

# Rule of 72

This is a formula used to determine the number of years it will take for a debt or investment to double in value:  $72 \div \text{interest rate} = \text{years to double the value}$ .

$$72 \div \text{rate of return} = \text{years to DOUBLE your money}$$

Example: \$100,000 premium starting at age 35 at 5 % annual interest rate, 28% tax bracket

Taxable	Tax-deferred
\$100,000 premium at 28% tax rate	\$100,000 premium at 0% tax rate
28% tax on 5%= 3.6% net return	0% tax on 5%= 5% net return
$72 \div 3.6\% = 20$ years to double	$72 \div 5\% = 14$ years to double

Account value	At age	Annuity value	At age
\$100,000	35	\$100,000	35
\$200,000	55	\$200,000	49
\$400,000	75	\$400,000	63
		\$800,000	77

When you are ready to take a payout, at least two different options may be available:

1.) **Take interest income:** *(The interest is considered taxable gain and will be taxed according to your tax bracket.)*

Interest income from \$400,000		Interest income from \$800,000	
\$20,000	Annual interest payment	\$40,000	Annual interest payment
\$20,000	Taxable gain	\$40,000	Taxable gain
(\$5,600)	Taxes at 28%	(\$11,200)	Taxes at 28%
<b>= \$14,000</b>	<b>After-tax annual income</b>	<b>= \$28,800</b>	<b>After-tax annual income</b>

2.) **Take a lump-sum payout:**

\$400,000 (tax already paid)

\$400,000

\$800,000 less \$100,000 cost basis

= \$700,000 gain

\$555,000 after tax (35% tax bracket)

*Hypothetical example assumes a constant 5% rate of return, which is not guaranteed and is not intended to represent the actual projected future interest rate.*

## The Power of Tax – Deferral

This table lists a series of rates for tax-deferred alternatives alongside the rates needed for a bank CD (or other taxable savings product) to generate equivalent net earnings. Unless a CD is an IRA, the CD interest is taxable even if it is left on deposit with the bank.

**Table of Equivalent *after* Tax Yields**

<b>Equivalent for Tax-Deferred Alternative</b>	<b>Equivalent CD Rate 28% Tax Bracket</b>
<b>3.00%</b>	<b>4.17%</b>
<b>3.25%</b>	<b>4.51%</b>
<b>3.50%</b>	<b>4.86%</b>
<b>3.75%</b>	<b>5.21%</b>
<b>4.00%</b>	<b>5.56%</b>
<b>4.25%</b>	<b>5.90%</b>
<b>4.50%</b>	<b>6.25%</b>
<b>5.00%</b>	<b>6.94%</b>
<b>5.50%</b>	<b>7.64%</b>
<b>6.00%</b>	<b>8.33%</b>