Life Insurance for
Life and Beyond

Why I am talking about life insurance?

Because life insurance may be the most underused strategy to protect large retirement balances from being decimated by the highest levels of taxation.

Who's most at risk? Those who have the largest IRAs or other tax-deferred savings accounts.

Just so you know...

I don't sell life insurance, so why should I care?

I don't sell stocks, bonds, funds, insurance or annuities.

I am a tax advisor, but it's about the taxes.

I also believe most people don't understand how life insurance works as an effective planning tool.

I don't sell it and I am no expert in exactly how the various life insurance contracts work.

That's why there are life insurance professionals that you need to work with for all the details.

But I do know how life insurance can fix lots of money and retirement problems, and even create wealth, tax-free wealth!

And you know... I love tax free!

I only care about the end result-the benefits. I want you to know how powerful the end result is. I want to give you enough here so that you'll understand what life insurance tax planning can do for you and your family; both during your lifetime and after your death.

So why don't most people take advantage of life insurance?

Because every time you hear life insurance you tune out, or put it off. Most times when you hear about life insurance you are hearing about it from someone who sells it, so you feel like you are being sold rather than being advised.

They're just trying to sell me something ... you think. So you avoid the meeting or the discussion. And you may be right. Maybe you feel that you are just being sold, so you don't see a benefit to you. But you could be wrong!

I want you to understand what's in it for you from an objective, unbiased tax benefit point of view.

Well now you're meeting with me, so let me tell you why I believe life insurance is the missing piece in most people's retirement and estate plans.

The tax exemption for life insurance is the single biggest benefit in the tax code.

I don't even think life insurance professionals use it or appreciate enough. That's why they don't sell enough of this product.

I put this brief guide together for you in the hope that you will see how tax planning with life insurance provides powerful benefits. Then, hopefully you'll continue this conversation with your life insurance agent who can fill in the details.

But now when you meet with him or her, you'll have a better understanding of the benefits and what questions to ask. You'll definitely be more involved in the discussion, especially when it comes to your retirement.

First let's see what the problem is? And what the solutions are?

The good news is that taxes are generally money problems and life insurance puts tax-free money in your pocket, so most tax problems can easily be avoided with planning.

Here are both the problems and the solutions:

On two levels:
The problems that affect - **during your lifetime**

AND

The problems that affect your beneficiaries - your family - **after your death**

Why would you care about a solution if you didn't think you had a problem? If you have retirement savings, you have a problem!

If you have taxable savings, you have a problem and so do your beneficiaries.

Risk

Most people think of investment risk, as in the stock market. But when it comes to your retirement savings - especially taxable IRAs and 401 (k)s - an even bigger risk is **tax risk**.

Many people think that simply having retirement savings is enough. It's not. **It's what you keep that counts, AFTER taxes**

There's a mortgage on your tax-deferred retirement savings. Most of that is owed back to the government.

Future taxes could be 50% or 60% or more by the time you reach in for yours. That's not real money. The only real money is tax-free money: spendable money-where you keep it all.

Plus with IRAs and 401 (k)s, you have to take required minimum distributions (RMDs) on that money after you reach age 701/a years old and you are forced to pay taxes on the government's schedule, not yours. That's the government plan.

That's not *REAL* money, since it is all subject to tax.

Are you wondering what future taxes will do to your retirement security?

You should be. You have actually caused the problem. Especially if you have done everything right. You saved, sacrificed and built a healthy retirement account-a 401 (k) or IRA.

So... What's the problem with IRAs?

They are tax deferred, not tax free. With an IRA, SEP IRA, SIMPLE IRA, 401 (k), 403(b) or any other type of tax-deferred retirement plan, you received your tax deduction upfront. Your

retirement funds have grown tax deferred all these years.

So far, so good. You have done well. But there will be a day of reckoning. You'll owe income tax when you begin to withdraw, just when you need the money the most. How much tax? We don't know? That's the problem.

You won't know that until you need the money the most-in retirement-or after you die when your family inherits. This uncertainty keeps people up at night.

So that is the tax risk.

But there is another risk - market risk.

Your retirement savings and other investments, if invested in the stock market are also at risk of being lost to more Wall Street fraud and manipulation, or a market crash at the wrong time for you.

Let's review up to this point:

Typical tax-deferred retirement savings like IRAs and 401 (k)s are subject to 2 major risks:

Investment risk and tax risk.

Life insurance can be used to remove both of these risks

Investment risk: With life insurance you get certainty - a guarantee.

You cannot get a guarantee in the stock market.

Tax risk: You'll never pay income tax on this money.

You need to create a plan to move your money from accounts that are forever taxed to accounts that are never taxed. Life insurance is the best provision in the tax code to do that.

Wouldn't you sleep better at night if you knew your retirement savings were no longer subject to these risks?

But still, the benefits are misunderstood and not used enough in planning.

So what are the benefits and exactly how would you use life insurance in your planning?

First, when I talk about life insurance I'm referring to permanent insurance. Even with permanent life insurance there are several options, so you need to speak with an insurance professional for those details.

I'm not talking about term insurance here, which is more for younger families looking to get the maximum death benefit for their money.

I am talking about permanent insurance-for those looking for retirement security and tax and estate protection.

As I've already told you, you have a tax problem especially if you have significant funds in taxable and tax-deferred accounts. Your family also will have a problem after you die if no planning is done and they inherit mostly taxable funds. They will be dealing with the tax issues too.

They may also be dealing with estate taxes, depending on the tax law when you die. That changes all the time so you need to plan for the worst case scenario, and hope for the best.

Your family will most likely have a liquidity problem if retirement funds and other assets have to be cashed in quickly to raise money after death for taxes and other post death expenses.

Money is often needed after death to resolve all kinds of issues besides taxes: family squabbles or family members wanting money quickly.

The last thing you want is for them to have a fire sale, especially if there is a family business or other valuable property in your estate.

You don't want your family wasting or cashing out retirement accounts or other valuable property prematurely because cash is needed quickly.

You need to do a liquidity test right now, so you can see if your family will have a cash problem after death. To gauge the problem I take clients through my own type of **liquidity analysis**, because most people are not liquid enough to avoid having their family start selling off investments, cashing in retirement accounts and triggering unnecessary taxes.

What does my Liquidity Analysis do?

It shows you how much of your estate can be turned into cash quickly without triggering taxes or losing property value.

Cash is often needed after death. There could be state estate taxes, even if there are no federal estate taxes. There are always expenses and the IRA is the last account you would want to have to tap to pay those bills and taxes. IRAs are subject to both income and estate taxes, which could eat up lots of cash quickly.

You can work on this with your advisor or accountant/CPA

Here's what I do for my clients:

Make a list off all the assets you own, less liabilities, mortgages, loans, debts, etc. to etc. to your net worth.

Code all your property as liquid or non-liquid.

By liquid I mean assets that can most easily and quickly be turned into cash, without triggering a tax or without some cost. When you have to pay any type of toll to get to your assets, those assets are NOT liquid. Liquid assets are basically cash.

Here's how to find out how liquid you are:

Do a fraction:

Numerator

The numerator is liquid assets: basically cash

Cash, bank accounts etc.

Do not include IRAs or 401 (k)s here. Sure they can be cashed in, but that will trigger a tax, so they are NOT liquid.

Include only assets that could be sold quickly without triggering a tax or other expenses, or without losing significant value - like a fire sale.

Denominator

The ENTIRE value of your entire estate, including cash

Include all your assets-business interests, real estate.

Include all property owned in addition to the IRAs.

Now look at that percentage. For most people it's about 5% if that much. In other words most estates are 95% illiquid.

That's the problem, unless you actually do have a ton of cash available, which most people don't. Most people realize at this moment that they have a huge liquidity problem.

Now you know you have tax exposure, stock market risk and a liquidity problem.

How can life insurance help?

Two ways:

During your lifetime

And... After your death

Lifetime Benefits for You!

During your lifetime, you have the ability to reduce both stock market risk and tax risk, by moving your money from accounts that are forever taxed to accounts that are never taxed. You can actually do that two ways:

Roth IRAs and Life Insurance

Both cost money now, but with life insurance, you'll be creating a bigger pot of tax-free money later on, when it's most needed.

It would be great if you could do both (Roth IRAs and life insurance) and turn your entire estate into a tax-free windfall both during your life and after death.

But the more powerful way is with life insurance. Again, I'm talking about permanent life insurance that has cash value. You can contribute more with life insurance than you can to a Roth.

With a Roth though, it's easier to access your money if you need it.

Roth IRAs are income tax free too, but they are part of your estate and are subject to estate taxes.

But Roth IRAs provide no additional death benefit as life insurance does. Life insurance comes with a guaranteed death benefit and that benefit, unlike a Roth IRA, can be set up to be estate tax free.

So what can you do to remove both the stock market risk and the tax risk?

You can leverage your retirement savings. You can leverage your IRA.

If you have a large IRA, it may pay to draw it down now and pay tax on the distributions. Then use those distributions to invest in a permanent life insurance policy.

Tax rates are still at all-time lows right now, so now would be the time to strike. Even if it cost you tax money, it still pays because you are lowering your tax exposure on your IRA.

After age 70 ½, mandatory withdrawals from the IRA must begin. Since the money will eventually have to be withdrawn anyway, it may as well be leveraged by using the money to pay the life insurance premiums. You are basically paying off the mortgage on your IRA early. This way, you never have to worry about tax risk. And the funds invested in your permanent life insurance policy are now growing tax and risk free.

You can have lifetime access to the cash value tax free if you need it for retirement. During your lifetime you can in effect turn your taxable IRA and other taxable savings into a tax-free savings vehicle.

It's really just like changing pockets from taxable accounts to tax-free accounts, except that now you also have a built in guaranteed death benefit for your family. It's generally judgment proof too.

If you have other taxable funds you might want to keep those protected from future taxes too.

Many people who are looking for places to shelter money from taxes, stock market risk and lawsuits are stuffing taxable money into permanent life insurance as a lifetime personal protected savings account. All the growth is tax free for life, and beyond.

Post-Death Benefits for Your Family

If you don't need to tap into the funds during your lifetime, your beneficiaries are guaranteed a death benefit. The stock market has no such guarantee. Your family will now have guaranteed access to a ton of tax-free cash. Tax free means they keep every cent - no tax erosion here.

They will have tax-free cash to pay estate taxes if needed. To pay expenses, debts, and mortgages, all without triggering taxes or having to sell a family business or other valuable real estate or other properly that could trigger taxes.

If they had to use your IRA to pay these bills, they would first have to pay income taxes and maybe estate taxes too, leaving very little to pay bills, or for them.

So don't sit there and admire your IRA like most people do.

Leverage it now.

Use it. Leverage it, or lose it to possible higher future taxes!

Never underestimate the value of leveraging IRA money by using it to pay life insurance premiums.

The larger the estate, the higher the estate tax. Having enough insurance money available to cover the estimated estate tax will avoid having to invade the IRA to pay the tax.

Some people might say:

But the current estate tax exemption is now so much higher that there will probably be no estate tax.

That is not an option you can plan with. The estate tax exemption has been changing up and down and you cannot take that risk.

Anyway, what's the downside? If there is no estate tax, the beneficiaries will inherit more money and it will all be tax-free! That's the down side.

But what if there is no estate tax?

There are plenty of uses for life insurance even if there is no estate tax.

Use life insurance to replace stock market losses.

Life insurance can also be used to provide tax-free money for beneficiaries so that they do not have to withdraw amounts in excess of their required distributions on inherited IRAs.

This will keep their income taxes lower, since the excess IRA distributions would have been taxable. The money they use from life insurance is tax free. This allows them to stick with the stretch IRA schedule instead of depleting the IRA before its time.

This is even more powerful for a Roth IRA, since the Roth IRA is growing tax free. This allows inherited Roth IRAs to last longer and continue to grow tax free for beneficiaries.

Life insurance can also be used simply to create wealth.

Your family can easily end up with millions more than you ever had-all tax free!

That's why when I talk to clients I give them this scenario. First we find their net worth, like I said earlier; the entire value of your estate.

Then I ask:

If I could create a plan so that after you die, your family will end up with your entire net worth, or much more, would that be a good plan?

Yeah... where do I sign up for that? Who wouldn't want that?

Does that mean there were no taxes or other expenses that depleted the estate?

No, but we planned for that. And those items can be paid from the additional tax-free life insurance money, with plenty more left for your family.

That is how any family's assets can be leveraged with life insurance, to eliminate the effect of taxes and turn what was a taxable estate into a much larger tax-free estate.

Here are some other uses for life insurance planning:

If you have no retirement account, you can actually create one with life insurance and have death benefit protection too-all guaranteed, by moving other taxable money into your permanent life insurance policy. This provides a lifetime benefit for you.

Life insurance can be a pension alternative, providing beneficiaries a tax-free stream of cash for the rest of their lives, similar to the stretch IRA, except that the insurance is better than a stretch IRA because it's tax free.

Another benefit: Money solves a lot of problems and not all problems are money problems:

It can help in situations where families don't get along. And it's not usually your children; it's the ones they marry!

We had a case where one of the daughters would not even talk to the other 3 children. But mom had come to see me and decided to take out S500,000 of life insurance, naming the 4 children as equal beneficiaries. When mom died, it didn't matter that one of the daughters wasn't talking to the others. They all got their money quickly with no arguments, no fuss, no courts, no probate and no dealing with other family members.

Life insurance does not pass through a will. It is not subject to probate or income tax.

To review:

This is the basic strategy. Turning taxable money into tax-free money using the tax exemption for life insurance.

Moving your money from accounts that are forever taxed to accounts that are never taxed.

As tax rates increase, tax free becomes more valuable.

Life insurance like Roth IRAs removes the uncertainty of what future tax hikes could do to your retirement savings.

But is it all good?

What's the Downside?

You might not qualify. You might be too ill.

You can get annuities for that. Annuities also give you a guarantee of income for life.

You must commit to funding the policy. You need to have funds available to invest. But that is where your IRA and other taxable funds come in.

Life insurance is not for everyone.

Don't go broke. If you don't have enough assets, you probably also don't have a tax problem and then it might not be for you.

Maybe you only need enough to protect a young family in case of an early death.

The bottom line is that life insurance provides tax-free cash - **tax-free cash IS always the best source of money and also solves lots of non-tax problems.**

This is all good but people make mistakes when it comes to life insurance planning and understanding life insurance.

Here are the 5 most common life insurance mistakes:

(Again, I am referring only to permanent insurance-with cash value.)

1. Thinking that life insurance is a cost and not looking at it as an investment

A bank account is a good example. The more you invest, the more you'll have. Putting money in a bank account is not a cost, it's yours. It's an investment.

Think of permanent life insurance the same way. It's an investment.

2. Trying to pay the lowest amount for life insurance

Sounds good right?

Do you want to pay $1,000 or $10,000?

With permanent life insurance, the more you invest, the more you have protected from taxes.

3. Not understanding the benefits

For example:

Life insurance provides a tax-free payout after death.

Judgment Proof

Lifetime access to cash value-tax free.

It won't cause Social Security to be taxed and you won't lose tax benefits, such as exemptions, deductions and credits.

Life insurance can be exempt from estate tax.

With life insurance you get a guarantee. This removes stock market risk.

The government has restrictions on how much you can invest, but you generally want to put in the maximum you can.

4. Improper Ownership

Don't own it in your own name. Why would you?

Keep it out of your estate.

For estate tax purposes, you should not own your own policy. It should be owned by someone else or a trust.

One caveat though: If you don't own the policy (which is good for estate tax purposes), you may only have limited lifetime access to the cash value.

The life insurance premiums should be paid by the beneficiaries or by the trustee of an irrevocable life insurance trust so that the life insurance proceeds will be estate tax free.

5. Not knowing it's tax free

I don't know if this is a mistake or a misconception.

Still, people don't know that life insurance is tax free.

Let's review:

Risk is a silent retirement killer.

Life insurance can eliminate both stock market and tax risk.

It can be used during life to create a tax-free retirement fund.

Life insurance is not only income tax free, it can be estate tax free too.

You can contribute almost unlimited sums to a permanent life insurance policy and have tax-free access to your cash value during life, without increasing your income.

And don't forget about the most basic life insurance benefit. Aside from the estate and retirement planning advantages, life insurance protects families when there is an early death.

It's hard enough to deal with the loss of a parent, but at least life insurance can provide the needed cash so that life can go on, without having to make any severe changes due to lost income.

Life insurance provides money for the family-tax-free money.

I never met anyone who didn't wish they had more life insurance, especially a widow.

I like to say that "Life insurance takes care of families without first going through the government." -Ed Slott

You need to review all of these points with your life insurance professional who can fill in the details, but now you are much better informed and ready for the conversation. You'll actually enjoy your conversation with your life insurance agent! Can you believe it?

Life insurance is not only the single biggest benefit in the tax code, but it is also the most cost effective way to protect a large IRA.

You need to have a discussion with a competent educated advisor that in addition to being a life insurance professional, has the specialized knowledge in retirement tax planning.

The coordination is essential, especially if you have built up significant balances in your taxable IRAs or 401 (k)s.

As tax rates increase, life insurance becomes more valuable than ever before.

New health care taxes are coming as well as higher tax rates. You can plan for that now. And if it doesn't happen, what's the downside? You and your family have sheltered that much more money, since it won't have to be used to pay taxes.

Here are the most frequent questions I get about life insurance:

If the tax exemption for life insurance is so good-won't government take it away?

No. Why?

It's a social reason. Why do you think our government encourages us to give money to charity? If you give to charity, you get a tax deduction. Why does the government want us to give so much money to charities?

So they don't have to; to remove the burden from them.

It's the same with life insurance. Our government wants us to take care of our families so they don't have to. They want us to take care of our families with our own money and private insurance company money, so that the government does not have to.

What if I don't qualify for life insurance?

More people qualify than you think.

I've had very ill clients who qualified, so you never know until you try, so don't assume you won't qualify. Leave this to your life insurance professional to check for you.

How can insurance companies do this?

People constantly ask me this because the benefit seems too good to be true. How can insurance companies stay in business paying out these huge sums of money, when you pay them so much less?

They have actuaries. Don't worry about them. We won't hold any benefits! It's in the numbers and a large pool of people.

Insurance companies are among the most solid financial institutions.

Why doesn't everyone do this?

I don't know.

I also think that insurance is not sold properly so you look at it as a cost rather than an investment. Many people think they are buying something and don't see how it fits into a plan.

A good financial advisor or insurance professional can explain the planning aspects.

Which is better-saving in an IRA or an insurance policy?

Life insurance, hands down.

Let's compare life insurance to tax-deferred retirement plans like IRAs and 401 (k)s.

If you compare life insurance to tax-deferred plans, life insurance has several advantages:

Life insurance provides a tax-free death benefit.

Life insurance cash value can be accessed tax and penalty free.

With an IRA, withdrawals can be heavily taxed, and you could incur penalties too.

With a traditional IRA, you are forced to withdraw and pay taxes after age 70 ½.

Life insurance provides an income tax-free death benefit. Estate tax free too, if owned properly.

With life insurance there is NO risk of future tax rates increasing.

- The Roth IRA provides this benefit too.

But...

Here's what you **DON'T** get with life insurance that you do get with an IRA or 401 (k). You don't get a tax deduction. But a tax deduction these days is a trap because you'll pay much more later!

Come on Ed - Are you working for the insurance companies?

No. I am here for you!

I'm telling you how to create and build tax-free wealth using the single biggest benefit in the tax code.

“Life insurance is the only legal way to print money."
-Ed Slott

So there you have it: The problems and the benefits-both to you **during your lifetime**, and for your family **after your death**.

Bottom Line:

Don't just sit there and admire your IRA or 401 (k).

If you have a large IRA, you have a tax problem. It's tax deferred. It's a sitting duck just waiting to be taxed.

Use it, Leverage it, or LOSE it to future taxes.

Do something now while the best options still exist.

Move your money from accounts that are forever taxed to accounts that are never taxed.