Life Insurance Retirement Plan

With the ever-changing landscape of taxes, it is growing increasingly difficult to understand how legislation affects clients and could possibly impact their financial future. As a leader in the financial services industry for over 30 years, we get it. That's why HD Vest Financial Services® is constantly seeking ways to share the latest knowledge we acquire with you. We've created the Taxes & Investments: Timely and Timeless Strategies Series to share timely information and provide our Advisors and their clients with practical information and ideas they can build on.

With recent tax changes and the continuing encroachment of the alternative minimum tax onto the upper middle class, high-income taxpayers are looking for additional ways to "tax shelter" retirement assets. A Life Insurance Retirement Plan (LIRP) is a tax efficient way for high income individuals to supplement their retirement income by taking advantage of the tax treatment of life insurance. When utilized properly, the LIRP can be an attractive option for tax-deferred retirement accumulation and tax-free retirement distributions.

What is a Life Insurance Retirement Plan?

A LIRP is a life insurance accumulation vehicle that mimics many of the tax-free characteristics of the Roth IRA. It works by purchasing a cash value life insurance policy that the owner then overfunds for a period of at least 10 years. The owner then waits at least 15 years before taking loans and/or withdrawals from the life insurance policy to help supplement retirement income. If structured correctly, the distributions are tax-free and do not contribute to the income thresholds that trigger the taxation of Social Security. The assets also grow tax-deferred in the life insurance policy and any residual benefit pays directly to a listed beneficiary tax-free.

Features of a Life Insurance Retirement Plan:

- There is no income limit to a LIRP — unlike a Roth IRA there are no earned income phase-out limits. This means high income individuals may participate in a LIRP strategy.
- There are no contribution limits — unlike a regular retirement plan that caps annual contributions, the LIRP can be structured to accept much higher annual payments. For individuals who need to reposition highly taxable assets into tax-free accounts but are limited by the contribution limits of the Roth IRA, the LIRP might be a suitable strategy.
- The owner can structure a tax-free payout from policy withdrawals and/or loans.
- Death benefits paid to the beneficiaries are income tax free.
- There are no RMD requirements.
- Life insurance, depending on the state, may offer creditor protection.

Life Insurance Retirement Plan Considerations:

- If the life insurance policy lapses, all loans become immediately taxable. This can be avoided by purchasing a life insurance policy with no-lapse provisions.
- Life insurance policies usually have a surrender charge in the first 10-15 years.
- The life insurance death benefit is included in the owner's estate if the owner is also the insured and passes away.
- Contributions into a life insurance policy are not tax deductible.
- It is important that the policy not be structured as a Modified Endowment Contract (MEC). A MEC is subject to taxation when a loan or withdrawal is made and a 10% penalty may also apply if the owner is younger than 59 ½.

Who should consider a Life Insurance Retirement Plan?

A LIRP is an appropriate investment for individuals:

1. Who are insurable
2. Who have some need for life insurance
3. Who have fully funded all other qualified retirement options
4. Who would like to put away additional tax-advantaged dollars for retirement once they have reached the contribution limits on qualified plans
5. Who can afford to overfund a life insurance policy
6. Who can afford overfunded life insurance premiums for at least 10 years
7. Who can afford to not take distributions for at least 15 years

A LIRP can be an ideal solution for high-net-worth individuals to save excess dollars for retirement. Keep in mind that this strategy is fairly complex and requires careful structuring of a life insurance policy. It is important to talk with your trusted HD Vest Advisor before this strategy is implemented to ensure not only its suitability, but also that the life insurance policy is set up properly.

Investments & Insurance Products:
Are not insured by the FDIC or any federal government agency
Are not deposits of or guaranteed by the bank or any bank affiliate
May lose Value

Guarantees are based upon the claims paying ability of the issuing company and does not apply to the investment performance or safety of the underlying investment options.

You should carefully consider the investment objectives, risks, charges, and expenses of a variable universal life policy and its underlying funds before investing. This and other information can be found in the prospectus for the variable universal life policy. Please read carefully before you invest or send money.

This information does not constitute tax advice. Please consult your tax adviser for complete information

Characterization of a Policy as a Modified Endowment Contract ("MEC"). A MEC is a life insurance policy that meets the requirements of Section 7702 and fails the "7-Pay Test" of 7702A of the Code. Your Policy will be classified as a MEC if Premiums are paid more rapidly than allowed by the "7-Pay Test," a test that compares actual paid Premium in the first seven years against a pre-determined Premium amount as defined in 7702A of the Code.