Double the Impact of Your Retirement Account

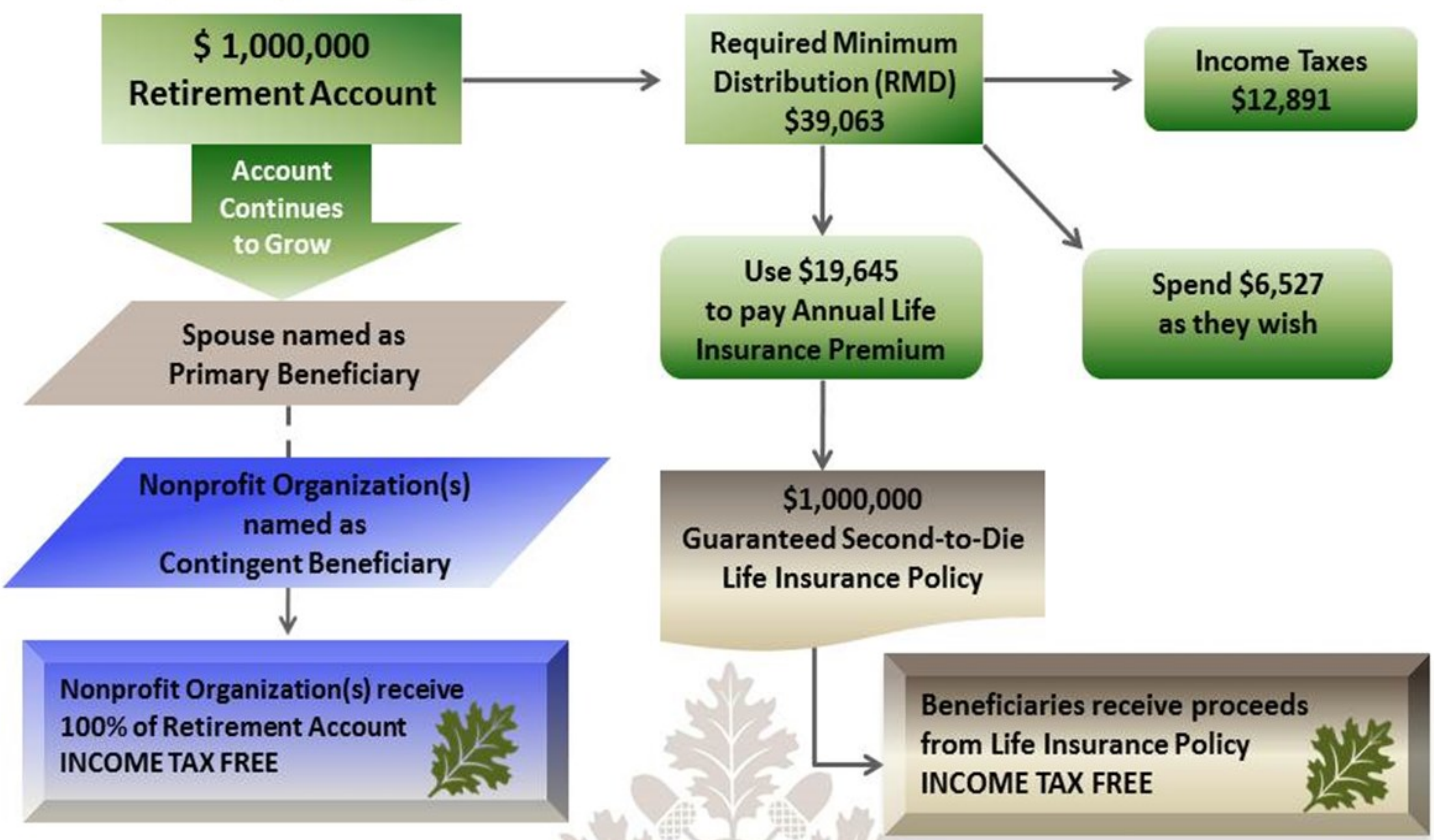
What if you could potentially double the value of your retirement account (i.e. an IRA, 401(k), 403(b), etc.), leave more money to your family or loved ones, and create a lasting legacy with a gift to support a favored nonprofit organization?

With thoughtful planning, this could be possible.

It all starts with your retirement account. A tax-deferred investment account is a smart way to accumulate assets for retirement, but a poor way to pass wealth to future generations. Since you receive a tax deduction for your contributions or have contributions taken from your earnings before calculating taxes on your paycheck, all of the funds in the retirement account are taxable to you or your beneficiaries when withdrawn. At your death, this type of account may also be subject to income and estate taxes, resulting in a potential loss of up to 90% of your account to the Internal Revenue Service and your state. In other words, your retirement account balance is not really all yours.

Many of our clients want to eliminate taxes and potentially leave more to their loved ones. To answer their need, we developed The Tax-Free Wealth Replacement Strategy. Using annual distributions from your retirement account, we can potentially create a tax-free benefit for your family and a tax-free legacy to a non-profit organization.

Tax-Free Wealth Replacement



This strategy is dependent upon the health and insurability of both spouses.
The insurance contract and death benefit is dependent upon the claims-paying ability of the insurer.
The life insurance policy death benefit is dependent upon the payment of premiums to the insurer. Failure to pay premiums may result in the insurance policy lapsing.

John & Jane's Story illustrates one possible scenario.

For over thirty years John worked at the same company, diligently saving part of his earnings in the company 401(k) plan. When he retired, John and his wife Jane lived comfortably on his company pension and their social security payments. When John reached age 70½, he was required to begin taking a minimum distribution (RMD) from his retirement account, although he did not need the additional income.

John and Jane were both 72 years old when we introduced them to The Tax-Free Wealth Replacement Strategy. John's retirement account was worth approximately $1,000,000 and he was required to take a minimum distribution of $39,063. We recommended the couple consider using part of the RMD to purchase a guaranteed second-to-die universal life insurance policy with a death benefit of $1,000,000. This type of insurance policy costs less because it pays the death benefit only after the second spouse passes away, so it uses two life expectancies to calculate the death benefit and premium cost. As long as the premiums are paid, this guaranteed policy will not lapse and the premium will not increase for the life of the policy. Using a non-guaranteed or variable life insurance policy may have premiums that could increase each year and impact your ability to maintain the policy in the future.

By using part of the RMD to purchase this life insurance policy, John and Jane created a $1,000,000 tax-free benefit to their family and have discretionary funds left over to enjoy each year. If their children or an irrevocable life insurance trust (ILIT) own the life insurance policy, the death benefit is outside of the taxable estate and is not subject to estate taxes, making the proceeds both income and estate tax free. Premiums paid to children or trusts are gifts and may be subject to gift tax unless the amount is less than the federal annual gift tax exclusion amount ($14,000 per person in 2017). Married couples can combine their annual exclusion amounts and gift $28,000 per year without incurring any gift tax liability. Premiums paid to children or trusts in excess of the annual gift exclusion amount may be subject to gift tax unless applied to an individual's lifetime gift exclusion amount ($5.49 million per person in 2017).

John can continue to maintain and invest in his retirement account while taking distributions for as long as he lives, keeping Jane as the primary beneficiary. If he predeceases Jane, she can continue to receive annual distributions from the retirement account. As we mentioned earlier, a retirement account is tax-burdened. Whether John, Jane or the children receive the retirement account distributions, they are subject to income taxes.

The Tax-Free Wealth Replacement Strategy doubled the impact of John's retirement account.

Since John and Jane replaced the value of the retirement account with a life insurance policy, they have the option of naming one or more non-profit organizations as contingent beneficiaries of the retirement account.

Using our example, upon John and Jane's death, their children will inherit $1,000,000 tax free from the life insurance death benefit and the couple's chosen non-profit organization will potentially receive $1,000,000 or the entire balance of the retirement account tax free.

To learn more about how you could double the impact of your retirement account or investments, please call us at (800) 416-1655 for a complimentary Wealth Impact Analysis.

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