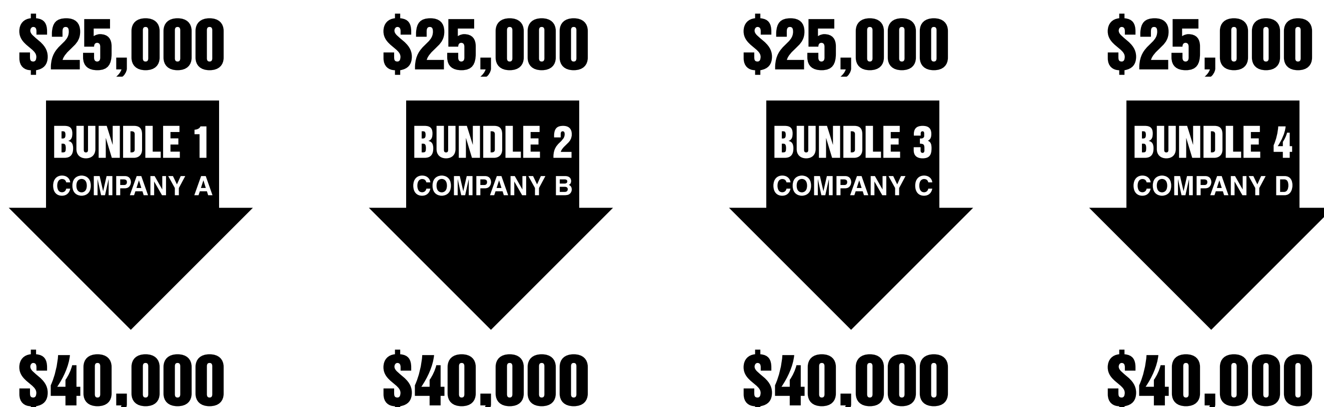
# The Bundle Theory – Non-Qualified Annuities

When most reps are given the chance to invest a client's funds into an annuity, they pick their favorite fixed, index or variable annuity and then deposit the entire amount into only that one annuity. For argument's sake, let's say that the annuity performs exactly how the rep anticipated and earns 6% for 8 years and the initial deposit was $100,000.

Now the client comes to the rep and asks for $40,000 from their annuity. The annuity distributions are accounted for on the last in first out (LIFO) basis. At the end of the year,the client receives a $40,000 Form 1099 and a 33% tax rate paying Uncle Sam $13,200 in taxes and only receive $26,800 in available cash.

***(Start 4 x $25,000 = $100,000)*** ***(Finish 4 x $40,000 = $160,000)***




Now if the client wanted $40,000, we could cash in one of the annuities completely and then the client would receive some cost basis along with interest:

**$25,000 Cost Base + $15,000 Interest**

This cuts the tax liability from $13,200 to $4,950 giving the client $35,050 of spending cash or 30% more money in the client's pocket.

Another benefit to this philosophy is the opportunity to reposition any of these accounts. When addressing the situation of partial 1035 exchanges, it should be noted that although the insurance companies are supposed to allow partial 1035 exchanges, some are still reluctant to accommodate the partial exchange without a hassle. The bundles provide you and your client the flexibility of moving some or all of their accounts. Plus, separating the money in the first place will ultimately keep the future values below the $100,000 threshold for the Guaranty Association. Think about it.

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