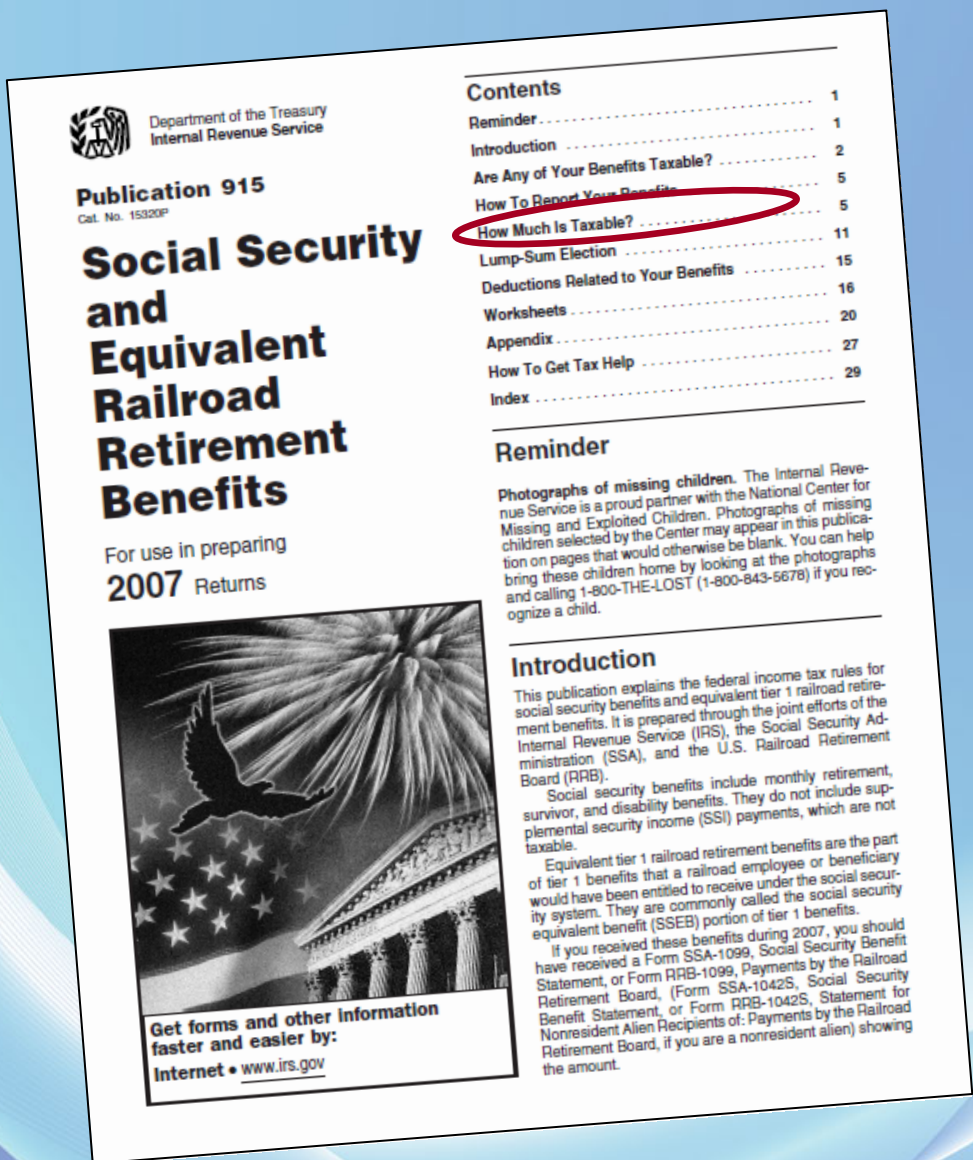


Are You Paying
Avoidable Taxes on
Your Social Security Benefits?

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“Are Any of Your Benefits Taxable?” – On the cover of IRS Publication 915

The answer may be “yes.”

Since 1993, up to 85% of your Social Security income has been subject to income tax.

Are you paying this tax?

Did you know that you may be able to avoid it?

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20a Social security benefits

20a

b Taxable amount (see page 24)

20b


On line 20a of your form 1040, you must fill in the Social Security benefits you receive.

On line 20b, you must fill in the amount of this that is taxable.



Would you like this taxable amount on line 20b to be **zero**?

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Social Security Benefits Worksheet—Lines 20a and 20b

Keep for Your Records 

- Before you begin:**
- ✓ Complete Form 1040, lines 21 and 23 through 32, if they apply to you.
 - ✓ Figure any write-in adjustments to be entered on the dotted line next to line 36 (see the instructions for line 36 on page 31).
 - ✓ If you are married filing separately and you lived apart from your spouse for all of 2007, enter "D" to the right of the word "benefits" on line 20a.
 - ✓ Be sure you have read the Exception on page 24 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.

1. Enter the total amount from box 5 of all your Forms SSA-1099 and Forms RRB-1099. Also, enter this amount on Form 1040, line 20a. 1.	<input type="text"/>
2. Enter one-half of line 1 2.	<input type="text"/>
3. Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21 3.	<input type="text"/>
4. Enter the amount, if any, from Form 1040, line 8b 4.	<input type="text"/>
5. Add lines 2, 3, and 4 5.	<input type="text"/>
6. Enter the total of the amounts from Form 1040, lines 23 through 32, and any write-in adjustments you entered on the dotted line next to line 36 6.	<input type="text"/>
7. Is the amount on line 6 less than the amount on line 5?	
<input type="checkbox"/> No.  None of your social security benefits are taxable. Enter -0- on Form 1040, line 20b.	
<input type="checkbox"/> Yes. Subtract line 6 from line 5 7.	<input type="text"/>
8. If you are:	
• Married filing jointly, enter \$32,000	} <input type="text"/>
• Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2007, enter \$25,000	
• Married filing separately and you lived with your spouse at any time in 2007, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17	
9. Is the amount on line 8 less than the amount on line 7?	
<input type="checkbox"/> No.  None of your social security benefits are taxable. Enter -0- on Form 1040, line 20b. If you are married filing separately and you lived apart from your spouse for all of 2007, be sure you entered "D" to the right of the word "benefits" on line 20a.	
<input type="checkbox"/> Yes. Subtract line 8 from line 7 9.	<input type="text"/>
10. Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2007 10.	<input type="text"/>
11. Subtract line 10 from line 9. If zero or less, enter -0- 11.	<input type="text"/>
12. Enter the smaller of line 9 or line 10 12.	<input type="text"/>
13. Enter one-half of line 12 13.	<input type="text"/>
14. Enter the smaller of line 2 or line 13 14.	<input type="text"/>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- 15.	<input type="text"/>
16. Add lines 14 and 15 16.	<input type="text"/>
17. Multiply line 1 by 85% (.85) 17.	<input type="text"/>
18. Taxable social security benefits. Enter the smaller of line 16 or line 17. Also enter this amount on Form 1040, line 20b 18.	<input type="text"/>

TIP If any of your benefits are taxable for 2007 and they include a lump-sum benefit payment that was for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

Figuring the taxable amount may seem like a pretty complex calculation, but the fundamentals are pretty simple.

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Add up:

- Half of your Social Security income, plus
- ALL of your other income, such as:
 - Wages
 - Pensions
 - Taxable interest
 - Dividends
 - Capital gains
 - Business income
 - And even **otherwise tax-exempt interest**, such as interest on savings bonds and municipal bonds

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This chart shows you what portion of your Social Security benefits are taxed based on this total income.

Single Taxpayers	Married Taxpayers	Portion Taxed
\$34,000 and up	\$44,000 and up	85%
\$25,000 - \$34,000	\$32,000 - \$44,000	50%
Under \$25,000	Under \$32,000	None

Source: Internal Revenue Service Publication 915

How do you:

- Earn more than \$25,000,
- Yet shelter your Social Security benefits from taxation?

The answer is to recognize that there is an **exception** in the IRS's calculation of total income:

Deferred annuity interest **is not included** in the year it is earned.

It is included in the year it is withdrawn.

You can position assets into annuities and defer the interest earnings until you choose to withdraw them.

By doing so, you:

- **Defer** income taxes on your interest earnings, and
- **Reduce or Eliminate** income taxes on your Social Security benefits

Taxable amounts withdrawn prior to 59½ may be subject to a 10% IRS penalty. Withdrawals are not credited with index interest for that term. Withdrawals in excess of the free amount may be subject to withdrawal charges and a market value adjustment and may result in the loss of principal.

How this Solution Helped Sarah Hudson

Sarah's example is hypothetical, is for illustration purposes only, and is not intended to predict future results.

Sarah Hudson

- Retired
- Living off her Social Security and pensions
- Saving her savings for a rainy day
- Facing increasing costs on a fixed income
 - Medical expenses, food, gasoline, travel
- Could use some relief
- And, as we will see, **she is paying more taxes than she needs to**



This hypothetical example is for illustration purposes only and is not indicative of past, nor intended to predict future performance of any Index or annuity product.

Sarah's income and taxes: before

- \$10,000 Social Security
 - + \$18,000 Pension
 - + \$20,000 Taxable interest on her rainy day funds
 - \$48,000 Total income
- As a result, a portion of her Social Security benefits are taxable
 - She pays **\$5,536** in income taxes
 - Based on 2007 federal tax table, single, over 65, standard filing deduction

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Why was Sarah's Social Security taxable?

- Half of her annual Social Security income = \$5,000
- Annual Income from Pension = \$18,000
- Taxable interest = \$20,000
- This adds up to \$43,000 in taxable income

- Since this is more than \$25,000, as a single, a portion of her Social Security benefits are taxed

- In fact, the amount of taxes she pays includes:
 - **\$1,735** on her Social Security benefits which she could **eliminate**
 - **\$3,000** on her taxable interest which she could **defer**

This hypothetical example is for illustration purposes only and is not indicative of past, nor intended to predict future performance of any Index or annuity product.

Sarah's income and taxes: before and after

	Before	After
Social Security	\$10,000	\$10,000
Pension	\$18,000	\$18,000
Taxable interest	\$20,000	
Deferred interest		\$20,000
Income taxes paid	\$5,536	\$801

- Repositioning her rainy day funds into an annuity saves Sarah **\$4,735** in income taxes in one year alone

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This increases Sarah's after-tax monthly income by **\$394**.

Is Sarah happy she repositioned her rainy day funds into an annuity?

Yes, she is!

Annuity needs to fit long term horizon because liquidity will be more restricted than in a savings account.



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Additional Benefits of Owning an Annuity

Earning more interest without sacrificing safety

- Annuities typically **earn higher interest rates** than traditional savings vehicles

Guarantees provided by annuities are subject to the financial strength of the issuing insurance company; not guaranteed by any bank or the FDIC.

Protecting assets from market volatility

- Fixed annuities **guarantee your principal**; plus your interest, once credited, cannot be taken away
- Fixed Indexed annuities credit interest based on stock market-linked interest crediting formula but protect you from stock market losses
- An annuity with a premium bonus can help you to recover past losses or transfer fees

Guarantees provided by annuities are subject to the financial strength of the issuing insurance company. They are not guaranteed by any bank or the FDIC. Annuities contain limitations such as withdrawal charges, fees, and market value adjustments which may affect contract values. Taxable amounts withdrawn prior to 59½ may be subject to a 10% IRS penalty. Withdrawals are not credited with index interest for that term. Withdrawals in excess of the free amount may be subject to withdrawal charges and a market value adjustment and may result in the loss of principal.

Fixed Indexed annuities are not registered securities or stock market investments and do not directly participate in any stock or equity investments. Market Indices do not include dividends paid on the underlying stocks, and therefore do not reflect the total return of the underlying stocks. Neither an index nor any market-indexed annuity is comparable to a direct investment in the equity markets.

Access to your money

- Fixed annuities offer a variety of provisions which allow you to **access a portion of your account value** without any surrender penalty
- It is best not to take any withdrawals until after age 59½ to avoid the 10% penalty tax on interest earnings

Avoiding administrative and sales charges

- Most fixed annuities have **no explicit administrative or sales charges**
- Most fixed annuities are only subject to surrender charges, which allow the company to invest in long-term bonds and credit higher interest rates to your annuity
- Surrender charges can be avoided by only making penalty-free withdrawals prior to the end of the surrender charge period

Annuities may have caps, rates or participation rates and contain limitations including withdrawal charges, fees and a market value adjustment which may affect contract values.

Protecting assets from creditors

- A lawsuit or medical catastrophe could wipe out your savings
- Annuities **may offer some protection**, depending upon the laws of your state (consult your legal advisor)

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Retirement income

- People are living longer and longer – how can you make sure that your income lasts for the rest of your life?
- Social Security and defined benefit pension plans provide lifetime income
- Through annuitization or optional income riders, annuities can also be converted into an income stream, which can be guaranteed by the insurance company **to continue for the rest of your life**
- That income stream may have the option to increase by a percentage each year to help keep pace with inflation

Favorable treatment at death

- Annuity benefits may avoid probate and **are paid directly without delay** to your designated beneficiaries
- Must keep the designated beneficiaries properly named and all information current

In summary ...

- Your money is free from downside market risk and price fluctuation.
- Your interest is compounded and reinvested automatically with no current income taxes.
- You can withdraw a portion of your accumulated value without surrender penalty.
- Your annuity has a provision to provide a guaranteed lifetime income with additional tax advantages.
- There is an automatic bypass of probate expenses and delays.

No other financial vehicle offers all these advantages!

Taxable amounts withdrawn prior to 59½ may be subject to a 10% IRS penalty. Withdrawals are not credited with index interest for that term. Withdrawals in excess of the free amount may be subject to withdrawal charges and a market value adjustment and may result in the loss of principal.

Riders are optional, an annual premium is charged.

Your Next Step

Are you paying income taxes on your Social Security benefits?

Would you like to see if you may be able to avoid paying those taxes?

Would you like to see if an annuity is a good solution for you?

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