

# Annuities and GICs

*Publication of United States Annuities*

November-December 1986

## ***DISTRIBUTION PLANNING UNDER TRA 86: Erasing some of the tax advantages***

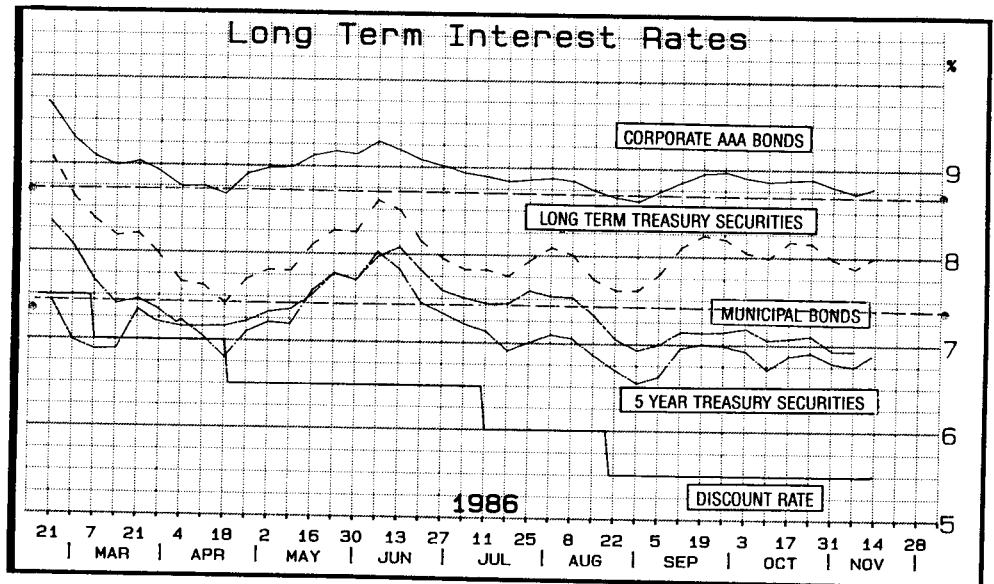
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- **Single Premium Immediate Annuities**
- **Single Premium Deferred Annuities**
- **Structured Settlement Annuities**
- **Single Premium Group Annuities**
- **Guaranteed Interest Contracts**
- **and much more**

## BI-MONTHLY MARKET REVIEW:

The recent six month trading range in long term treasury securities (between 7.35% and 8.35%) has yet to be resolved. It seems every time we predict that the markets are about to break out in one direction or the other, rates go right back towards the middle of the trading range. This pattern continued to hold true for our most recent reporting period, too. Rates for both Single Premium Immediate Annuities and Bullet GICs were mostly flat during the month. Not surprisingly, there were only minor changes in our carriers' competitive standings, too. Where do we see the market going from here? Being fully prepared for more pie on our face, we'll venture the following interest rate forecast: the longer we stay in a holding pattern, the more likely we are to be in a "bottoming" formation

(with rates in a new uptrend from these levels). However, if rates do break to the downside within the next few weeks, we should see a sharp run to the 6.50% levels. As always, call us during the month if you need an updated report. Until next time, stay tuned.



**Annuities & GICs** is published bi-monthly by United States Annuities, a leading independent brokerage service for annuity and life insurance products. Editorial, executive, and business office, 98 Hoffman Road, Englishtown, NJ 07726, (201) 613-0700, FAX: (201) 521-1045.

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**SUBSCRIPTION PRICE:** Continental U.S. first-class delivery, prepaid only, \$50 a year for 6 bi-monthly issues. Address all subscription correspondence and change of address to Circulation Manager, United States Annuities, POB 157, Jamesburg, NJ 08831.

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Feature Report**PLANNING DISTRIBUTIONS UNDER THE TAX REFORM ACT OF 1986**

The Tax Reform Act of 1986 (TRA 86) has brought about important changes in the taxation of distributions from qualified plans. These new laws were passed by Congress to insure that the tax advantages available in qualified plans be used mostly to create income for retirement and not before then. For example, under the old rules, preretirement distributions for non-retirement purposes were encouraged through various tax reducing programs such as 10-year forward averaging. These tax "incentives" were motivating premature pension payouts, a trend having a negative impact on the nation's savings pool. The new laws of TRA 86 were conceived to turn these trends around and in doing so they place more stringent restrictions on premature distributions, as well as encourage the payment of retirement benefits in the form of annuities. Additionally, under TRA 86, the rules on distributions were made to be applied uniformly across all types of qualified plans, including IRAs. The purpose of this article is to help you with the planning of distributions from qualified plans.

**TIMING THE DISTRIBUTION:****1. Post-Age 70-1/2 Distributions**

Under TRA 86, a plan participant must begin receiving benefits by April 1 following the calendar year in which he reaches age 70-1/2 even if he has not yet retired. Under the old laws only 5% owners who had not yet retired were required to begin receiving a minimum distribution as soon as they reached age 70-1/2, while non-5% owners could continue to defer receipt of their benefits after 70-1/2. The new law requires distributions to begin at 70-1/2 for all plan participants regardless of their work status.

Transition Rule - Persons who are 70-1/2 by January 1, 1988, other than 5% owners in any plan year ending with or within the calendar year in which they attained age 66-1/2 or any succeeding plan year, may defer commencement until actual retirement.

**2. "Pre-Age 59-1/2" Early Distributions**

Before TRA 86, a 5% penalty tax applied to certain taxable "premature" distributions from qualified plans. Starting with all distributions after 1986, new rules apply to every participant in a qualified plan who takes a distribution during active service. Distributions that are includable in gross income (i.e. not rolled over into an IRA or another qualified plan) including hardship withdrawals from either a 401k or TSA, are taxable with an additional 10% income tax penalty (10% excise tax) except when the distribution is received on account of the -

- (1) death or disability of the participant
- (2) participant's separation from service after age 55 under an early retirement plan  
(Note- this exception will not apply to a pre-age 55 employee who separates from service under an early retirement plan and begins receiving payments on or after attaining age 55. Neither does it apply to early distributions from IRAs.)
- (3) payments being used for tax-deductible medical expenses.

A distribution may also be exempt from the excise tax if it is-

- (4) in the form of a commercial or trust plan annuity payable for life or life expectancy of the participant or the joint lives or life expectancies of the employee and his beneficiary (but not if for only 60 months as under the old laws).

*Continued on page 12*

## SINGLE PREMIUM IMMEDIATE ANNUITIES (SPIAs - M1)

Purchased with qualified funds, quoted premiums represent the total amount required to guarantee \$1000 of monthly life income. Assumes issue and first payment dates are the same. Quotes include all fees and commissions but not state premium tax, if any.

Insurance Company	I S S U E		A G E S		Quoted Comm
	Male 55	Male 65	Fem. 55	Fem. 65	
Standard Ins.	\$114,610	\$102,860	\$119,580	\$109,580	3.00%
Home Life	\$117,297	\$ 99,681	\$121,660	\$109,120	3.00%
Confederation	\$118,114	\$101,818	\$125,147	\$111,143	4.10%
Jackson National	\$118,537	\$102,983	\$124,671	\$111,733	3.00%
Canada Life	\$118,546	\$103,316	\$124,972	\$111,875	3.00%
Exec. Life	\$118,869	\$103,912	\$124,921	\$112,364	na
Guar. Secur.	\$121,951	\$104,932	\$128,866	\$114,416	5.00%
National Fidelity	\$122,120	\$101,900	\$132,270	\$115,327	5.00%
Amer. Life & Cas	\$125,000	\$108,000	\$131,000	\$118,000	3.50%
Delta Life/Annuity	\$127,447	\$110,475	\$134,442	\$119,659	3.00%
West. Natl.	\$127,670	\$108,856	\$136,724	\$119,367	5.00%
Modern Pioneers'	\$128,040	\$109,649	\$135,685	\$119,760	2.35%
Equitable	\$129,415	\$114,093	\$129,415	\$114,093	2.50%
Wash. Natl.	\$130,807	\$113,607	\$130,807	\$113,607	2.50%
West. Untd.	\$131,579	\$118,158	\$140,056	\$122,100	5.00%
SunLife/America	\$133,151	\$114,996	\$140,664	\$125,597	na
Transamerica	\$134,971	\$114,355	\$144,709	\$125,828	5.00%
SMA Life	\$136,658	\$109,901	\$144,405	\$120,134	3.00%
Travelers	\$142,883	\$123,024	\$156,746	\$141,859	2.50%
Monarch Life	\$149,977	\$129,808	\$149,977	\$129,808	4.00%
<b>AVERAGES</b>					
This issue	\$127,232	\$109,806	\$133,836	\$118,269	
Last issue	\$127,656	\$109,323	\$134,576	\$118,063	
Change	-0.3%	+0.4%	-0.5%	+0.2%	

na=info not available

## GUARANTEED BENEFIT DEFERRED ANNUITIES (GBDAs - Q1)

Total premium amount required to guarantee \$1000 of monthly life income with the first payment deferred to age 65. Quotes include all fees and commissions but not state premium tax, if any.

Insurance Company	I S S U E		A G E S		Quoted Comm
	Male 35	Male 50	Fem. 35	Fem. 50	
Home Life	\$ 6,573	\$ 24,819	\$ 7,360	\$ 28,572	3.0%
Exec Life	\$ 8,416	\$ 26,559	\$ 9,232	\$ 28,925	na
Canada Life	\$ 10,853	\$ 26,505	\$ 12,454	\$ 30,014	3.0%
Mod Pionrs'	\$ 33,735	\$ 70,134	\$ 37,674	\$ 78,372	3.0%

na=info not available

## SINGLE PREMIUM DEFERRED ANNUITIES (SPDAs - D1)

Tax-deferred accumulation contracts generally acceptable for qualified lump sum distributions. Most companies permit some form of free annual withdrawal privileges and will usually waive any surrender charges if all the proceeds are applied to a lifetime income annuity. Quotes are based on a single premium deposit of \$100,000 for a male age 35 which is annuitized for a Single Life monthly income after 30 years (age 65). Calculations illustrate rates currently in effect.

Insurance Company	Policy Name	Effect Annual Yield	Yield Guarantee Period	Bail-out (Escape/Floor)	Surrender Fees		Quoted Comm	30 Yr Cash Accumul Curr Rate	Mo Life Income Curr Rate
					Year 1	Year 7			
Guar. Secur	SPDA IV	10.0%	1 Year	na	10%	2%	5.0%	\$1,744,940	\$16,629
Mod. Pionrs	Adj. S. Prem.	9.50%	3 mo.	none	9%	2.7%	4.7%	\$1,522,030	\$13,880
Am Life/Cas	Series II	9.05%	1 Year	6.50%	7%	1%	3.5%	\$1,345,148	\$12,389
Travelers	T-Flex	9.00%	1 Year	none	7%	0%	3.0%	\$1,326,768	\$10,451
Equitable	Evliplan II	8.75%	1 Year	none	6%	1%	3.0%	\$1,238,448	\$11,914
Wash Ntl	WN Plan II+	8.76%	Jan.15	none	6%	0%	4.0%	\$1,241,870	\$11,351
Delta Life	S. Prem. Pref.	8.67%	1 Year	4.0%	6%	3%	v	\$1,154,182	\$ 9,891
Exec. Life	Safeannuity II	8.50%	1 Year	7.50%	5%	0%	4.0%	\$1,155,825	\$10,530
Jackson Nat.	MAX Plan	8.50%	1 Year	na	6%	0%	4.0%	\$1,155,825	\$11,339
Life\Sothwst	BASE I	8.50%	1 Year	-.50%	5%	0%	3.5%	\$1,155,826	\$10,726
West Ntl	SPDA	8.50%	1 Year	none	5%	0%	5.0%	\$1,155,810	\$11,176
Standard Ins		8.50%	none	6.25%	4%	4%	na	na	na
Sunlife/Amer	Series II	8.40%	1 Year	-1.25%	6%	0%	na	\$1,124,290	\$ 9,777
SMA Life	Exec/Annuity	8.25%	1 Year	none	5%	0%	3.0%	\$1,078,542	\$ 9,944
Bus Men's	SPDA	8.00%	1 Year	none	10%	0%	3.0%	\$1,006,267	\$ 9,196
Wash Sq	2 Yr. Guar.	8.25%	2 Years	7.25%	7%	1%	4.0%	\$1,078,542	\$10,207
West United	Unimax I	8.00%	3 Mo.	none	5%	3%	5.0%	\$1,006,266	\$ 9,036
Transamerica		7.75%	1 Year	6.74%	8%	2%	3.25%	\$ 938,681	\$ 9,647
Monarch Life	SPDA	7.75%	1 Year	6.75%	9%	3%	4.0%	\$ 709,638	\$ 6,000

na=info not available, v=varies with plan

## STRUCTURED SETTLEMENT ANNUITIES (SS - S1)

For personal injury applications, these quotes represent the total premium amount required to guarantee \$1000 of monthly life income, assuming a 0% or 3% per annum cost of living adjustment (COLA). Assumes normal life expectancy (ie., plaintiff's injury is not life impairing). Cost of third-party assignment extra. Issue date and first payment dates are the same. Quotes include all fees and commissions but not state premium tax, if any.

Insurance Company	I S S U E A G E S (WITH X% COLA)				Quoted Comm
	Male 15 (0%)	Male 50 (0%)	Male 15 (3%)	Male 50 (3%)	
Exec. Life	\$137,913(a)	\$116,793(a)	\$200,381(a)	\$150,076(a)	4.00%
Jackson Natl	\$137,929	\$123,604	\$203,028	\$166,555	3.00%
Equitable	\$140,600	\$115,500	\$209,816	\$149,467	na
Canada Life	\$140,920	\$123,927	\$219,793	\$166,425	na
Delta/Ann	\$153,324	\$133,530	\$241,125	\$181,919	na
Nat. Fidelity	\$156,811	\$125,861	\$241,991	\$165,855	4.00%

(a) Third-party assignment flat fee of \$1,000 included in quote, na=info not available

## SINGLE PREMIUM GROUP ANNUITIES (SPGAs - G1)

Non-par accrued benefit or "buyout" contracts for terminating and ongoing pensions. Underlying rates are currently in the 8.00% area. Pricing here is fairly complicated. Premium calculations depend on plan provisions included in the contract, participants' age distribution, ratio of immediate to deferred participants, projected benefit payment streams, insurance companies' profit to premium objectives, and many other factors. Not surprisingly, price leadership changes throughout the year, and even with respect to the same plan, quotes may vary by as much as 30%.

United States Annuities Placement Services can assist you in the purchase of group annuities for terminating or ongoing plans. Our work entails the following steps in the placement process:

- (1) Meeting with the plan actuaries and corporate decision makers to develop an annuity implementation schedule.
- (2) Developing plan specifications for presentation to the major insurance companies. By properly communicating plan needs, risk premiums are reduced and costs are lowered.
- (3) Reviewing the competitive bid proposals for completeness, refining the best offers and organizing the final bidding procedure and transfer of funds.
- (4) Auditing the final changes in data and costs. Reviewing final contracts and participant certificates. Continuing to represent the plan vis a vis the carrier in all subsequent inquiries.

Our combination of specialized marketing expertise and unique annuity-tracking database makes USA your best source for group annuity funding. Call our offices at (201) 613-0700 for details.

## GUARANTEED INTEREST CONTRACTS (GICs - P1)

Rates for "bullet" contracts reported net of expenses and quoted commissions.

Insurance Company	\$500,000 Deposit				\$5,000,000 Deposit				Quoted Comm
	Compound		Simple		Compound		Simple		
	3 Yr	7 Yr	3 Yr	7 Yr	3 Yr	7 Yr	3 Yr	7 Yr	
Exec. Life	8.13%	9.15%	8.13%	9.15%	8.16%	9.18%	8.16%	9.18%	0.08%
Southwestern	8.01%	8.69%	8.01%	8.69%	8.10%	8.76%	8.10%	8.76%	0.00%
Home Life	8.00%	na	7.95%	na	8.05%	na	8.00%	na	0.00%
Canada Life	7.87%	na	8.12%	8.69%	8.10%	na	8.25%	8.80%	0.20%
Life of Va.	7.80%	na	7.85%	na	7.52%	na	7.52%	na	0.00%
Life of Ga.	7.61%	na	7.61%	8.29%	7.81%	na	7.81%	8.49%	0.20%
New York Life	7.57%	8.15%	7.61%	8.19%	7.73%	8.25%	7.76%	8.29%	0.20%
Canada Life	7.25%	na	7.50%	8.19%	7.55%	na	7.80%	8.37%	0.20%
Prudential	na	na	na	na	7.33%	8.53%	7.33%	8.53%	0.00%
Travelers	6.92%	7.50%	na	na	7.46%	8.07%	na	na	0.00%
Transamerica	6.32%	na	6.32%	8.16%	6.48%	na	6.48%	8.32%	0.00%
<b>AVERAGES</b>									
This Issue	7.55%	8.37%	7.68%	8.48%	7.66%	8.56%	7.72%	8.59%	
Last Issue	7.56%	8.24%	7.62%	8.42%	7.70%	8.44%	7.67%	8.50%	
Chng. Bss. Pts.	-01	+13	+06	+06	-04	+12	+05	+09	
% Chng. Rates	-0.1%	+1.5%	+0.8%	+0.8%	-0.5%	+1.2%	+0.7%	+1.1%	

na=info not available

## FLEXIBLE PREMIUM RETIREMENT ANNUITIES (FPRA's - F1)

Tax-deferred accumulation contracts generally acceptable for qualified lump sum distributions. Most companies permit some form of free annual withdrawal privileges and will usually waive any surrender charges if all the proceeds are applied to a lifetime income annuity. Quotes assume a monthly premium of \$100 for a male age 35 which is annuitized for a Single Life monthly income after 30 years. Calculations illustrate rates currently in effect.

Insurance Company	Policy Name	Effect. Annual Yield	Yield Guarantee Period	Bail-Out (Escape/Floor)	Surrender Fees		Quoted Comm	30 Yr Cash Accumulation Current Rate	Mo Life Income Curr Rate
					Yr 1	Yr 7			
Guar Secur	Enhancer/1	10.50%	1 Year	none	15%	7%	9.0%	\$229,215	\$2,184
Lincoln Ben	Futurist	9.50%	none	none	7%	7%	6.0%	\$182,826	\$1,474
Mod Pionrs'	FPDA	9.50%	3 Mo.	none	20%	3%	11.0%	\$187,000	\$1,708
Travelers	T-Flex	9.00%	1 Year	none	7%	.5%	3.0%	\$171,438	\$1,350
Wash Natl	WN PLAN II+	8.76%	next	none	6%	6%	4.0%	\$163,386	\$1,493
Life\South	FPDA-85	8.75%	1 Year	none	10%	4%	3.5%	\$163,436	\$1,517
Am Life\Cas	AMFLEX VIII	8.75%	1 Year	none	12%	2%	7.25%	\$163,436	\$1,505
Delta Life	IRA	8.67%	1 Year	4%	10%	3%	4.0%	\$151,430	\$1,294
Jackson Nat.	Flex I	8.50%	1 Year	none	12%	0%	10%	\$153,887	\$1,510
ITT Life	FPA	8.50%	1 Year	none	v	0%	6.0%	\$151,797	\$1,509
Standard I	na	8.50%	none	6.25%	3%	3%	7.5%	na	na
West Natl	FPDA	8.50%	none	none	6%	4%	8%/5%	\$155,835	\$1,507
West United	UNIFLEX I	8.00%	3 Mo.	none	5%	3%	5.0%	\$141,761	\$1,273
SMA Life	EPFA	8.00%	1 Year	none	7%	3%	5.0%	\$140,865	\$1,299
Home Life	Flex Annuity	8.00%	1/31/88	none	7%	3%	3.0%	\$144,761	\$1,238
Canada Life	Flex Annuity	8.00%	1 Year	none	10%	7%	3.0%	\$139,062	\$1,310
Transamer	na	8.00%	1 Year	6.99%	13%	7%	8.0%	\$138,416	\$1,421
Bus Men's	FPA	7.50%	1 Year	none	10%	0%	8.0%	\$133,385	\$1,218
Monarch Life	Suflex	7.25%	1 Year	6.25%	7%	6%	4.0%	\$102,476	\$ 866

mva=market value adjustment, na=info not available, v=varies with plan, \*=male rates

## INDIVIDUAL VARIABLE ANNUITIES (IVAs - V1)

Available for qualified and non-qualified funds. Unlike fixed interest annuities, Variable Annuities typically offer a range of funding vehicles where investment unit values are subject to fluctuation in response to market conditions. Subject to limitations, exchange privileges between funds are available. Because of their similarity to mutual funds, Variable Annuities can only be sold by agents and brokers who are licensed by the National Association of Securities Dealers to sell investment products.

Insurance Company	AVAILABLE ACCOUNTS					Permits Flexible Premium	# Yrly. Exch. Permitted Betw. Accts.
	Fixed Interest	Income/Bond*	Equity/Stock*	Money Market**	Other		
Lincoln Natl	8.50%	8.9%	7.6%			na	na
Wash. Ntl.	8.76%	21.41	23.85%	5.9%	na	Y	1
Equitable	9.15%	na	36.00%		na		unlimited
SMA Life	8.00%	16.70%	24.40%	5.0%	na	Y	3

Y=yes, na=info not applicable, \* Performance during previous 12 months, \*\* Current average daily interest rate  
(a) performance figures reflect first 2 Qtrs of 1986

## CERTIFICATES OF DEPOSIT (CDs)

FDIC insured CDs. Stated rates as of 10/27/86. Source: *100 Highest Yields* and *Bank Rate Monitor*.

Maturities	Institution/Location	Phone	Compnd Mthd	Stated Yield	Ann Eff Yield	Avrg Ann Yield
6-Month	Meridian Savings/Arlington,TX NATIONAL AVERAGE (BRM Index)	(800) 367-0452	CQ	7.05%	7.24% 5.92%	na
1 Year	Pacific Coast S&L San Fran,CA NATIONAL AVERAGE (BRM Index)	(800) 792-7283	CD	7.25%	7.52% 6.20%	na
2-1/2 Yrs	Pacific Coast S&L San Fran,CA NATIONAL AVERAGE (BRM Index)	(800) 792-7283	CD	7.50%	7.79%	8.25% 7.01%
5 Year	Commer Credit Bnk/ B'more,MD NATIONAL AVERAGE (BRM Index)	(301) 332-5960	CM	8.10%	8.40%	9.95% 8.33%

**Remarks:**

Compounding Abbreviations - CC=continuously, CD=daily, CQ=quarterly, SA=semi-annually, CA=annually, SI=simple interest. Average annual yield is the average yield per year over the life of the investment, assuming all principal and interest remain on deposit until maturity. na= not available

## POOLED ACCOUNTS (PA - P4)

Pooled income, equity, real estate and other accounts available for qualified plan investments.

Insurance Company		A V A I L A B L E		A C C O U N T S	
		Income/ Bond	Equity/ Stock	Money Market	Real Estate
Home Life	Min. Dep.	None	None	None	na
	Prfm:YTD/86	9.56%	12.48%	5.18%	na
	Prfm:85	na	na	na	na
Life/Va.	Min. Dep.	\$25K	\$25K	na	na
	Prfm:YTD/86	11.4%	9.1%	na	na
	Prfm:85	28.4%	22.3%	na	na
Travelers	Min. Dep.	\$25K	\$25K	na	\$100K
	Prfm:YT6/86	11.48%	21.07%		4.31%
	Prfm:85	25.69%	31.92%		10.30%
Transamer.	Min. Dep.	None	None	\$25K	na
	Prfm:YTD/86	13.36%	9.25%	6.53%	na
	Prfm:85	27.67%	24.07%	8.10%	na

**Remarks:**

\* second quarter reports, na=info not applicable, prfm=performance, YT=year to date  
\*\* performance figures show returns to investor after deductions for expenses.



## YEARLY RENEWABLE TERM LIFE INSURANCE (YRT - L2)

Premiums for \$100,000 face amount, all costs and commissions included.

Insurance Company	Policy Name	Male Non-Smoker Issue age 40			Female Non-smoker Age 40		
		1st Yr Net Cost	5th Yr Net Cost	Total Cost After 5 Yrs	1st Yr Net Cost	5th Yr Net Cost	Total Cost After 5 Yrs
Jackson Natl	YRT-100	\$152	\$248	\$ 980	\$134	\$176	\$ 765
Canada Life	Ten ART	\$137	\$285	\$1,063	\$132	\$273	\$1,019
Natl Fidelity	Perf. 2001	\$170	\$225	\$ 985	\$159	\$204	\$ 911
Wash. National	Executerm	\$171	\$235	\$1,002	\$148	\$184	\$ 828
Travelers	YRT-10	\$192	\$262	\$1,108	\$171	\$224	\$ 967
Lincoln Benefit	Entre. I	\$195	\$223	\$1,124	\$163	\$305	\$ 849
Standard Insurance	Term to 95	\$198	\$270	\$1,163	\$170	\$227	\$ 987
West. United	ART-1	\$207	\$271	\$1,209	\$167	\$207	\$ 929
Equitable	Term	\$212	\$274	\$1,234	\$198	\$253	\$1,143
Life Southwest	TERM TO 100	\$212	\$288	\$1,238	\$160	\$198	\$ 886
Mod Pioneers'	ART to 100	\$223	\$286	\$1,219	\$174	\$220	\$1,042
Monarch Life	YRT	\$253	\$337	\$1,465	\$228	\$255	\$1,211
ITT Life	ULART&SIGIII	\$277	\$350	\$1,543	\$277	\$350	\$1,543

## UNIVERSAL LIFE INSURANCE (UL - L1)

Assumes \$100,000 policy for 45-year old, male non-smoker, with \$2000 premium, annual payment mode, and Type 2/Option B death benefit (ie., face or specified amount plus cash value).

Insurance Company	Policy Name	Interest Rate Credited			Using 8% Credit Rate & Curr. Mortality charges		Loading: Front/Back
		Unloaned Cash Value	Loaned Cash Value	Guarant'd Interest Rate	Age 65 Surr. Value	Age 65 Death Benefit	
Transam.	Sec. Life	10.25%	4.0%	0.17%	\$56,225	\$100,000	Front
Lincoln Ben	Achievr III	10.10%	7.0%	5.0%	\$64,042	\$164,042	Back
Life\SW	Pano Lf III	10.00%	4.5%	4.5%	\$70,185	\$100,000	Back
Wash. Natl.	UL IIB	9.50%	4.5%	4.5%	\$68,778	\$168,778	Back
Canada Life	TPL Maxum	9.50%	4.0%	4.0%	\$70,674	\$164,695	Back
ITT Life	SIG IV	9.50%	6.5%	4.5%	\$67,894	\$151,227	Back
M. Pioneers'	UL-100	9.50%	8.0%	4.5%	\$47,727	\$147,727	Front
N. Fidelity	Perf. 2001	9.25%	7.45%	4.5%	\$72,916	\$172,716	Back
Amer Life\Cas	UL-300	9.15%	6.0%	6.0%	\$68,969	\$168,969	Front
Travelers	Excelife	9.00%	4.0%	4.0%	\$73,387	\$173,387	Back
Delta Life	Indiv Life	na	none	none	\$192,347	\$292,347	Front
Standard Ins	UL II	8.50%	6.0%	5.5%	\$71,820	\$171,820	Back
Monarch Life	Lifespan	7.75%	6.0%	4.0%	\$59,460	\$159,460	Front

na=info not available

## SINGLE PREMIUM WHOLE LIFE (SPWL - L3)

Illustrations are based on a single premium deposit of \$100,000 and reflect the rates for an age 35 male, non-smoker. All companies have calculated loan amount, cash value and death benefit using current credited rates.

Insurance Company	Policy Name	Current Interest Rate	Guaranteed Interest Rate	Net Cash Value	Max 0% Loan Available at age 65	Max Loan Available at Age 65, Keeping Initial Death Benefit
Guaran Sec	Provider 1	10.00%	4.0%	\$ 474,728	\$ 374,728	\$ 374,728
ITT Life*	SIG VII	9.50%	4.5%	\$ 253,407	\$ ---	\$ 62,096
Delta Life	SPWL	9.25%	4.0%	\$ 492,665	\$ 37,547	\$ 112,000
Am/Life/Cas	SPWL III	8.00%	6.0%	\$ 503,384	\$ 403,384	\$ 267,409
Exec Life	Explorer	8.00%	6.0%	\$ 466,096	\$ 466,096	\$ 124,491
Jackson Natl	SPWL	8.00%	6.0%	\$ 466,095	\$ 366,095	\$ 216,108
Life Southwest	TAXBRAKE	8.00%	4.0%	\$ 466,096	\$ 439,155	\$ 240,921
Sun Life/Amer.	SPL	8.00%	6%/4.5%	\$ 466,096	\$ 93,219	na
Standard Ins.	Whole Life	na	6.0%	\$ 447,658	\$ ---	\$ 425,869
Travelers	Signet	8.00%	4.5%	\$ 400,495	\$ ---	\$ 74,207
Equitable	SP Plus	7.75%	4.0%	\$ 444,986	\$ 359,986	\$ 75,000
Wash Square	Series I	7.40%	6.0%	\$ 416,952	\$ 316,952	\$ 180,242

na=info not available,

\* Calculations based on \$50,000 premium, the maximum for this product.

## Distribution Planning, cont.

- (5) made before March 15, 1987 and is attributable to a separation from service in 1986 and is also taxable in 1986
- (6) a payment to an alternate payee pursuant to a QDRO
- (7) a certain type of pre-1990 ESOP distribution
- (8) a qualified dividends paid under a tax credit ESOP (Sec 404k)
- (9) a certain type of distribution of excess contributions to and excess deferrals under a 401k plan
- (10) a mandatory payment of a lump sum not in excess of \$3500. (The technical corrections resolution passed by the House in September attempted to overrule this exception.)

Note that:

- (a) plan distributions resulting from mergers or acquisitions do not fit into any of the above exceptions and so would be subject to the early distribution penalty.
- (b) distributions which return a participant's principal (i.e., after-tax contributions) are not penalized.
- (c) if a periodic payment series is modified before age 59-1/2 or within 5 years, a recapture tax may be imposed equal to the penalty that would have been applied in the first place.
- (d) as under the old law, distributions from pre-TEFRA contracts are not subject to penalty, nor will the penalty apply to withdrawals of investment. However, withdrawals from post-TEFRA annuity contracts are considered "income first".

## SINGLE PREMIUM WHOLE LIFE (SPWL - L3)

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## Distribution Planning, cont.

### AMOUNT OF THE DISTRIBUTION:

#### 1. Minimum Required Distribution:

In addition to the required age 70-1/2 starting date, TRA 86 mandates that a minimum amount of annual payments be distributed. Failure to satisfy the minimum distribution rules will result in the imposition on a participant of a nondeductible excise tax equal to 50% of the excess of the required minimum distribution over the actual distribution. Note that the 50% tax is on the participant or beneficiary, not on the plan, even though the plan is required to meet the minimum distribution requirements. These provisions regarding minimum distributions, are effective for plan years beginning after 1988. However, as noted above, the new rules do not apply to (a) 242b elections under TEFRA, or (b) individuals who attain age 70-1/2 before January 1, 1988 (except for a 5% owner who has reached age 66-1/2).

#### 2. Maximum Permissible Distribution:

Beginning with plan participants' taxable years after 1986, an additional 15% tax (15% excise tax) will apply on aggregate distributions received in a single year, from all tax-favored retirement vehicles, including IRAs, that exceed \$112,500 (if the grandfather rule described below is elected) or \$150,000 (if the grandfather rule is not elected). These amounts are based on 1.25 times the dollar limit for defined benefit plans (currently at \$90,000 and indexed for inflation beginning in 1988). The 15% excise tax applies in every year that the limit is exceeded. Thus, for example, if an individual receives in any one year a total of \$200,000 in annuity payments from several employers' pension plans, his own IRA, Keogh plan, etc., he will be subject to a 15% excise tax on \$50,000 assuming the grandfather rule is not elected. (The excise tax does not apply to benefits accrued prior to August 1, 1986 if the "grandfather rule" is elected).

Distributions resulting from the following events are excluded from the calculation: death of the participant, a QDRO, roll-over contributions, and an employee's investment in the contract.

#### Transition Rules on \$112,500 Maximum Benefit ("Grandfather Rules")-

A person may elect to (1) exempt benefits accrued by August 1, 1986 from the 15% excise tax, or (2) pay the 15% excise tax on annual benefits in excess of the greater of \$150,000 or the indexed \$112,500 limit. This transitional rule is only available to persons who have grandfathered benefit worth at least \$562,500 (five times the \$112,500 limit).

#### 3. Post-Death Distributions-

The 15% additional tax applies to amounts in excess of the present value of annual payments equal to the annual ceiling over a period equal to the person's life expectancy immediately before death.

### UNIFORM TAX TREATMENT OF DISTRIBUTIONS:

Under the old law, certain lump-sum distributions are eligible for attractive tax treatment. For example, the portion attributable to participation after 1973 is eligible for 10-year forward averaging. For the pre-1974 portion, the participant may choose between 10-year averaging and capital gains treatment.

## Distribution Planning, cont.

TRA 86 has made the following changes to inhibit lump-sum distributions-

### 10-Year Forward Averaging-

Effective for distributions after December 31, 1986 (post-1986 tax years) 10-year forward averaging is straight away repealed.

### 5-Year Forward Averaging-

Effective for post-1986 tax years, 5-year averaging is substituted for 10-year averaging but is only permitted with respect to one lump sum distribution after age 59-1/2 (per lifetime).

### Transition Rule-

A "grandfather clause" spares participants who are at least 50 years old on January 1, 1986, allowing them to choose one election of 5-year averaging (at new tax rates) or 10-year averaging (using 1986 tax rates), for one pre-age 59-1/2, post-1986 lump sum distribution and elect capital gains treatment (at a 20% tax rate) for the pre-1974 portion of such distribution. A use of forward averaging under this rule would count as a person's one lifetime election of forward averaging. Note, however, that there is no transition rule waiving the pre-59-1/2 excise tax. Except for distributions on account of death or disability of a participant, the 10% penalty tax applies even if the lump-sum distribution transition rule is satisfied. Note also that participants not yet 50 years old as of 1986 cannot forward average any distributions until age 59-1/2.

### Comparing 5- and 10-year Averaging

Generally speaking, (as can be seen from the table below), distributions under \$450,000 will do better using 10-year averaging at 1986 tax rates than using 5-year averaging under the new tax rates. This generalization, should, of course, be tempered by the effects of any 15% excise tax which may also apply.

Amount of Lump-sum Distribution	Tax Under 10-year Rule (1986 Rates)	Tax Under 5-Year Rule (1988 Rates)
\$ 50,000	\$ 5,870 (11.7%)	\$ 6,900 (13.8%)
100,000	14,470 (14.4%)	16,450 (16.4%)
250,000	50,770 (20.0%)	60,110 (24.0%)
500,000	143,680 (28.7%)	142,610 (28.5%)
1,000,000	382,210 (38.2%)	282,270 (28.2%)

### Capital Gains Treatment-

Under TRA 86, capital gains treatment can be applied only to amounts attributable to pre-1974 participation, and even then special treatment is to be phased out over a six-year period beginning January 1, 1987.

### BASIS RECOVERY RULES:

In general, the basis recovery rules apply when a distribution is attributable to both employer and after-tax employee contributions. Benefits attributable to after-tax employee contributions are called the employee's basis. In general, the special 3-year basis recovery rule for post-annuity starting date distributions is repealed. This means that all distributions attributable to employer and after-tax employee distributions will be treated on a proportional basis, as

## Distribution Planning, cont.

partly taxable and partly nontaxable. These rules are apparently effective for post-1986 distributions. Also, the repeal of the three-year basis recovery rule will not apply to individuals with annuity starting dates on or before July 1, 1986. A detailed discussion of the old and new recovery rules follows:

- (1) For distributions before the annuity starting date (i.e., in-service withdrawals) - all withdrawals are considered in part a tax-free return of employee contributions and in part a taxable distribution of earnings.

The non-taxable portion is in proportion to the ratio of the employee's contributions to the vested account balance. The Conference Committee clarified that this applies only to the employee after-tax contributions account (i.e., it is treated as a "separate contract" for tax purposes). Note that the Conference Committee report statement applies to both defined contribution and defined benefit plans, but the language of the Act applies this rule only to defined contribution plans. The new rule is in effect for distributions received after July 1, 1986. However, if the plan as in effect on May 5, 1986, provided for in-service withdrawals of employee contributions, the employee can recover his employer contributions (determined at December 31, 1986) tax free under the current rule before any withdrawals will be taxable.

- (2) After the annuity starting date - The three year rule is repealed. This is effective for distributions where the annuity starting date is after July 1, 1986. All distributions after the annuity starting date will be taxed under the exclusion ratio.

## **Required Records**

Separate records must be kept on employee contributions and on investment returns for those contributions, starting in 1987. This minimizes tax exposure because participants are always deemed to take out their own contributions first. For annuities with a starting date after Dec. 31, 1986, each payment is considered part employee and part employer contribution. The amount is calculated up front based on the annuitant's given life expectancy, but is subject to later recalculation based on the actual life span of that person.

## **DEFERRED ANNUITY CONTRACTS:**

### Taxing the "Inside" Buildup

Corporate-owned annuities are subject to a tax on cash accumulations in the year they are credited to the account. This was passed to prevent corporations from using tax-advantaged investments for informally funding nonqualified deferred compensation plans. Effective for contributions to annuity contracts after February 28, 1986, the inside buildup on deferred annuities (SPDAs) held by "nonnatural persons" (i.e., corporations or partnerships), will be immediately taxable (as current income), except for the following exceptions:

1. Qualified funding assets purchased by structured settlement companies and annuity contracts, which otherwise qualify as qualified funding assets, purchased and held by a property and casualty insurance company to fund periodic payments for damages.
2. Deferred annuities purchased by an employer upon termination of a qualified plan and held by the employer until the employee separates from service,
3. Single premium annuities which commence no later than one year from date of purchase.
4. Contracts nominally held by trusts or corporations for the benefit of natural persons.

Note: Contracts purchased on or before February 28, 1986 are grandfathered except as to income allocable to investments added after that date.

*Hersh L. Stern*

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**COMPANIES COVERED IN THIS ISSUE**


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Name	Best's Rating	Admitted Assets	Quote Date	Name	Best's Rating	Admitted Assets	Quote Date
Am. Life/Cas.	A	\$ 0.4B	102986	Mod. Pionrs'	A	\$ .008B	101486
Bus. Mens'	A+	\$ 0.9B	102786	Monarch Life	A+	\$ 1.1B	102586
Canada Life	A+	\$ 6.9B	103086	Natl Fidelity	A+	\$ 0.3B	101386
Confed Life	A+	\$ 6.5B	101386	N. Y. Life	A+	\$28.0B	101086
Delta Life	NA	\$ 0.1B	102786	Prudential	A+	\$91.1B	102886
Equitable	A+	\$17.2B	103186	SMA Life	A	\$ 0.8B	110586
Exec. Life	A+	\$10.0B	102986	Southwestern	A+	\$ 4.9B	103086
Guar. Secur	NA	\$ 0.4B	103186	Standard I	A+	\$ 1.1B	103086
Home Life	A+	\$ 2.5B	102086	Sunlife/Amer	A+	\$ 1.5B	102486
ITT Life	B+	\$ 0.3B	102486	Transamerica	A	\$ 3.1B	101386
Life Georgia	A+	\$ 1.6B	102786	Travelers	A+	\$42.0B	102786
Jackson Nat'l	A	\$ 2.0B	102386	Wash. Natl.	A+	\$ 1.6B	101786
Life/Southwest	A+	\$ 0.3B	102286	Wash. Sq.	A	\$ 0.1B	101086
Life of Va.	A+	\$ 2.1B	102986	West. Ntl.	A+	\$ 1.6B	102086
Lincln Ben	A+	\$ 0.1B	101686	West. Unitd	B+	\$ 0.2B	102086

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**Remarks:**

B=billions, NA=no rating has been assigned

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**UNITED STATES ANNUITIES**

P. O. Box 157  
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*ADDRESS CORRECTION REQUESTED*

**FIRST CLASS MAIL**