

Success Strategy

Qualified Plan Maximization



LIFE INSURANCE FUNDING WITH QUALIFIED PLANS (QPLAN MAXIMIZATION)

All your life, you made saving for retirement a priority, putting as much money into your 401(k) and traditional IRAs as the tax laws allowed. Now that you are nearing retirement, you realize that you have been more successful than you ever dreamed, and do not need additional retirement income. Although you might like to leave your retirement assets intact for your heirs, it may not be possible. First, once you reach age 70½, you will be required to start taking Required Minimum Distributions (RMDs) from your qualified plan or traditional IRA, whether you need the income or not. Second, at your death the qualified plan assets will be subject to both estate taxes and income taxes in respect of a decedent (IRD taxes). These taxes can erode the value left for your heirs by as much as 70%. How can you best use your qualified plan to increase the amount of money left for your heirs? QPlan Maximization may be able to help.

WHAT QPLAN MAXIMIZATION IS

QPlan Maximization is a way to move assets from your qualified plan and use them to fund an Irrevocable Life Insurance Trust (ILIT). When properly drafted by your attorney to comply with the appropriate state laws, this ILIT can purchase life insurance on you (and your spouse) and potentially increase the amount of money left to your heirs.

HOW IT WORKS

First, you can create an income stream by taking withdrawals from your qualified plan. You must pay income tax on the withdrawals, but you can then use the after-tax distribution to fund an ILIT, using annual exclusion gifts to potentially avoid gift taxes. Finally, the ILIT will purchase a life insurance policy that will pass to your heirs at death, free of estate and income taxes.

THE BENEFITS OF ANNUITY MAXIMIZATION

Using qualified plan assets to help fund life insurance in an ILIT can help:

- reduce estate and IRD taxes
- create liquidity in your estate
- increase the amount of money left for your heirs

CONSIDERATIONS

- You must pay income tax on the withdrawals as you take them from the qualified plan.
- By taking withdrawals greater than your RMDs, you may reduce the overall value of your qualified plan.
- If you are younger than age 59½, you must take substantially equal periodic payments to avoid the 10% early withdrawal penalty tax.

CASE STUDY: STEPHEN AND MARY HAINES

Stephen (67) and Mary Haines (64) have an overall estate of \$10,000,000, including \$1,000,000 in a traditional IRA that is growing at 7% a year. They have many other assets that provide them enough income to live on, including several rental properties. The Haines would like to leave the IRA intact for their three children; however, they know that they must start taking RMDs when Stephen reaches age 70½. They are also concerned about estate liquidity, and do not want their children to have to sell the rental properties to pay estate taxes.

Their advisor, Sylvia Fowler, recommends QPlan Maximization. The Haines will take withdrawals from their IRA and use the after-tax withdrawals to fund an ILIT. Initially, the Haines will withdraw \$30,000 a year after taxes, but this amount will increase over time to comply with the RMD rules. The ILIT will use this increasing income stream to purchase a \$3,690,607 John Hancock Survivorship UL-G policy on Stephen and Mary's lives.¹ This approach not only increases the amount left to their heirs, but also provides liquidity so that other assets do not need to be sold to pay taxes.

As seen below, the total amount left to the heirs will be \$3,985,605, over 10 times more than without planning.

EFFECTS OF PLANNING		
	DO NOTHING	WITH PLANNING
QUALIFIED PLAN VALUE IN YEAR 25*	\$1,694,331	\$1,432,027
LIFE INSURANCE PROCEEDS	\$0	\$3,690,607
ESTATE TAXES ON QUALIFIED PLAN	\$931,882	\$787,615
INCOME TAXES ON QUALIFIED PLAN	\$413,417	\$349,415
NET TO HEIRS	\$349,032	\$3,985,605

* Joint Life Expectancy based on IRS Table VI.

This data shown is taken from an illustration. It assumes a hypothetical rate of return and is not a presentation of expected future results. Unless indicated otherwise, these values are not guaranteed.

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1. Based on Male, NS Preferred age 67, and Female, NS Preferred age 64.

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