



Leaving a Legacy: How Never to Be Forgotten

Why do grandparents and grandchildren get along so well? Because they have a common enemy – or so the old joke goes. But all kidding aside, most grandparents do want to leave some sort of legacy to their grandchildren. How about a guaranteed lifetime payment for both you and your grandchildren?

I remember once I was setting up a retirement plan for a 70-year-old client. He said, “I’ve got this beautiful 5-year-old granddaughter. I want to do something special for her. Now, some people say I should buy life insurance, but others say I shouldn’t. Some people say I should put it in a 529 college savings plan, and again, some others say I shouldn’t. Do you have any ideas?”

I said, “Yes, I’ve got some ideas. But before I give you my ideas, I’ve got to prove a point.” I handed him a piece of paper and on this piece of paper there were four lines on the top

and eight lines on the bottom. I said, “On these top four lines, do me a favor – jot down the first and last names of your four grandparents – grandma and grandpa on your mom’s side, grandma and grandpa on your dad’s side. Their first and last names. Everybody can do it.”

On average, only about half of everyone reading this book can list the first and last names of all four of their grandparents. Isn’t that amazing? Then I said, “On these eight lines, do me a favor – jot down the first and last names of your eight great-grandparents. Go ahead, it should just take a minute. I’ll wait.” Needless to say, I have never been on an appointment where somebody could remember the first and last names of their eight great-grandparents.

“You know what’s so interesting about that?” I continued, “John D. Rockefeller’s great-great-great-grandkids all remember his first and last name. How could John D. Rockefeller’s great-great-great-grandkids remember him while you don’t even remember grandma and grandpa? Well, it’s because every year they get a check from John D. Rockefeller.” John D. Rockefeller always said to leave something behind, and that he most definitely did.

My recommendation was to set up a joint lifetime annuity between the grandpa and his 5-year-old granddaughter. I told him: “To make this even more special, we will ask the insurance company to make the payment each year on your granddaughter’s birthday. For the rest of your life, every time she has a birthday, you’re going to get a check from the insurance company and you can use that to put in a life insurance policy. You can put it in a 529 plan. You could buy her a pony. If she turns out the way you don’t like, you can spend it. But, for the rest of your life, every time she

has a birthday, you're going to get a check from the insurance company. But," I said, "starting from the day you die, that beautiful granddaughter is going to get a present from her *favorite* grandpa every birthday for the rest of her life. She's never going to forget you. She's going to remember you on line number one, just like John D. Rockefeller. And on the day that your granddaughter dies, your great-granddaughter is going to get half of all the money you ever put in this account. She'll get it income tax-free. She's going to remember you right there on line number one as well."

Here is how it works in practice. You have a generous grandpa. He possesses \$100,000 of lazy money. He buys a joint life (with a 50% death benefit) lifetime income annuity. The joint annuitant is his 5-year-old granddaughter. For the rest of his life, he gets \$4,700 every year that she has a birthday (again, these payout rates can change, so check with your financial advisor for an updated quote). When grandpa dies, she continues to get a birthday present of \$4,700 every birthday for the rest of her life. Let me pause right there. If you had a grandparent who gave you \$4,700 every birthday for your entire life, would you remember him or her? I think so. And on the day that the granddaughter dies, the great-granddaughter will receive half of the original deposit: \$50,000 income, tax-free. If you had a great-grandma or great-grandpa who left you \$50,000 income tax-free, don't you think that might separate them from the pack a little bit?

You may be wondering, "What about inflation?" With an annuity, you can also purchase an inflation protection rider. You can add a 5% inflation factor on it. The first birthday present goes down to \$1,100, but every year that goes up by 5%. When she is 20, it is \$2,400. When she is 50, it is \$10,700.

When she is 65, it is \$22,000. Now if the granddaughter lives to be 100, which by the way is a distinct possibility, she will get paid \$2,563,000 plus the \$50,000 death benefit, a total payout on that original \$100,000 investment of \$2.6 million. Where else can a grandpa take \$100,000, be guaranteed that two generations of his family will never forget his name, and out of that \$100,000 transfer potentially \$2.6 million? That grandparent could be you!

Annuity with Inflation Protection

Granddaughter's Age	Annual Birthday Present
1	\$1,100
20	\$2,400
50	\$10,700
65	\$22,000
Death Benefit	\$50,000

* Note: Utilizing a joint life annuity to leave a legacy could have gift, estate, and generation skipping (GST) tax consequences. It is important, therefore, to consult with a qualified professional so that you reduce or eliminate any potential tax liabilities if you choose to pursue this strategy. These are sample payment rates, actual rates will vary.

(Source: New York Life Insurance Company)