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## Letter to the Editor

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By Curtis Cloke    *Wed, May 18, 2011*

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*Curtis Cloke, an Iowa-based financial advisor and deferred income annuity specialist, responds to last week's lead story, "Channel Surfing for Low-Cost SPIAs."*

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Dear editor,

Here are my observations after reading your article, "Channel Surfing for Low-Cost SPIAs" (Retirement Income Journal, May 11, 2011):

I can't tell you how many times I've been contacted by clients or advisors who are implementing a SPIA into a retirement plan and have already collected their "lowest cost" SPIA quotes from all of the sources—only to discover that the final arithmetic reveals a different answer.

The cost of a SPIA is not limited to the amount that is applied to the contract. The total cost also includes the distribution charge (1.5% to 2.5% of premium), plus the fee charged by the advisor or institutional platform (0.25% to 1% for a period of years)—as well as the cost associated with using after-tax money to pay those fees. If the SPIA is purchased with pre-tax money (from a qualified account or with an exchange of assets from an existing deferred annuity), the fees may have to be paid with money from an after-tax account. To the extent that this expense isn't fully deductible on the individual's tax return, it could add to the cost of the purchase.

The more difficult challenge when purchasing a SPIA, however, is designing it (by choosing a period certain, installment refund, cash refund, COLA adjustment, living commuted value, or death benefit commuted value, etc.) to fit the overall architecture of the client's retirement plan, including other income resources, assets and tax planning.

The answer to the question, "What is the true lowest cost of purchasing a SPIA?" is often very different from the first answer, once all the fees, taxes and charges have been calculated.

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