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409-692-3882

## Single Premium Immediate Annuity

A **Single Premium Immediate Annuity (SPIA)** is an annuity where the purchaser makes a one-time, lump-sum payment to an insurance company in exchange for a guaranteed income stream that begins almost immediately—typically within 30 days. SPIAs are a popular choice for those who seek predictable, guaranteed income during retirement, providing reliable cash flow over a defined period or for the remainder of the annuitant's life.

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### 1. Key Features of a Single Premium Immediate Annuity

- **Lump-Sum Payment:** The purchaser pays a single, upfront premium to start the annuity, meaning there are no ongoing contributions.
- **Immediate Payout:** Income payments start shortly after purchase, usually within 30 days to a year, depending on the contract terms.
- **Fixed or Variable Payments:** Payments can be either fixed (guaranteed to stay the same) or variable (based on an underlying investment performance).
- **Payout Options:** SPIAs offer flexibility with different payout options, such as lifetime payments (for as long as the annuitant lives) or a specific term (e.g., 10 or 20 years).

- **Death Benefit Options:** Some SPIAs provide options to leave a residual amount to beneficiaries, although opting for this can reduce the annuity's monthly payout.
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## 2. Benefits of a Single Premium Immediate Annuity

- **Guaranteed Income:** SPIAs provide a predictable, guaranteed income stream, which can be reassuring, particularly for retirees.
  - **Simplicity:** SPIAs are straightforward and require minimal management after the initial purchase.
  - **Protection Against Longevity Risk:** If the annuity is set up with a lifetime payment option, it ensures income for life, helping to protect against the risk of outliving retirement savings.
  - **Tax Benefits:** For non-qualified SPIAs (purchased with after-tax dollars), only a portion of each payment is taxable, as the rest is considered a return of principal. Qualified SPIAs (funded by retirement accounts) are fully taxable as ordinary income upon distribution.
  - **No Investment Risk (for Fixed SPIAs):** Fixed SPIAs provide guaranteed payments that don't depend on stock market performance, protecting the annuitant from market volatility.
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## 3. Who Would Be the Best Fit for a Single Premium Immediate Annuity?

### 1. Retirees Seeking Guaranteed Income

SPIAs are ideal for retirees who need a steady, dependable income source to cover basic living expenses, particularly when other

income sources (like Social Security or pensions) may not be sufficient.

## **2. Individuals Concerned About Longevity**

People who worry about outliving their savings can benefit from a lifetime payout option on an SPIA, which guarantees income for life and removes the need to manage investment accounts later in life.

## **3. Conservative Investors**

Those who prefer safety and certainty over growth potential would appreciate a fixed SPIA, as it avoids the risks associated with stock market volatility.

## **4. Individuals with a Large Lump-Sum to Invest**

An SPIA is suitable for people who have come into a lump sum of money, such as an inheritance, a retirement account rollover, or a settlement, and want to convert it into a reliable income stream without ongoing investment management.

## **5. Those Seeking Simplification**

SPIAs work well for individuals who prefer a hands-off approach to their investments. Since the payments are fixed or structured according to the initial contract, there's no need for ongoing adjustments or active management.

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## **4. Considerations When Choosing a SPIA**

- **Inflation Risk:** Payments from fixed SPIAs do not typically increase with inflation, which can erode purchasing power over time. Some contracts offer inflation protection, but this may reduce the initial payout amount.

- **Liquidity and Flexibility:** SPIAs are relatively illiquid; once you commit the funds, you cannot easily access the lump sum if you need it for emergencies.
  - **Health Status:** People with shorter life expectancies may not get as much value from a lifetime SPIA as they would from other retirement strategies.
  - **Payout Options:** Choosing options such as a death benefit or a joint-and-survivor payout can reduce the monthly payout, so it's essential to weigh these choices carefully.
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## 5. Example Scenario: Who Would Benefit from a SPIA?

**Example:** Sarah, a 68-year-old retiree, has \$300,000 in savings that she would like to use to supplement her Social Security benefits. She wants a simple, predictable income stream and is not comfortable investing in the stock market. After consulting a financial advisor, Sarah decides to purchase a SPIA with a lifetime income option, ensuring a monthly payment for the rest of her life. This way, she knows she has reliable income, regardless of market performance or how long she lives.

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## Conclusion

A Single Premium Immediate Annuity is a valuable option for individuals who prioritize income stability and longevity protection over growth potential. It offers a straightforward, predictable solution for generating retirement income and helps protect against outliving retirement savings. However, potential buyers should carefully consider their need for liquidity, inflation protection, and

health status before purchasing, as SPIAs have limited flexibility once the initial premium is paid.

At Powell United we are happy to partner with American National Insurance Company to offer some of the most competitive rates for SPIA's.

Call today or visit our contacts page to set up your free consultation.

409-692-3882

[www.powellunited.com](http://www.powellunited.com)

Sincerely,

Matthew Powell

Owner, Powell United Financial Services