

## 7% For Life

As the Federal Reserve has indicated interest rates are expected to drop to 4% next year and 3% the following year. Just like it's smart to refinance one's loans before interest rates rise, it is equally smart for income investors to lock in high yields before interest rates go down.

One of the ways to lock in higher rates is to purchase a lifetime income stream from an insurance company. According to Barrons, guaranteed lifetime income payouts are 25% higher than they were a year ago.

I have identified an insurance company offering the highest rates by a considerable margin. For example, a 60-year-old female who gives \$1 million to this insurance company will get about \$88,000 per year for life after one year. As this income is distributed, part of it will be treated as return of principal and therefore nontaxable.

Currently married couples who are affluent and have access to good nutrition and medical care have a 50% chance of one spouse living to age 95. If the 60-year-old annuitant lives to age 81 the total return would be 6.4%. If the annuitant lives to 91 the total return would be equal to 8.2%. Additionally, if the annuitant winds up needing long-term care the income would double to \$180,000 for up to five years.

If the annuitant dies relatively early, the remaining account value would go to the contract owner's beneficiaries. The risk of not living that long can be eliminated by purchasing life insurance. For a 60-year-old female in good health, it would cost about \$16,000 per year to buy \$1 million of life insurance. In that case the annuitant would receive \$88,000 per year from insurance company A and send \$16,000 per year to insurance company B. Thus, the net annual lifetime income would be 7.2% per year with the initial \$1,000,000 returned tax free to the contract owner's beneficiaries regardless of what year the death occurs.

By using this strategy, you can create a guaranteed return that is much higher than prevailing interest rates while also addressing potential long-term care needs.

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