

The Index-Linked Annuity Payment Adjustment Rider

A New Way to Help Structured Settlement Clients Manage Inflation

When personal injury clients choose a structured settlement, they can look forward to many years of steady, guaranteed income. But is a *fixed*-payment settlement enough? What about inflation? And the rising cost of living?

Some costs, like medical care, tend to increase as a client ages. How important is it to give your client the potential for higher payments in later years?

Traditionally, the only way to create payment increases within a structured settlement was to add a cost-of-living adjustment (COLA) rider. But Pacific Life has pioneered a *new* option—one that gives clients the potential for *higher* payment increases: the Index-Linked Annuity Payment Adjustment Rider (ILAPA).

The ILAPA Advantage

	Payment Increases	Annual Increase Amounts
COLA	Fixed	Typically set at 2%—3%
ILAPA	Occur when annual S&P 500® index ¹ performance is positive	Equal the increase in the index, up to a maximum of 5%

With ILAPA, there is never a decline in payments if S&P 500 index performance is negative. Payments can only go up or stay the same, not down.

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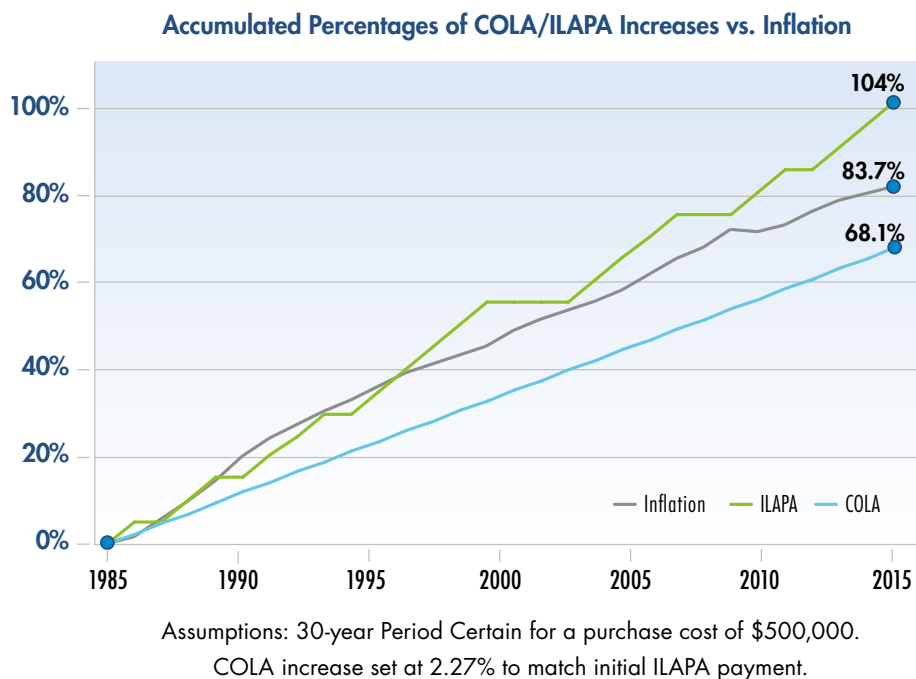
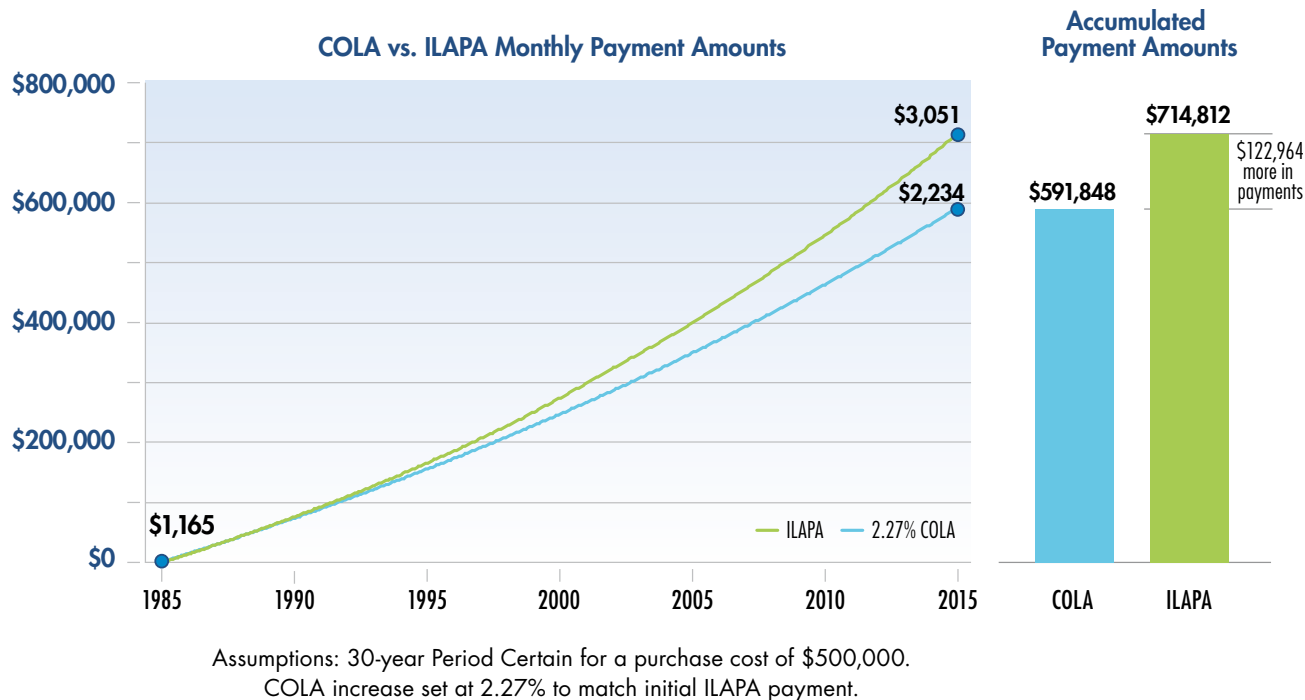
The index is not available for direct investment, and index performance does not include the reinvestment of dividends.

A Hypothetical Example

Because ILAPA links your client's payment increases to the S&P 500® index, the long-term growth of payments may be greater than with a COLA.

In the example below, a client wanted an initial monthly payment of \$1,165 (purchase cost of \$500,000). With a Pacific Life 30-year Period Certain structured settlement and a COLA rider, payments would have increased 2.27% annually from \$1,165 to \$2,234. But what would have happened with an ILAPA rider? The ILAPA increases in the chart below are based on actual S&P 500® index increases since 1985.

As you can see, the two incomes would have been virtually the same in the early years. But despite stock market values that fluctuated during those years, the ILAPA contract would have outpaced inflation, growing from \$1,165 to \$3,051 in 30 years.



Historically, ILAPA would have done a better job of outpacing inflation. The chart shows the accumulated percentage of payment increases over the last 30 years. (Inflation line assumes the actual annual inflation rates for the past 30 years resulted in an average annual rate of 2.79%.¹⁾

¹Source: U.S. Bureau of Labor Statistics, Consumer Price Index Data for All Urban Consumers, 1985-2014.

The Results

This example details the COLA vs. ILAPA comparison chart on the previous page. Over the 30-year period, the ILAPA payment more than doubles, while the COLA payment increases by just over two-thirds.

Year	COLA		S&P 500® Index Annual Return	ILAPA		
	Annual Increase	Monthly Payment		Annual Return (Maximum 5%)	Monthly Payment	Annual Variance
1985		\$1,165.18			\$1,166.22	\$12.48
1986	2.27%	\$1,191.63	21.92%	5.00%	\$1,224.53	\$394.80
1987	2.27%	\$1,218.68	27.48%	5.00%	\$1,285.76	\$804.97
1988	2.27%	\$1,246.34	-5.06%	0.00%	\$1,285.76	\$473.00
1989	2.27%	\$1,274.64	12.62%	5.00%	\$1,350.05	\$904.97
1990	2.27%	\$1,303.57	18.72%	5.00%	\$1,417.55	\$1,367.76
1991	2.27%	\$1,333.16	-6.91%	0.00%	\$1,417.55	\$1,012.67
1992	2.27%	\$1,363.42	34.12%	5.00%	\$1,488.43	\$1,500.08
1993	2.27%	\$1,394.37	3.89%	3.89%	\$1,546.37	\$1,823.96
1994	2.27%	\$1,426.03	8.64%	5.00%	\$1,623.69	\$2,371.97
1995	2.27%	\$1,458.40	-1.88%	0.00%	\$1,623.69	\$1,983.52
1996	2.27%	\$1,491.50	28.73%	5.00%	\$1,704.87	\$2,560.42
1997	2.27%	\$1,525.36	27.91%	5.00%	\$1,790.11	\$3,177.01
1998	2.27%	\$1,559.98	23.92%	5.00%	\$1,879.62	\$3,835.62
1999	2.27%	\$1,595.40	30.77%	5.00%	\$1,973.60	\$4,538.44
2000	2.27%	\$1,631.61	17.85%	5.00%	\$2,072.28	\$5,288.02
2001	2.27%	\$1,668.65	-10.01%	0.00%	\$2,072.28	\$4,843.57
2002	2.27%	\$1,706.53	-13.07%	0.00%	\$2,072.28	\$4,389.03
2003	2.27%	\$1,745.27	-19.89%	0.00%	\$2,072.28	\$3,924.17
2004	2.27%	\$1,784.88	23.29%	5.00%	\$2,175.89	\$4,692.08
2005	2.27%	\$1,825.40	4.63%	4.63%	\$2,276.75	\$5,416.20
2006	2.27%	\$1,866.84	8.70%	5.00%	\$2,390.58	\$6,284.92
2007	2.27%	\$1,909.21	11.12%	5.00%	\$2,510.11	\$7,210.75
2008	2.27%	\$1,952.55	-3.48%	0.00%	\$2,510.11	\$6,690.68
2009	2.27%	\$1,996.88	-38.90%	0.00%	\$2,510.11	\$6,158.80
2010	2.27%	\$2,042.21	34.64%	5.00%	\$2,635.62	\$7,120.98
2011	2.27%	\$2,088.56	13.84%	5.00%	\$2,767.40	\$8,146.04
2012	2.27%	\$2,135.97	-0.32%	0.00%	\$2,767.40	\$7,577.11
2013	2.27%	\$2,184.46	14.22%	5.00%	\$2,905.77	\$8,655.71
2014	2.27%	\$2,234.05	25.54%	5.00%	\$3,051.06	\$9,804.15
				Average Increase: 3.4%		Total Variance: \$122,963.87

By year 30, the ILAPA payment increased to \$817 more per month than the COLA payment for an annual total of \$9,804.

For more information, contact your
structured settlements consultant.
Or, call us toll-free at (877) 784-0622.

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Contract Form Series: 10-1213, ICC11:10-1213, 25-21694NY.
Rider Series: 20-1280, ICC13:20-1280, 20-2280.

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