

Talk of the Town

How to Get a Tax Free Retirement



James D. Stillman

As most folks know in the Lake Norman area, JDS Wealth Management helps folks plan for retirement with a focus on asset preservation, safe growth, and guaranteed lifetime income strategies. These strategies usually consist of a blend of investments, savings, life insurance, and annuities. We usually focus on working with people 55 years of age and older, but this month I wanted to spend a little time with the younger folks out there - between ages 30-45. Why? Because this age group may be missing out on the best kept secret in the retirement planning industry!

What is this strategy that so few know about? INVESTMENT GRADE LIFE INSURANCE! This is sometimes known as a LIRP (life insurance retirement plan), 702(J) plan, 7702 plan, or even a "secret 770 presidential plan" that President Ronald Regan used. Some people call it "the rich man's Roth". These titles are pure marketing! Life insurance is classified under section 7702 of the internal revenue tax code, and the rest of it is fancy marketing (have you ever heard those "Bank on Yourself" commercials)? Yea, you guessed it, they're talking about investment grade life insurance.

But what is investment grade life insurance? It's simply using a life insurance policy to grow cash value. It's basically the opposite of term insurance, which is when you try to get the highest death benefit for the lowest premium for a predetermined period of time. With LIRP plans you determine how much you want to contribute each year, then get the LEAST amount of death benefit allowed by IRS & life insurance regulations (these are known as TAMRA/TEFRA/DEFRA laws). The goal is to GROW THE CASH VALUE. The life insurance is just the vehicle to hold the cash (but it's still a good benefit to have).

High net worth people have used these plans for decades, and many Fortune 500 CEOs also take advantage of these plans. Historical rates of return with a properly designed plan can range from 5% to 8% per year, after the cost of insurance. Well, by now I'm sure you're asking yourself why you would do this versus a 401k or IRA retirement plan. Simple answer, TAXES. This is known as a "Tax Free Retirement Plan". When it comes to taxes, it's pay Uncle Sam now or pay him later. There's a great book to read called "Tax Free Retirement" by Patrick Kelly that explains all this in more detail. But let me ask you a simple question: do you think taxes will go up or down in the future? If you think they're going to go up, then why would you put money into something that you'll pay higher taxes on when you need the money most (in retirement)?

Now, I know there are a bunch of you out there saying you get tax deductions now for IRA/401k contributions, you'll be in a lower tax bracket when retired, etc. etc. But remember, if you defer the tax, you defer the tax calculation! And, believe it or not, we are still in a historically low tax environment based on the last 100 years. Are you really all that sure that you'll be in a lower tax bracket in retirement? Plus, if your retirement plan grows (which it should), then you'd be paying taxes on a much larger amount versus paying tax now on the contributions alone.

So, to wrap up, here are the main advantages of developing a LIRP or Tax Free Retirement Plan. Keep in mind that you need at least a good 15-20 year timeframe to build cash value; that's why I'm targeting the younger folks for a change.

- A) You determine the amount to put in each year / no contribution limits
- B) No income restrictions like you have with Roth or Traditional IRAs
- C) Cash value grows tax deferred, but can be taken out later TAX FREE
- D) Fair rates of return (historically 5% - 8%) without market risk
- E) There is no IRS penalty for distributions prior to 59 1/2, like IRAs have
- F) The tax free death benefit is always good for a growing family

I'd encourage younger folks to research this strategy, because I've just given a brief outline. My good friend Ed Slott always says, go from "forever taxed, to never taxed"!

As always, if you would like a free report, a free consultation, a copy of my free book, or would like to attend one of our events, please visit our website, give us a call, or stop by the office.

And, as always, remember: The purpose of the money dictates where you put it!

Until next month,

James D. Stillman

"Annuities: Fact vs. Fiction"

Wednesday September 7th & Tuesday September 13th
(Check-In at 5:30pm, Doors Close at 6:00pm)



Epic Chophouse - Mooresville

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