

THE VALUE OF CASH FLOW PROTECTION

On 1/15/2000, the value of the S&P 500 was 1465.15. If you had been able to use \$100,000 to purchase shares of this index, you would have purchased 68.25 shares. By 1/15/2010, the value of these shares would have been \$77,534. If the same amount were invested into average 1 Year Certificates of Deposit, the value would have been \$198,376, and in a Personal Pension Account (PPA) assuming S&P performance (actual results will vary and may have been greater or less), the Protected Payment Base amount would have been \$281,916.

Year	S&P 500	Percent of Change	Value of Shares (\$)	CD Rates	Value of CDs (\$)	Rate Applied to Payment Base	PPA Protected Payment Base (\$)
2000	1465.15	-	100,000	-	100,000	-	100,000
2001	1326.65	-9.45%	90,544	7.09%	107,090	6%	106,000
2002	1146.19	-13.6%	78,277	4.59%	114,683	6%	112,360
2003	918.22	-19.9%	62,669	2.96%	122,814	6%	119,102
2004	1132.05	23.29%	77,262	2.05%	131,521	23.29%	146,840
2005	1195.98	5.65%	81,626	2.64%	140,846	6%	155,651
2006	1282.93	7.27%	87,560	4.19%	150,832	7.27%	166,967
2007	1431.90	11.61%	97,527	5.40%	161,526	11.61%	186,352
2008	1280.95	-3.56%	94,250	5.44%	172,978	6%	197,532
2009	843.74	-38.9%	57,585	3.93%	185,242	6%	209,385
2010	1136.03	34.64%	77,534	1.91%	198,376	34.64%	281,916

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Arguably more important than the value of a retirement account is what it can provide in annual income for a lengthy retirement in order to avoid longevity risk. Assuming the highlighted numbers from above, with no further gains or declines, and a 5% withdrawal rate, the accounts would have generated income for twenty years as follows: the S&P Account would generate \$3,876 per year, the CD account would generate \$9,918 per year and the PPA account would generate \$14,095 per year. However, not only would the PPA generate the highest annual income, but instead of ceasing after twenty years, it would be paid for the account owner's entire lifetime, even if the account balance had decreased to zero.

Account	Balance	Annual Income@5%	Period	Balance
S&P	\$ 77,534	\$ 3,876	20 yrs	\$0
CD	\$198,376	\$ 9,918	20 yrs	\$0
PPA	\$281,916	\$14,095	For Life	\$0