

*These 10-year returns reflect what a disciplined investor would have earned by simply staying invested.*

Yet studies show that the average investor often earns:

**1–3%**  
LESS PER YEAR

THE CAUSE ISN'T POOR INVESTMENTS.

## *It's poor timing.*

Multiple long-term studies show the average investor earns 1–3% less annually than the funds they invest in. The gap doesn't come from picking bad funds — it comes from buying after the rally and selling after the decline.

*In retirement, the gap compounds. Withdrawals during fear-driven downturns lock in losses that compounding can't undo.*



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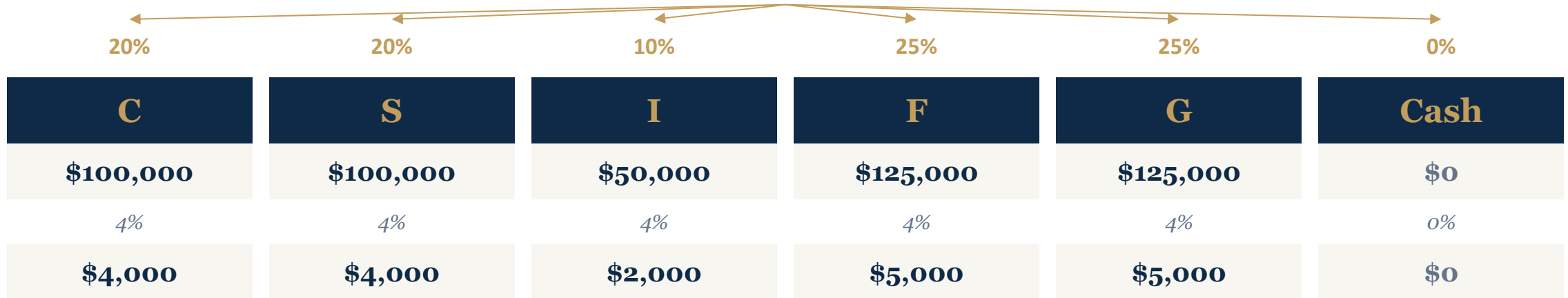
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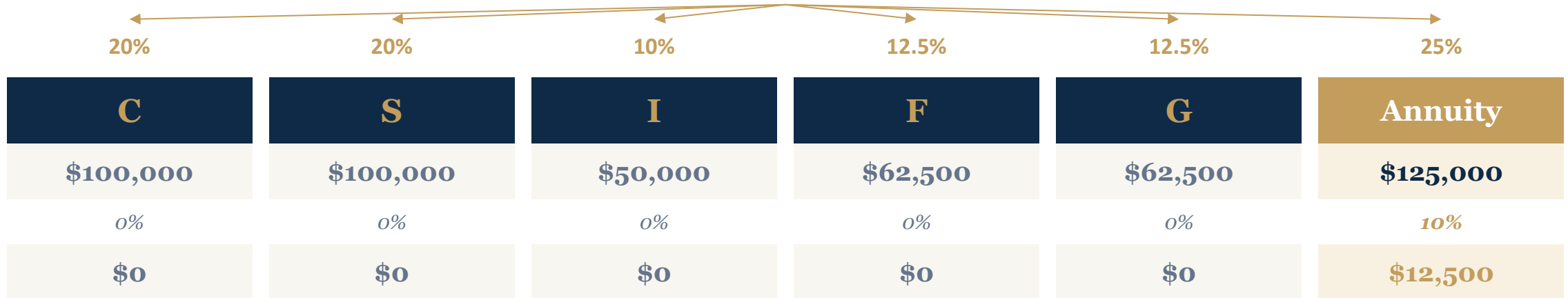
WITH AN ANNUITY LAYER

# What if part of it was an annuity?



\$ 5 0 0 , 0 0 0 P O R T F O L I O

## \$500,000



*The annuity layer covers the income need without selling any shares. Every other position keeps full recovery potential.*

TWO WAYS TO ALLOCATE \$500,000

# With or without an annuity.

Same starting balance. Same income need. Different ways to generate it.

WITHOUT ANNUITY · 4% FROM EACH FUND

ANNUAL DRAW \$20,000

20%	20%	10%	25%	25%	0%
<b>C</b>	<b>S</b>	<b>I</b>	<b>F</b>	<b>G</b>	<b>Cash</b>
\$100,000	\$100,000	\$50,000	\$125,000	\$125,000	\$0
4%	4%	4%	4%	4%	0%
\$4,000	\$4,000	\$2,000	\$5,000	\$5,000	\$0

WITH ANNUITY · INCOME FROM ANNUITY ONLY

ANNUAL DRAW \$12,500

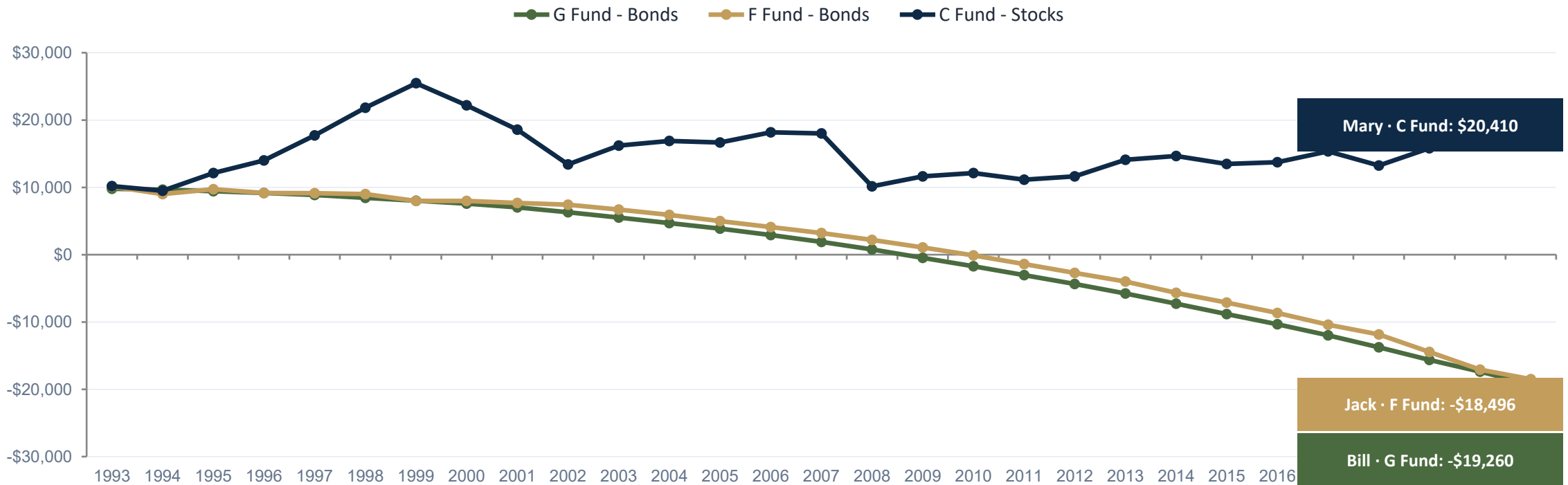
20%	20%	10%	12.5%	12.5%	25%
<b>C</b>	<b>S</b>	<b>I</b>	<b>F</b>	<b>G</b>	<b>Annuity</b>
\$100,000	\$100,000	\$50,000	\$62,500	\$62,500	\$125,000
0%	0%	0%	0%	0%	10%
\$0	\$0	\$0	\$0	\$0	\$12,500

Same \$500,000. Same need for income. The annuity layer covers it without selling shares — every other position keeps growing.

LOSS OF PURCHASING POWER

# What happens when you start spending?

In 1993, retirees Bill, Jack, and Mary each have \$10,000 in the TSP. Each year they withdraw enough to buy 2,000 first-class stamps (after 30% tax). Same starting amount. Same withdrawal need. Three different funds.

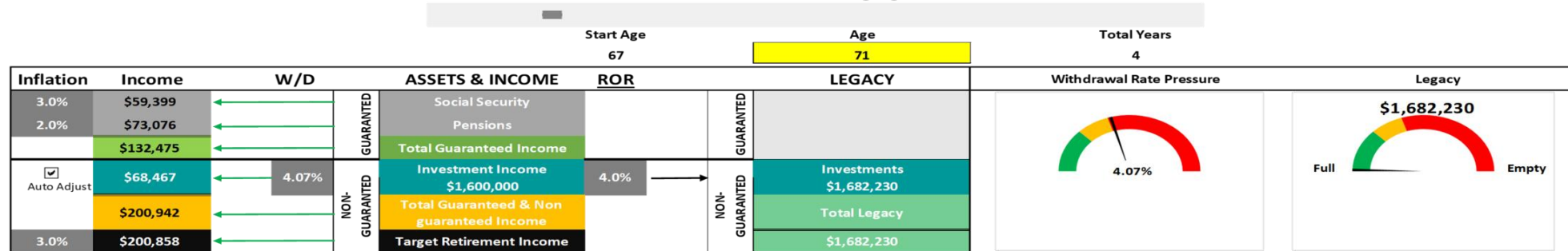


Past performance is no guarantee of future performance. The data assumes reinvestment of all income.

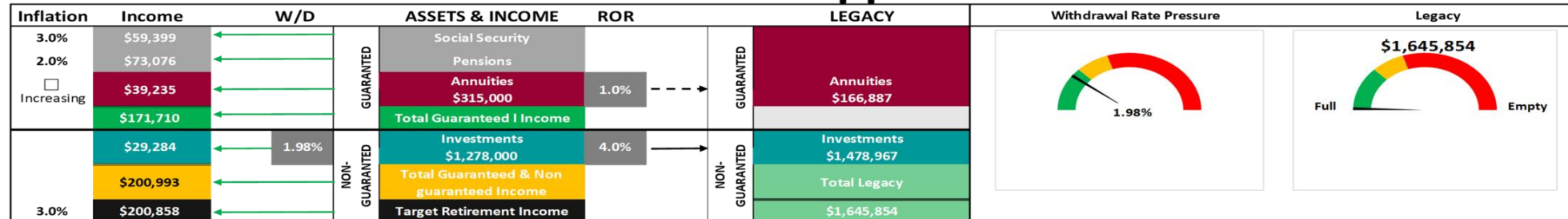
# Alternative retirement approach.

An annuity layer adds guaranteed income – and reduces reliance on the portfolio's behavior.

## Conventional Approach



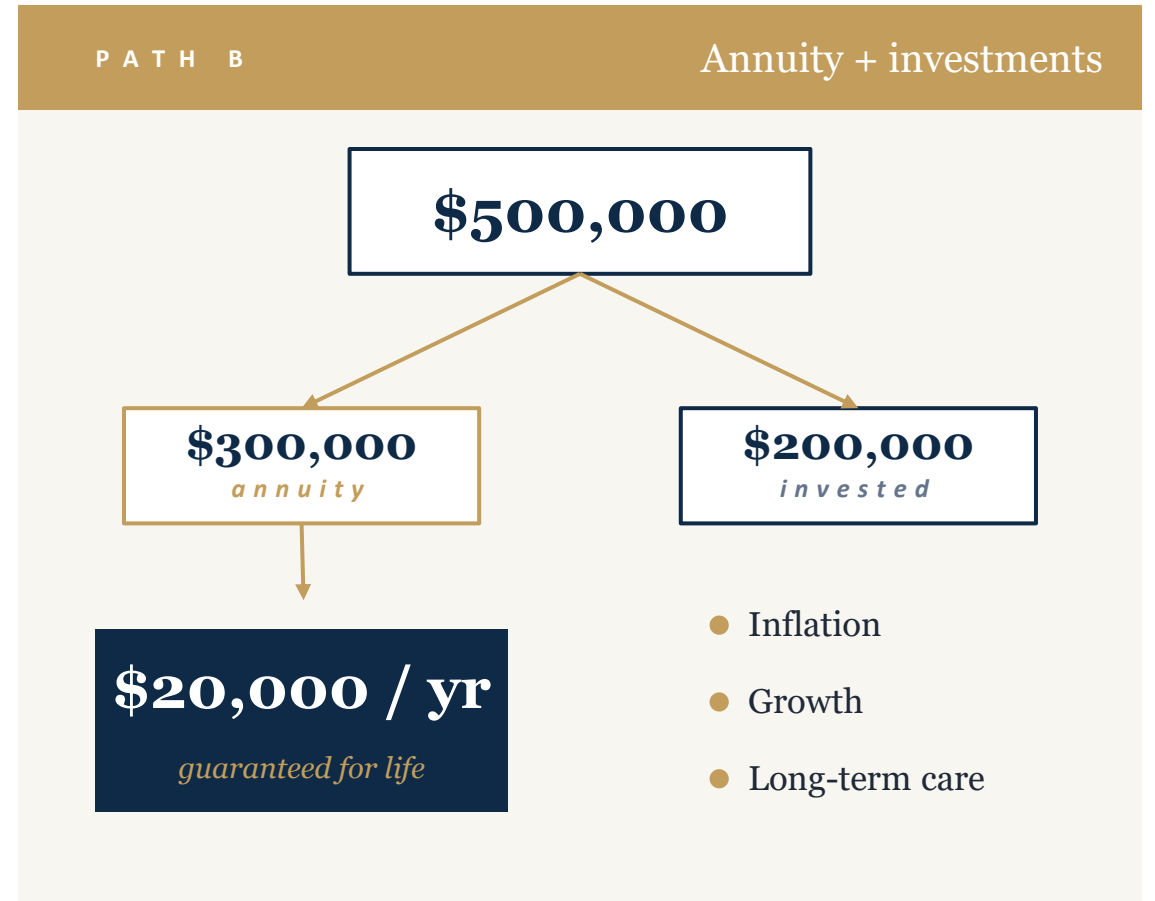
## Alternative Approach



Source: CJ Campbell & Associates Retirement Income Model · age 71 · annuity layer of \$315,000 · 1.0% annuity income rate.

# Two paths from \$500,000 of savings.

Same starting balance. Different choices about what to guarantee — and what to keep flexible.



# Guaranteed Income.

*How an annuity income layer covers your essential expenses — for as long as you live.*



# Features and fees.

*A guaranteed income annuity is built from a set of decisions you make up front — each with a cost or trade-off.*

## OPTIONS YOU CAN CHOOSE

- **Coverage type**

Single Life or Joint Life

- **Income start age**

Defer 0 – 20+ years before income begins

- **Premium bonus**

Some contracts add 5 – 10% to the income base on day one

- **Income base step-up**

Roll-up rate (e.g. 7% simple) compounds the income base during deferral

- **Spousal continuation**

Surviving spouse continues the same income for life

- **Chronic illness multiplier**

Payments can double if you can't perform 2 of 6 ADLs

- **Legacy / death benefit**

Remaining contract value passes to named beneficiaries

## FEE S & CHARGES

- **Rider fee**

0.95% – 1.25% of the income base, deducted annually

- **Surrender charge schedule**

Declining over 7 – 10 years (e.g. 8/7/6/5/4/3/2/0%)

- **Free withdrawal corridor**

Typically 10% of contract value per year without penalty

- **Market value adjustment**

Some products apply an MVA to excess withdrawals

- **Bonus recapture**

Premium bonus may be reduced if surrendered early

- **Deferred income**

Locks in the income base — withdrawals before start age reduce it

- **No direct M&E charge**

Fixed indexed annuities typically have no mortality & expense fee

*Ranges shown are typical of the current market and vary by carrier and product.*

# Coverage summary at a glance.

Premium \$250,000 at age 60 · income begins year 11 (age 70).

<p><b>01</b> PREMIUM <b>\$250,000</b></p>	<p><b>02</b> COVERAGE TYPE <b>Single Life</b></p>	<p><b>03</b> INCOME START <b>Year 11</b></p>	<p><b>04</b> COVERED AGE <b>70</b></p>
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Year	Covered Age	Withdrawal Benefit Base	Lifetime Withdrawal %	Annual Withdrawal Amount (AWA)	AWA if Chronic Illness Multiplier Activated
At Issue	60	250,000			
1	61	274,375	5.81%	15,941	0
2	62	301,127	5.94%	17,887	35,774
3	63	330,486	6.06%	20,027	40,055
4	64	362,709	6.18%	22,415	44,831
5	65	398,073	6.27%	24,959	49,918
6	66	436,885	6.36%	27,786	55,572
7	67	479,481	6.44%	30,879	61,757
8	68	526,231	6.52%	34,310	68,620
9	69	577,538	6.60%	38,118	76,235
10	70	633,848	6.69%	42,404	84,809
<b>11</b>	<b>71</b>	<b>633,848</b>	<b>6.69%</b>	<b>42,404</b>	<b>84,809</b>
12	72	633,848	6.69%	42,404	84,809
13	73	633,848	6.69%	42,404	84,809
14	74	633,848	6.69%	42,404	84,809
15	75	633,848	6.69%	42,404	84,809
16	76	633,848	6.69%	42,404	84,809
17	77	633,848	6.69%	42,404	84,809
18	78	633,848	6.69%	42,404	84,809
19	79	633,848	6.69%	42,404	84,809
20	80	633,848	6.69%	42,404	84,809
21	81	633,848	6.69%	42,404	84,809
22	82	633,848	6.69%	42,404	84,809
23	83	633,848	6.69%	42,404	84,809
24	84	633,848	6.69%	42,404	84,809
25	85	633,848	6.69%	42,404	84,809
26	86	633,848	6.69%	42,404	84,809
27	87	633,848	6.69%	42,404	84,809
28	88	633,848	6.69%	42,404	84,809
29	89	633,848	6.69%	42,404	84,809
30	90	633,848	6.69%	42,404	84,809
40	100	633,848	6.69%	42,404	84,809

TOTAL WITHDRAWALS

**\$1,272,134**

HYPOTHETICAL ILLUSTRATION · SINGLE LIFE

# Year-by-year contract performance.

Premium \$250,000 at age 60 · income begins year 11 · single life.

Year	Covered Age	Aggregate Credited Rate	Interest Credited	Account Value	Withdrawal Benefit Base	Lifetime Withdrawal %	Beginning of Year Withdrawals	Surrender Value	Death Benefit
At Issue	60			250,000	250,000				
1	61	6.00%	15,000	261,708	274,375	5.81%	0	238,037	261,708
2	62	0.00%	0	258,094	301,127	5.94%	0	237,221	258,094
3	63	6.00%	15,486	269,614	330,486	6.06%	0	250,109	269,614
4	64	6.00%	16,177	281,438	362,709	6.18%	0	263,625	281,438
5	65	6.00%	16,886	293,548	398,073	6.27%	0	277,623	293,548
6	66	0.00%	0	288,305	436,885	6.36%	0	275,357	288,305
7	67	6.00%	17,298	299,849	479,481	6.44%	0	289,009	299,849
8	68	6.00%	17,991	311,526	526,231	6.52%	0	303,079	311,526
9	69	0.00%	0	304,595	577,538	6.60%	0	299,126	304,595
10	70	6.00%	18,276	315,265	633,848	6.69%	0	312,417	315,265
<b>11</b>	<b>71</b>	<b>6.00%</b>	<b>16,372</b>	<b>281,626</b>	<b>633,848</b>	<b>6.69%</b>	<b>42,404</b>	<b>281,626</b>	<b>281,626</b>
12	72	6.00%	14,353	245,968	633,848	6.69%	42,404	245,968	245,968
13	73	0.00%	0	195,958	633,848	6.69%	42,404	195,958	195,958
14	74	6.00%	9,213	155,160	633,848	6.69%	42,404	155,160	155,160
15	75	6.00%	6,765	111,915	633,848	6.69%	42,404	111,915	111,915
16	76	6.00%	4,171	66,075	633,848	6.69%	42,404	66,075	66,075
17	77	0.00%	0	16,064	633,848	6.69%	42,404	16,064	16,064
18	78	0.00%	0	0	633,848	6.69%	42,404	0	0
19	79	0.00%	0	0	633,848	6.69%	42,404	0	0
20	80	0.00%	0	0	633,848	6.69%	42,404	0	0
21	81	0.00%	0	0	633,848	6.69%	42,404	0	0
22	82	0.00%	0	0	633,848	6.69%	42,404	0	0
23	83	0.00%	0	0	633,848	6.69%	42,404	0	0
24	84	0.00%	0	0	633,848	6.69%	42,404	0	0
25	85	0.00%	0	0	633,848	6.69%	42,404	0	0
26	86	0.00%	0	0	633,848	6.69%	42,404	0	0
27	87	0.00%	0	0	633,848	6.69%	42,404	0	0
28	88	0.00%	0	0	633,848	6.69%	42,404	0	0
29	89	0.00%	0	0	633,848	6.69%	42,404	0	0
30	90	0.00%	0	0	633,848	6.69%	42,404	0	0
40	100	0.00%	0	0	633,848	6.69%	42,404	0	0

4.24% Average

\$167,988 Total

\$1,272,134 Withdrawn

# Coverage summary at a glance.

Premium \$250,000 at age 60 · income begins year 11 (age 70).

<p><b>01</b> PREMIUM <b>\$250,000</b></p>	<p><b>02</b> COVERAGE TYPE <b>Joint Life</b></p>	<p><b>03</b> INCOME START <b>Year 11</b></p>	<p><b>04</b> COVERED AGE <b>70</b></p>
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Year	Covered Age	Withdrawal Benefit Base	Lifetime Withdrawal %	Annual Withdrawal Amount (AWA)	AWA if Chronic Illness Multiplier Activated
At Issue	60	250,000			
1	61	274,375	5.31%	14,569	0
2	62	301,127	5.44%	16,381	32,763
3	63	330,486	5.56%	18,375	36,750
4	64	362,709	5.68%	20,602	41,204
5	65	398,073	5.77%	22,969	45,938
6	66	436,885	5.86%	25,601	51,203
7	67	479,481	5.94%	28,481	56,962
8	68	526,231	6.02%	31,679	63,358
9	69	577,538	6.10%	35,230	70,460
10	70	633,848	6.19%	39,235	78,470
<b>11</b>	<b>71</b>	<b>633,848</b>	<b>6.19%</b>	<b>39,235</b>	<b>78,470</b>
12	72	633,848	6.19%	39,235	78,470
13	73	633,848	6.19%	39,235	78,470
14	74	633,848	6.19%	39,235	78,470
15	75	633,848	6.19%	39,235	78,470
16	76	633,848	6.19%	39,235	78,470
17	77	633,848	6.19%	39,235	78,470
18	78	633,848	6.19%	39,235	78,470
19	79	633,848	6.19%	39,235	78,470
20	80	633,848	6.19%	39,235	78,470
21	81	633,848	6.19%	39,235	78,470
22	82	633,848	6.19%	39,235	78,470
23	83	633,848	6.19%	39,235	78,470
24	84	633,848	6.19%	39,235	78,470
25	85	633,848	6.19%	39,235	78,470
26	86	633,848	6.19%	39,235	78,470
27	87	633,848	6.19%	39,235	78,470
28	88	633,848	6.19%	39,235	78,470
29	89	633,848	6.19%	39,235	78,470
30	90	633,848	6.19%	39,235	78,470
40	100	633,848	6.19%	39,235	78,470

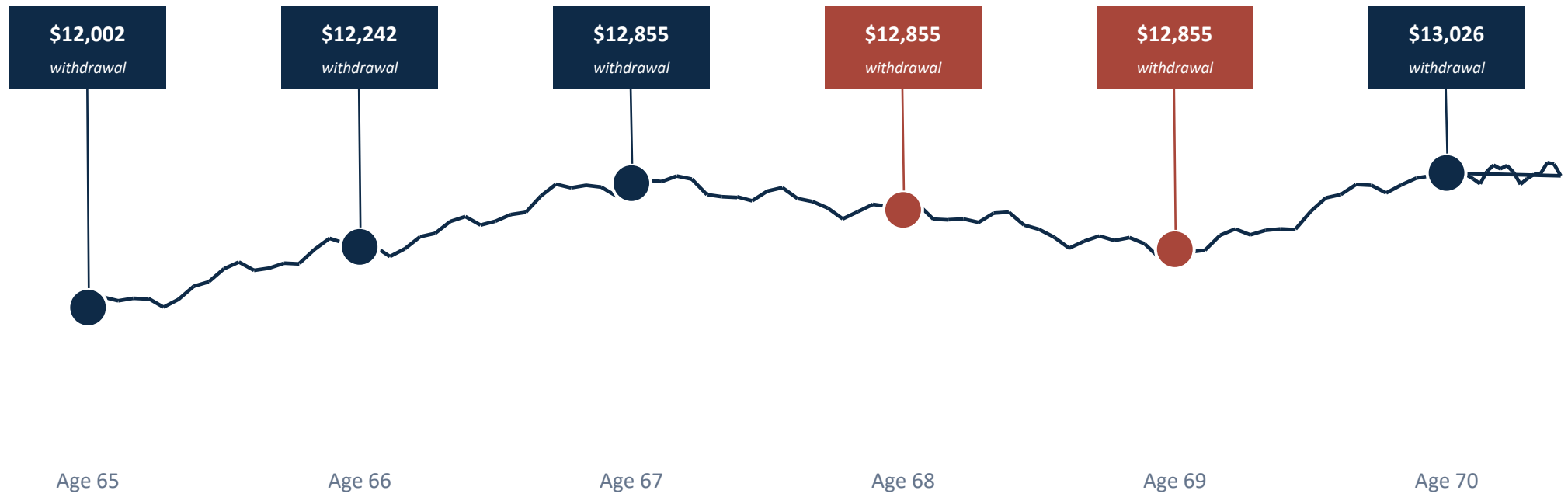
TOTAL WITHDRAWALS

**\$1,177,056**

HOW IT WORKS

# How the income base ratchets up.

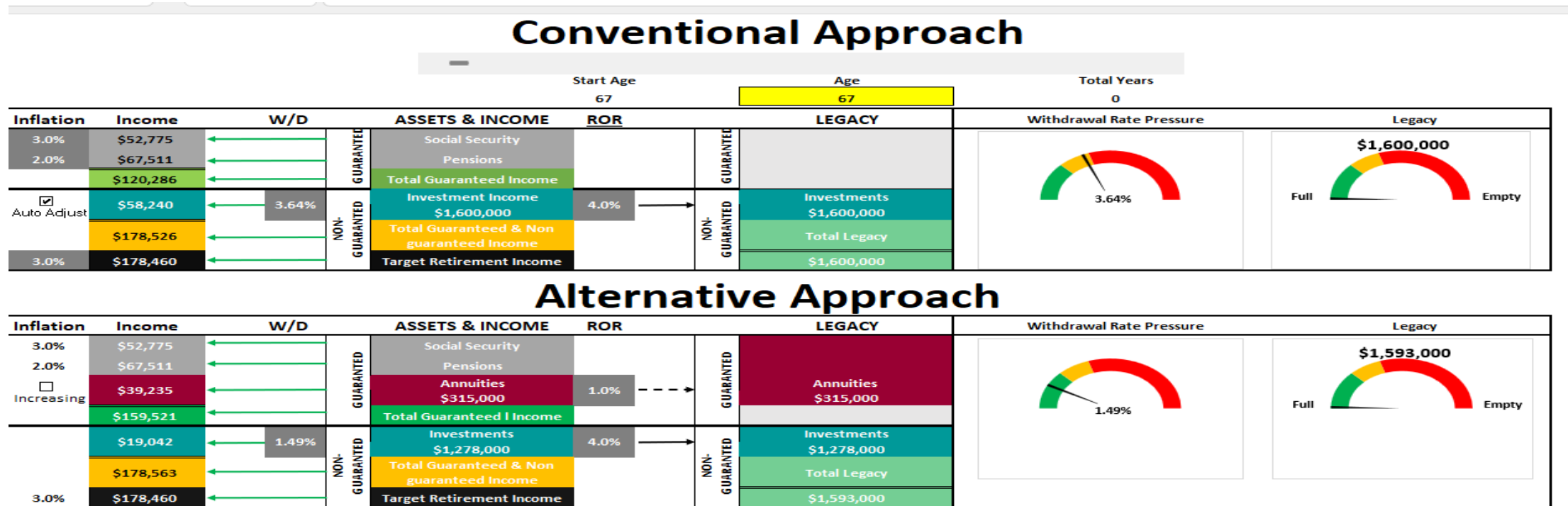
*Withdrawals stay steady on the way up. When the index dips, income holds — the base never resets down.*



	Age 65	Age 66	Age 67	Age 68	Age 69	Age 70
INDEX RETURN	+2%	+5%	+5%	-2%	-3%	+6%
INCOME CHANGE	+2%	+5%	+5%	No change	No change	+6%
BENEFIT BASE	\$273,880	\$287,574	\$287,574	\$287,574	\$287,574	\$304,829

# Conventional vs. Alternative at age 67.

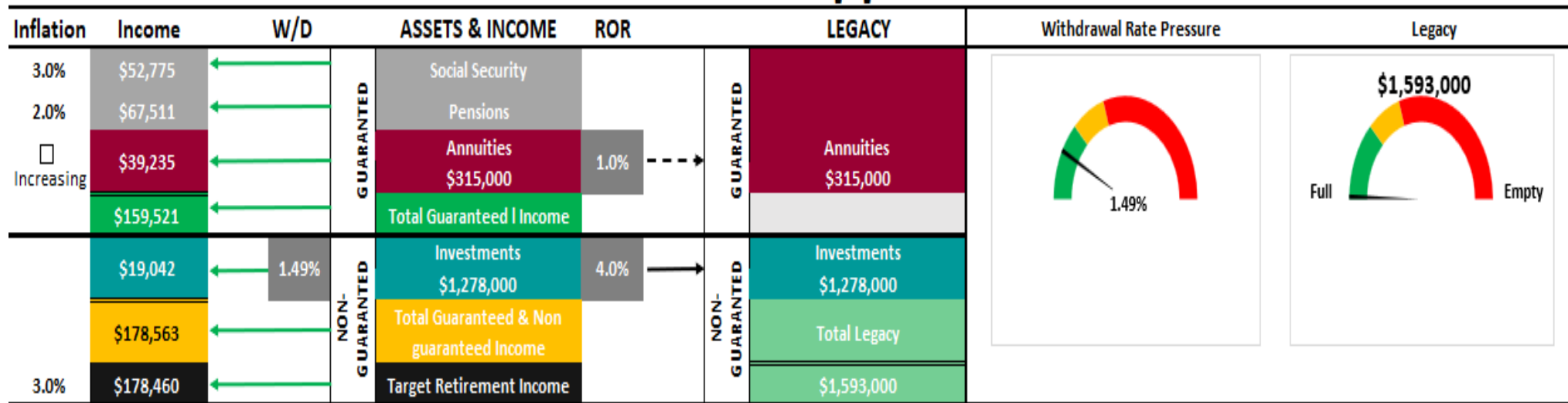
Side-by-side at the start of retirement: how an Alternative strategy reframes the same income need.



# Alternative retirement approach.

*An annuity layer adds guaranteed income — and reduces reliance on the portfolio's behavior.*

## Alternative Approach

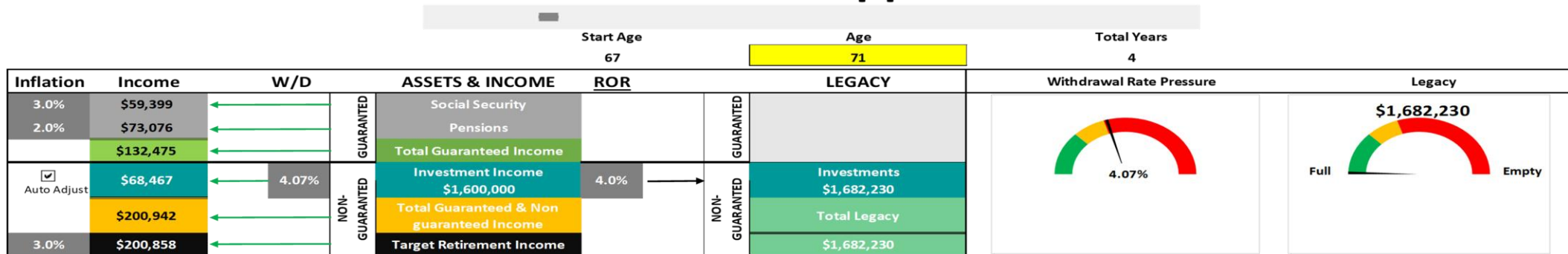


Source: CJ Campbell & Associates Retirement Income Model · age 67 · annuity layer of \$315,000 · 1.0% annuity income rate.

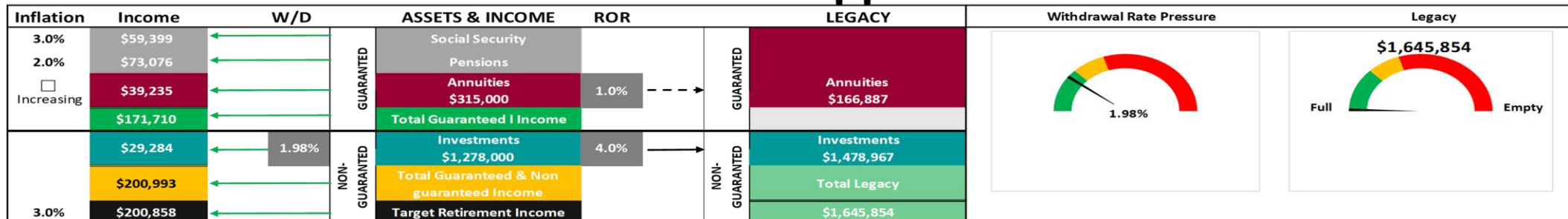
# Conventional vs. Alternative at age 71.

Same four years. Same target income. Two very different paths through inflation and withdrawal pressure.

## Conventional Approach



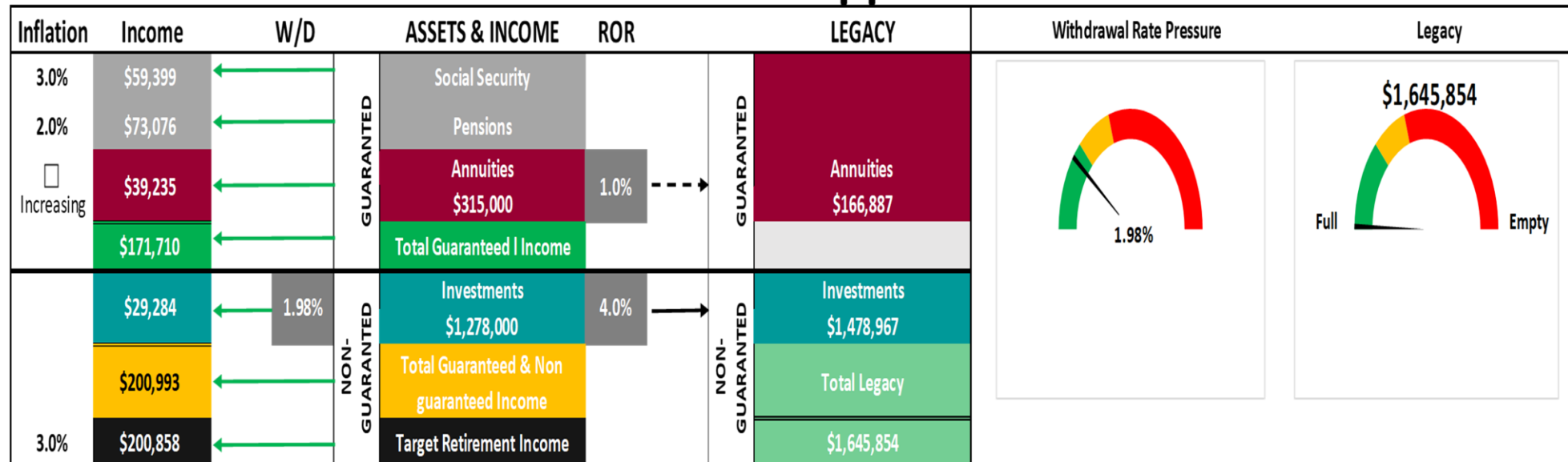
## Alternative Approach



# Alternative retirement approach.

*An annuity layer adds guaranteed income — and reduces reliance on the portfolio's behavior.*

## Alternative Approach



Source: CJ Campbell & Associates Retirement Income Model · age 71 · annuity layer of \$315,000 · 1.0% annuity income rate.

# The required rate of return.

If we want \$39,235 of guaranteed income, what would it actually take to produce that from a portfolio? Walk the math step by step.

01

THE GOAL

How much guaranteed income at age 90?

**\$39,235**

/ year

The income we want our money to spin off.

02

STARTING POINT

We have \$250,000 today.  
We have 10 years.

**\$250,000**

today, 10 years to grow

What we have to work with.

03

REVERSE ENGINEER

At a 4% withdrawal rate, what balance is required?

**\$980,875**

needed at 90

$\$39,235 \div 4\% = \$980,875$

04

REQUIRED RETURN

What annual rate of return is required?

**14.65%**

every year, 10 years

$\$250,000 \times (1.1465)^{10} \approx \$981,026$

# Who tends to like which strategy?

## CONVENTIONAL

- 01 Comfortable with market volatility
- 02 Likes full control
- 03 Legacy is important to them
- 04 Driven by watching the portfolio grow
- 05 Comfortable with all the moving pieces

- 
- *Understands how to rebalance*
  - *Understands how to navigate income distributions in good and bad markets*
  - *Understands how to navigate RMDs when the time comes*

## ALTERNATIVE

- 01 Not as comfortable with market volatility
- 02 Likes less management
- 03 Not as driven to pass on legacy
- 04 Overwhelmed by the finance
- 05 Likes simplicity — not a lot of moving pieces
- 06 Conservative — needs withdrawal rate of 3–4%

—  
CHAPTER

# The Purpose of Money.

*Money is a tool. The question is what we want it to do.*



—  
CASE STUDY

# The Story of Jim.

*A Federal employee with a TSP, a pension, and a question many of us share:*

*"How do I make sure I don't outlive my money?"*



—  
CASE STUDY · CONTINUED

# But Theresa has different worries.

*Same target income. Same TSP balance. Different temperament — and a different best answer.*



# How distributions are taxed.

*Three rules that govern how earnings come out of an annuity contract.*

## 01 Earnings portion is taxable

Tax is imposed on the earnings portion of any withdrawal or annuitization payment — not on the return of your original premium.

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## 02 Earnings come out first

Withdrawals are made from earnings first. Annuitization payments are part return-of-principal and part earnings, prorated by an exclusion ratio.

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## 03 10% early-distribution penalty

An additional 10% premature distribution tax applies to earnings withdrawn before age 59½ — on top of ordinary income tax.

# Two ways to fund long-term care.

*Same problem. Two structurally different solutions — and one big trade-off.*

## LONG-TERM CARE INSURANCE

### FUNDING

Up-front or monthly premiums

### GROWTH

No growth component

### IF NOT NEEDED

Premiums may be lost — pure insurance

## DEFERRED ANNUITY w/ LTC RIDER

### FUNDING

Single premium or scheduled deposits

### GROWTH

Has a growth component (interest, indexed credits)

### IF NOT NEEDED

Still receive annuitized payments — value isn't lost

CLOSING

# Thank you for your time.

*Questions are where good planning begins.*

KINDLY FILL OUT OUR FEEDBACK SURVEY

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