Predictable Income. Room to Grow. A Plan for Taxes.

Credited interest is not a paycheck

Where will spending money come from when investments are down? A coordinated plan separates accessible cash, contractual interest and long-term growth. A fixed deferred annuity may support one part of that plan, but an interest credit inside a contract is not automatically money you can spend or a lifetime-income guarantee.

The source uses a $1 million four-bucket mix: 15% cash, 25% fixed annuity, 50% dividend-equity core and 10% growth stocks. It compares this with 20% cash, 70% dividend core and 10% growth stocks. Rates of 4% cash, 6% annuity and 3% core dividends are hypothetical inputs, not current offers. Growth-sleeve dividends are assumed zero.

Annual cash-flow item	80%-stock reference	Four buckets
Cash interest at 4%	$8,000	$6,000
Core dividends at 3%	$21,000	$15,000
Annuity interest credited at 6%	$0	$15,000
Advisory fee: 1% of stocks	($8,000)	($6,000)
Available without annuity withdrawal	$21,000	$15,000
If all credited interest is accessible without contract charges	$21,000	$30,000

For four buckets: $150,000 x 4% + $500,000 x 3% - $600,000 x 1% = $15,000 liquid modeled cash flow. Adding $250,000 x 6% gives $30,000 only in the permitted-access case. Never spend the interest while also assuming that same interest compounds inside the contract.

Source: How Smart Investors Prepare for the Storm, pp. 6, 12, 23.

Measure the gap, not just the yield

Annual cash flow toward a $40,000 gross need



Bars start at zero. Hypothetical amounts, not forecasts.

Four buckets covers $15,000 / $40,000 = **37.5%** without annuity withdrawals, leaving a $25,000 gap. If all interest is accessible on suitable terms, $30,000 / $40,000 = **75%**, leaving $10,000. This is cash-flow coverage, not a 75% chance of retirement success.

The higher-equity reference covers 52.5% and leaves $19,000. The matched-equity liquid comparison produces $400,000 x 4% + $500,000 x 3% - $600,000 x 1% = $25,000, or 62.5%, leaving $15,000. All cash at a constant 4% produces $40,000 before taxes, but the yield can fall and purchasing power can erode.

The $40,000 source need includes a household tax allowance, but these figures do not model personal tax calculations. Dividends can be cut. Planned withdrawals from reserves or asset sales are valid ways to fund the remaining gap; chasing yield is not required.

A useful reserve check is ($40,000 withdrawal need + $6,000 advisory fee) x 2 = $92,000. Against $150,000 cash, only $58,000 is above that target before other obligations. This conservative reserve target is not a claim that all annual spending must be met from cash alone.

Source: How Smart Investors Prepare for the Storm, pp. 7, 12-13, 23.

Access, guarantees and costs are different questions

Term to verify	Why it changes the plan
Fixed-rate deferred annuity	A contractual rate for a stated period, backed by the insurer. Early access may trigger surrender charges or a market value adjustment (MVA).
MVA and free withdrawals	An MVA can increase or decrease an early payout. Verify exemptions, annual free-withdrawal limits, surrender periods and renewal windows in the actual contract.
Account value versus other values	Cash surrender value is what can be accessed after applicable reductions. Death benefits may be payable only at death. An income benefit base may only calculate future income.
Other annuity types	Indexed annuities use caps and participation formulas; variable annuities can lose market value and charge investment/rider fees; RILAs can still lose money. They are not the modeled fixed bucket.

A fixed crediting rate is not a lifetime payment arrangement. Scheduled withdrawals, annuitization and income riders have different rights and costs. Staggered guarantee periods may create decision points, but renewal rates are unknown. Compare appropriate bonds or Treasuries on liquidity, credit, taxes and inflation exposure rather than quoted yield alone.

Fee math: 1% of $1 million = $10,000; 1% of $600,000 stocks = $6,000. The $4,000 difference is 40% of this advisory-fee line, not 40% of all costs. Stock-only billing must be written into the agreement. The effective household advisory fee is 0.60% in this illustration.

No explicit annuity fee does not mean no economic cost: insurer margins and compensation can affect credited rates, while riders, surrender charges, MVAs and other expenses can apply. Guarantees are not FDIC insurance. Existing contracts need a replacement analysis before changes.

Source: How Smart Investors Prepare for the Storm, pp. 14-15.

Coordinate growth and taxes without counting twice

Dividend-growth stocks can seek rising income and appreciation, but they remain stocks. Judge total return, company quality and concentration, not yield alone. A 3% dividend is part of total return; it must not be added again to a scenario already expressed as total return.

In a taxable account, eligible realized losses can offset capital gains under tax rules. Harvesting does not erase the economic loss or guarantee lower lifetime taxes. Coordinate substantially identical purchases across accounts within the wash-sale window: 30 days before and after a loss sale. Consult IRS Publication 550 for investment-income rules.

Annuity tax deferral is a different mechanism. Taxable distributions generally face ordinary income tax; additional tax may apply before age 59 1/2. Qualified-plan or IRA treatment and after-tax basis affect the calculation. An annuity inside an IRA adds no extra tax-deferral advantage; insurance benefits must justify its use. See IRS Publication 575.

Question for the review	Evidence to bring
What is the actual spending gap?	Spending, reliable outside income, taxes and planned major expenses.
Can the interest be withdrawn?	Contract, current surrender value, MVA terms, free-withdrawal schedule and renewal dates.
What is the complete cost?	Written advisory fee base, fund/manager costs, riders and surrender terms.
What does a fair alternative look like?	Same stock exposure, liquidity needs, taxes and total expenses.

Ending value = cash x cash-growth factor + annuity x annuity-growth factor + stocks x (1 + total stock return) - fee - withdrawals. Interest spent cannot also count as retained growth.

Source: How Smart Investors Prepare for the Storm, pp. 12-15, 23.

Tax references: irs.gov/publications/p550 and irs.gov/publications/p575. No probability of success, tax-alpha estimate or sustainable-withdrawal rate is calculated here.

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