

Talk of the Town

The Power of Zero & Planning For a Tax Free Retirement: Part Two



James D. Stillman

Last month, we discussed how taxes in retirement can erode your spending power and how wonderful it would be if you could enjoy a “Tax Free Retirement”. Most baby boomers - for example - have accumulated most of their retirement assets in 100% taxable IRAs, 401(k)s, 403(b)s, etc. So, right when you need the money the most (when you take it out to actually fund your retirement), you get hit with the taxes you’ve deferred over all those years. Not to mention that heirs must also pay taxes on inherited IRA assets. These taxes can easily reach 40% - 50%. Ouch!

Now, I know you got the tax deduction each year (and that’s a good thing in most cases), but let me ask you a question. Let’s assume you’re a farmer that plants a multitude of crops each year. Would you rather pay tax on the seed (small amount) or the harvest (large amount)? I think the answer is obvious.

Remember, your IRA is “jointly owned” by the IRS! This must be taken into account when planning for retirement. With total unfunded liabilities in our country exceeding \$100 Trillion dollars, TAXES ARE LIKELY GOING TO GO UP IN THE FUTURE! I stated last month that CPA David M. Walker, who served as Comptroller General of the United States for eleven years, and Ed Slott, who is known as “America’s IRA Guru”, both have said taxes will have to double in order for the United States to meet its financial obligations. That’s obviously not good news. So, how can folks plan for this? There are basically two ways: Roth IRAs and Investment Grade Life Insurance - known as a LIRP (Life Insurance Retirement Plan). Let’s briefly discuss both.

Roth IRA: Funded with “after tax dollars”. That means you don’t get the tax write off now, but all contributions are tax free and available anytime without penalty (the IRS assesses a 10% penalty for withdrawals from Traditional IRAs prior to age 59 ½). Once you’ve owned your Roth for 5 years and you reach age 59 ½, all growth is penalty free and tax free! Contribution limits are \$5,500 per year if you’re under age 50 and \$6,500 per year if you’re over 50. Note: Phase-out income limits are \$116K single and \$183K joint.

Life Insurance Retirement Plan (LIRP): Sometimes referred to as a “Super Roth”. This strategy uses life insurance with the sole purpose of building cash value in the policy. Later on, the cash value can be used tax

free for income or for any other reason. There are no phase-out restrictions for income, no IRS penalties for early withdrawals, no contribution limits, the growth is tax-deferred, and the death benefit is tax free to heirs! These types of “hybrid” policies have historical returns of between 6% - 8% (in some cases higher) and no downside risk. As I stated last month, about 85% of Fortune 500 Company CEOs use LIRP strategies. Sounds awesome, doesn’t it? Well, we think it is! So, why don’t more people use “investment grade life insurance” for retirement planning? Easy answer: they don’t know about it! Very few financial professionals are skilled at this type of life insurance planning, and Wall Street has brain washed most folks against it. As someone who has spent a lot of time learning about how to utilize life insurance in this way and Registered Investment Advisor that’s focused on retirement planning, not using life insurance is a huge mistake, in my opinion. There are a few “catches” to this type of planning. 1) You must be insurable, and 2) you need at least 15 years to fund the plan properly. There are two great books on this subject, “Tax-Free Retirement” by Patrick Kelly and “The Power of Zero” by David McKnight. I’d suggest reading both for more detailed information, or just give us a call.

As always, for a free consultation, additional information, or a free analysis of your current situation, just contact us here at JDS Wealth Management. We offer various free reports, a free cost & risk analysis, and a free tax analysis of your current portfolio and retirement plan. If you’d like a free copy of my book “Finding Safe Harbor in Retirement”, just let us know.

Until next month,

James D. Stillman

Today’s Retirement Challenges: What’s Your Stock Market Exit Strategy?

Thursday, August 6th & Tuesday, August 11th
(Check-In at 5:30pm, Doors Close at 6:00pm)



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