

Positioning Whole Life Insurance in the Retirement Marketplace



Tax Diversification

- We often talk with clients about the need to diversify their investments
- What about tax diversification?
- i. e. why not own a variety of vehicles with differing *tax* attributes
- Same reasoning as investment diversification—one approach or another may turn out to be less attractive than we anticipated



So now that we've touted all the
great things about Qualified
Plans....



The “Darker Side” of Qualified Plans

- They are governed by hundreds of rules, regulations and restrictions.
- The annual contribution to the plan is limited.
- Government rules require that most or all employees be included.
- Costs of administration, accounting, actuarial, and legal fees can be substantial and recurring.
- Withdrawal of funds prior to age 59½ will generally incur a tax penalty.



The “Darker Side” of Qualified Plans

- Plan accumulations are potentially subject to estate taxes at death and income taxes at time of distribution to heirs; taxes that may easily total over 70% of the distributions.
- Deductible contributions are made today when income tax rates are relatively low and may actually be distributed and taxed at a *higher* rate at retirement age.



What might be features of an ideal retirement plan?

1. Tax-deductible contributions
2. Safely accumulate money
3. Earn interest on a tax-deferred basis
4. Funds protected from creditors
5. Distribute funds tax-free
6. Self-completing in the event of death
7. Self-completing in the event of a disability

Whole Life insurance
has all but one of these features
IRAs & Roth IRAs have only 4 out of 7!



The Three Phases of a Retirement Plan:

The Timing of Taxation

	Contribution	Accumulation	Distribution
QP	Deductible	Tax-Deferred	Taxable
NQP	Non-Deductible	Tax-Deferred	Tax-Free



Don't focus on the advantages of only one "Phase"

What else?

Qualified Plan	Life Ins Alternative
Contribution limited	Contribution unlimited
Account values unavailable till retirement	Account values available during working years
Very little latitude to select participants	Participation can be limited
Assets protected from claims of creditors	Assets protected from claims of creditors



Life Insurance...an unlimited
Roth IRA?



What's so great about a Roth IRA?

- Non-deductible
- Accumulates tax-deferred
- Distributions are tax-free
- No RMD required
- It is so attractive that Congress has limited its utilization by affluent people



What's so great about Life Insurance?

- Non-deductible
- Accumulates tax-deferred
- Distributions are tax-free
- No RMD required
- Creditor-proof
- Self-completing upon death
- Self-completing upon disability (optional)



AND.....

- Its utilization by affluent clients is NOT limited
- There is no limit on how much premium someone can contribute to life insurance



Is this so simple that we forget
what we have?



Reasons to Own Life Insurance in Retirement

1. Traditional “needs” Liabilities persist and/or retirement income insufficient
2. “Hidden” need, e.g. loss of income streams when one spouse dies
3. Second marriage, multiple children & grandchildren issues
4. Pension Maximization strategies



Reasons to Own Life Insurance in Retirement

5. Permission to consume
6. Tax diversification
7. Investment diversification Stretch IRA planning (read Ed Slott)
8. Estate planning—“the flip side of need”
9. Estate leverage for heirs



Reasons to Own Life Insurance in Retirement

10. Business transfer or liabilities
11. Charitable planning.
12. Estate leverage for charitable giving
13. Provide for grandchildren at risk
14. Provide for education of grandchildren



Let's look at a couple of these in
greater depth..



The Power to Consume

- Whole life insurance ownership will allow other assets to produce greater income by providing access to the principal as well as interest as a source of income.
- Life insurance gives the owner the power to consume assets that would otherwise have to be managed in an ultra-conservative fashion in order to preserve the principal and the income stream it produces.



Pension Maximization

- Most retirees will select a joint and 50% survivor annuity as the retirement income option on their pension plan. The cost of selecting this option is a lower retirement income, as much as 15%, followed by an income to the surviving spouse of 50% of the lowered retirement income.



Pension Maximization

- The presence of permanent whole life insurance will enable a retiree to take a much higher retirement income in the form of a single life annuity because the insurance benefits will be available to a surviving spouse as a future source of income.



Charitable Remainder Trust

- The cost of successfully building a business or managing a personal investment portfolio is often measured by the enormous capital gains tax that must be paid when a business owner looks to sell a business interest or portfolio holdings in order to fund retirement income



Charitable Remainder Trust

- Often financial success brings with it a desire to express benevolence towards those charitable causes that are of particular interest.
- With a charitable remainder trust these two seemingly diverse needs and desires can be met with one device



Charitable Remainder Trust can provide:

- a lifetime income for a benevolent donor,
- a substantial bequest to a charity of choice,
- avoidance of the capital gains tax, and
- significant income tax deductions.
- The ownership of permanent whole life insurance by a donor makes it possible to achieve the desired charitable intent with all the collateral benefits while providing an intact transfer of estate assets to heirs



Thank You for Attending

- Be sure to turn in your CE/Evaluation Form as you leave

