



LIFE INSURANCE FUNDING WITH QUALIFIED PLANS (QPLAN MAXIMIZATION)

CLIENT PROFILE	
Age:	60 and older
Status:	Nearing retirement or already retired
Concern:	Would like to maximize the amount of money left to their heirs from their qualified retirement plan

SITUATION

- Client has a 401(k), IRA, or other qualified plan that is no longer needed for retirement income.
- Although client does not need the income and would like to leave this asset for the heirs, client will have to take Required Minimum Distributions (RMDs) starting at age 70½.
- Additionally, the qualified plan will be subject to both estate and income taxes at the client’s death, further reducing the amount left for heirs.

SOLUTION

- Use distributions from the qualified plan to fund an Irrevocable Life Insurance Trust (ILIT)¹ to help increase the amount of money left to the heirs.

HOW IT WORKS

- Client creates an income stream by taking withdrawals from the qualified plan. Client pays income tax on the withdrawals taken.
- Client creates an ILIT and uses the after-tax income to fund the ILIT.
- The ILIT purchases a life insurance policy on the life of the client (and spouse, if desired).
- At death, the policy death benefit will pass through the ILIT to the heirs, free of estate and income taxes.*

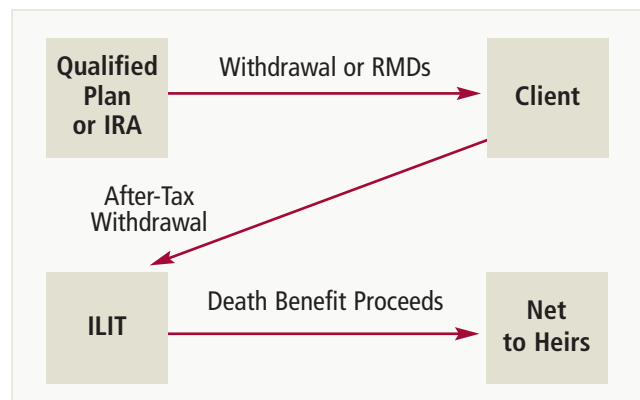
BENEFITS

- Creates a potentially larger legacy for the heirs by purchasing life insurance.
- Reduces the size of the qualified plan and thus potentially reduces the income and estate taxes at death.
- Reduces the size of the taxable estate.

CONSIDERATIONS

- Client must pay income tax on the distributions as they are withdrawn.
- Withdrawals in excess of the required minimum distributions may reduce overall qualified plan value.
- Clients who are younger than age 59½ cannot take withdrawals flexibly, but must take substantially equal periodic payments or be subject to a 10% penalty tax.

WHAT IT LOOKS LIKE



*Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.

CASE STUDY: STEPHEN AND MARY HAINES

CLIENTS: Stephen and Mary Haines, both age 65, Preferred Non Smokers
TOTAL ESTATE: \$5,000,000 growing at 5% annually (includes qualified plan)
QUALIFIED PLAN: \$1,000,000 growing at 5% annually
ALTERNATIVE: Take withdrawals from qualified plan, use the after-tax amount to fund an ILIT, and purchase a survivorship policy on Stephen and Mary's lives
PRODUCT: \$2,530,377 John Hancock Performance SUL² policy \$30,000 initial premium

EFFECTS OF PLANNING		
	DO NOTHING	WITH PLANNING
Qualified Plan Value in Year 28	\$940,601	\$717,550
Life Insurance Proceeds	\$0	\$2,530,377
Estate Taxes on Qualified Plan	\$1,505,706	\$508,535
Income Taxes on Qualified Plan	\$185,631	\$149,179
Net to Heirs	\$1,185,957	\$2,832,209

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1. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.
2. Based on Male and Female, both age 65, Non Smoker Preferred with annual level-pay premium of \$30,000.

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