Access Your IRA Asset Today

Plan for the Consequences of Living a Long Life

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Planning 4 Longevity

Today's Overview

- Consequences of longevity
- Higher future taxes
- Market volatility (no caps/no floors)
- Asset allocation to product allocation
- Use existing IRA asset to fund product through a 72t strategy that:
  - Grows the asset value with stock market performance with interest rate floors and caps
  - Provides a death benefit in case of premature death
  - Allows for the acceleration of the death benefit on a tax-free basis in case of chronic illness
  - Can provide for lifetime tax-free income you cannot outlive

Consequences of Longevity:
The Need for Longevity Planning

- 80+ age group growing 5x faster than the overall population

- A couple age 65 today: 50% chance one will live to 92 and 25% chance one will live to 97

- Advances in care and improvement in health (i.e. smoking), there is a possibility of spending 15, 20, 25 or more years in retirement than planned for

- We suggest a retirement plan projecting life expectancy to age 100

- People are living longer and we must plan accordingly!

Consequences of Longevity: Primary Fears of Longevity

- With a very volatile stock market, where do I invest protecting against downside market risk, but get a fair return?
- Potential devastating costs of a chronic illness wiping out retirement assets
- Outliving retirement assets and the income needed during retirement
- Being a burden on one's children
- Quality of life during a possibly very long retirement period

Higher Future Taxes

- Currently tax rates are low compared to historic levels

Top U.S. Marginal Tax Rates*
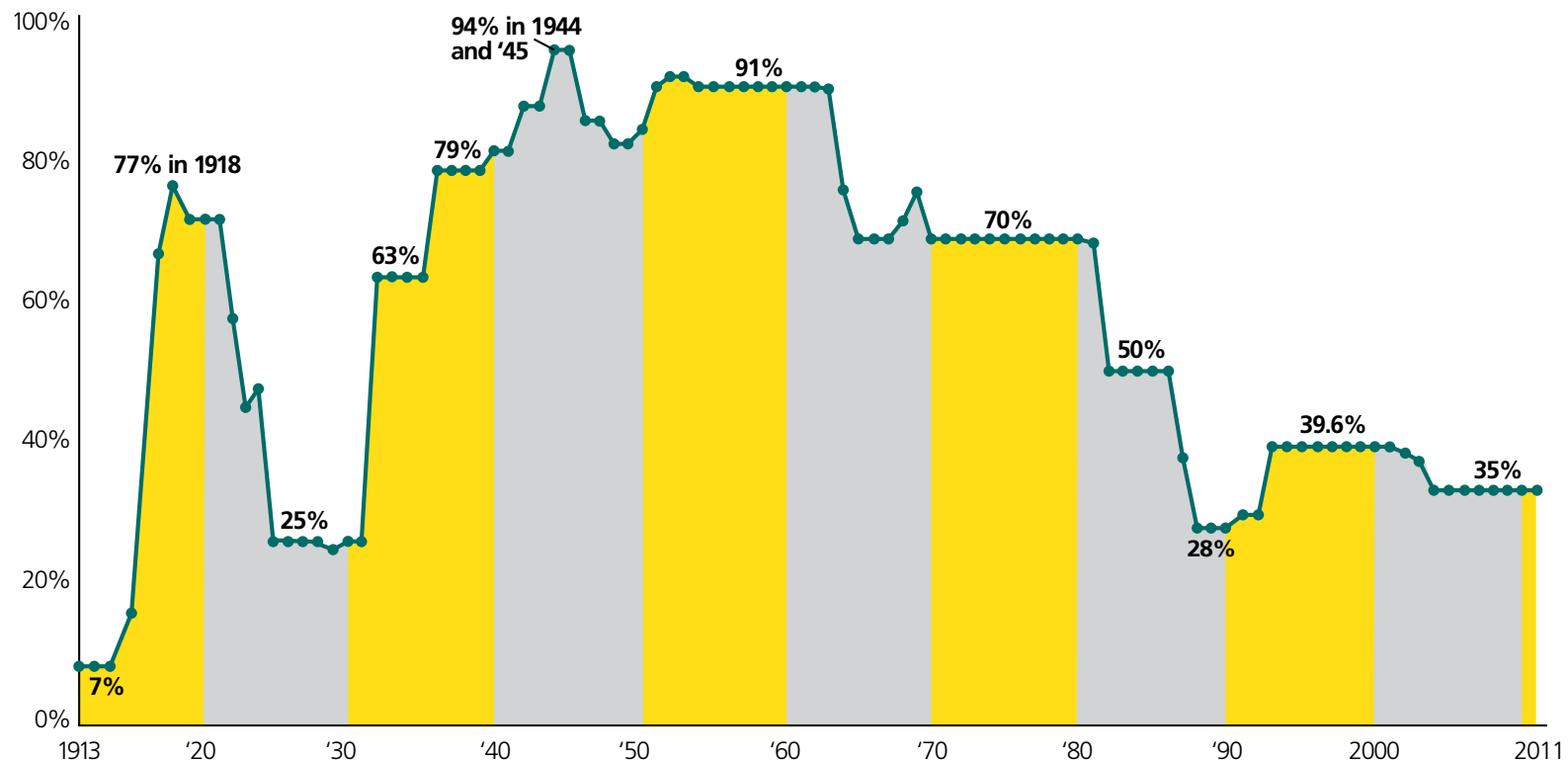
*Historic rates—married couples, filing jointly

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Higher Future Taxes

- Currently tax rates are low compared to historic levels
- Bush tax cuts could be eliminated, possible move to flat tax
- To bring deficit in line, spending must be decreased and revenues must be increased, hence higher taxes expected in the future:
  - "Official Debt" via the government in $14-15 trillion range
  - Budget Control Act of 2011-increases debt ceiling by over an additional $2 trillion through 2013
  - "Real Debt," when you include future liabilities (i.e. Medicare Social Security), increases to $75+ trillion
  - Federal government has been run on a "pay-as-you-go" or a cash basis
  - Unlike corporations or state governments, do not account for unfunded liabilities
  - This "Real Debt" calculates to $1 million per taxpayer

How Large is a Trillion?

Question:

What year was it one trillion seconds ago?

30,000 BC

Need to spend $31.5 million/year for 31,715 years to spend $1 trillion

Do You Know These IRA Facts?

- Currently $5 trillion in IRA assets
- Comprises 25% of US wealth
- Asset values increase or decrease via the underlying investment, no floors, no caps
- The government has an average 33% tax lien on these assets
- As the IRA asset grows tax deferred, all growth is taxed on distribution
- At 70½ years old, taxable distributions are mandatory—whether you need the money or not
- Distributions prior to age 59½ are subject to additional 10% penalty
- IRA could be subject to estate taxes

72t Strategy

Take advantage of a strategy that allows for the access of your IRA prior to age 59½ that provides:

- No 10% premature distribution penalty
- Pay taxes on the current distribution, either out-of-pocket or through the policy's CSV (loans)
- Pay taxes on the "Seed" but not the "Harvest"
  - Policy values grow tax deferred
  - Distributions are income tax free, through policy withdrawals/loans
  - Policy can provide tax-free lifetime income you cannot outlive

72t Strategy (continued)

Take advantage of a strategy that allows for the access of your IRA prior to age 59½ that provides:

- Income tax free death benefit to beneficiaries
  - Access the tax free death benefit on a chronic illness trigger
  - Death benefit can be accelerated on a terminal illness
- Indexed UL policy, where the policies' value grows with the market
  - No downside risk as the credited rate cannot go below 0%, regardless of the market performance
  - Upside capped currently at 13.5%, with participation rates guaranteed at 100% or higher
  - Gains are locked in annually

72t Early IRA Distribution

IRS Rule 72(t)

- Can roll 401k, 403b, TSA, 457 plans into an IRA
- Take "Substantial Equal Periodic Payment" (SEPP) from IRA
- Formula driven payout amounts stipulated by IRS
  - Based on age, size of IRA, interest rate
  - Calculated by your investment firm
  - Three options available, take any of the choices
- Eliminates the 10% early withdrawal penalty for pre-59½ withdrawals from IRA's
- Continue taking SEPP for at least 5 years or until age 59½ , whichever is longer
- Once past 59½ , can continue to take normal distributions to fund the insurance policy if needed

72t Strategy

This is me!

Scenario:

Male, Age 55 $500,000 IRA

Take 72(t) distribution of $26,575* for 5 years and normal distribution for another 5 years

No 10% premature distribution penalty

Pay tax

Fund life policy, paying $26,575 for 10 years. Providing Death Benefit of $900,000.

If die prematurely, $900,000 income tax-free death benefit to beneficiaries

Indexed UL Cash value grows tax-deferred† and tied to the S&P performance

If experience Chronic illness, accelerate Death Benefit as a tax-free living benefit

Death Benefit paid annually up to the annual IRS limit on a chronic illness

Potential for retirement income

Lifetime Income Benefit Rider Income you cannot outlive. $29,000/year starting at age 71 for life

Residual death benefit

*Per 72(t) formula, where distribution ranges from $17k annually to $26k annually
† Indexed UL: Annual floor-0%, Annual Cap-13.5%

Benefits for Living

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Traditional IRA vs. 72t Strategy

IRA vs. 72t Strategy Growth

Year income begins (age 71)

$2,000,000
$1,600,000
$1,382,689
$1,285,175
$1,203,845
$1,200,000
$1,015,924
$928,566
$935,710
$834,638
$800,000
$769,727
$632,660
$622,900
$520,000
$526,518
$487,000
$400,000
$841,342
$1,152,392
$1,118,075
$1,236,113
$1,281,467
$1,364,641
$1,376,486
$1,486,147
$1,471,595
$777,804
$700,500
$606,447
$516,733
$0

Age
55 60 71 80 90 99
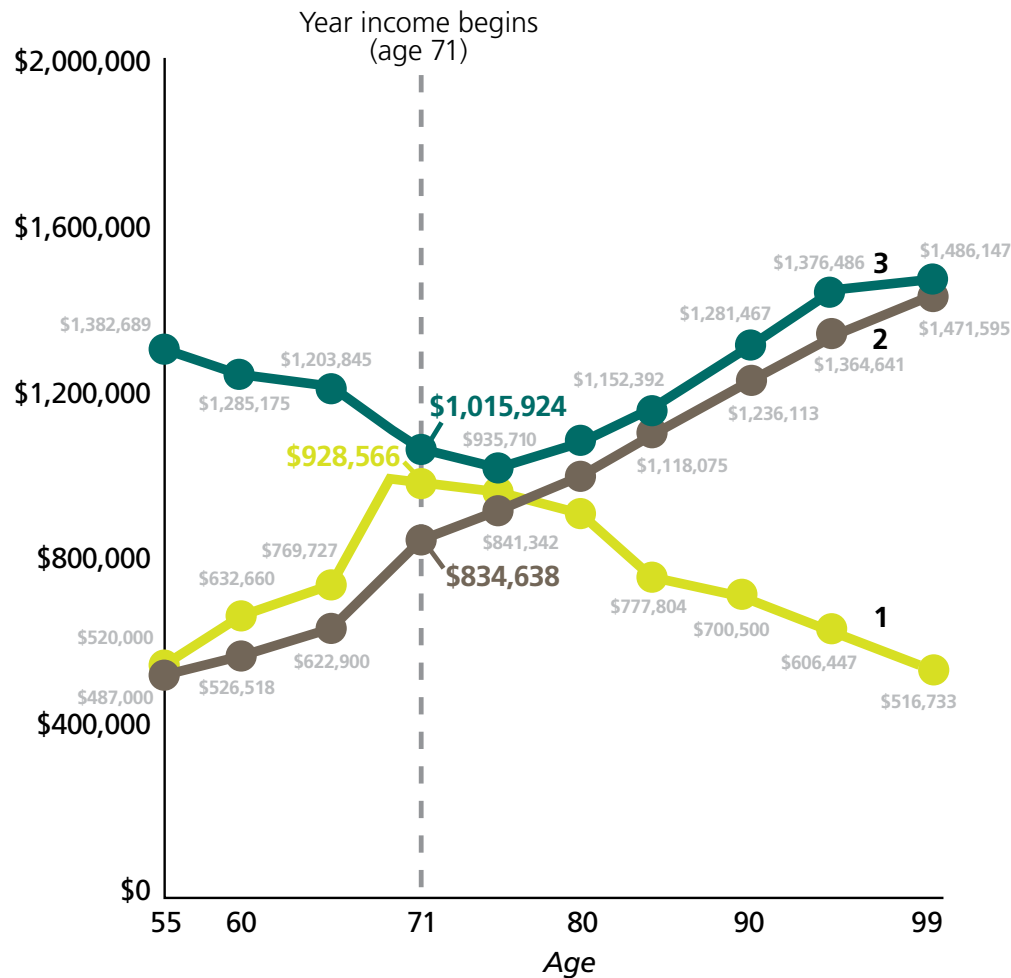
1. IRA growth at 4% assuming after-tax income of $29,500 beginning at age 71 for life
2. 72t Strategy growth without life insurance death benefit, assuming net income of $29,500 beginning at age 71 for life
3. 72t Strategy growth with life insurance death benefit, assuming net income of $29,500 beginning at age 71 for life
   - 72t Strategy assumes withdrawing $26,575/year for 10 years, beginning at age 55, from a $500,000 IRA
   - Assumes tax-free income for life of $29,500, beginning at age 71

Apples to Apples Comparison!

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IC Solutions Quick Calc
4/19/2011

Name	The Client	Payment Mode	Annual	Target Premium	$ 15,930
Age / DOB	55	Modal Premium	$ 26,575	DEFRA Level Premium	$ 26,576
Sex	Male	Minimum Monthly Premium	$ 780	Guideline Single Premium	$ 294,064
Rate Class	Preferred Non-smoker	Minimum Annual Premium	$ 9,360	MEC Premium Limit	$ 58,867
Product	Ultra Select	Minimum Monthly EPPPR Premium	$ 781.62	MEC Year	N.A
Face Amount	$ 900,000	Minimum Annual EPPPR Premium	$ 9,172.93		

Policy Year	Age	Annual Outlay	Guaranteed DeathBenefit	Total CashValue	Current CashValue	Current DeathBenefit	Annual Income
1	55	26,575	900,000	21,834	4,311	900,000	0
2	56	26,575	900,000	45,042	27,519	900,000	0
3	57	26,575	900,000	69,752	52,229	900,000	0
4	58	26,575	900,000	96,209	78,686	900,000	0
5	59	26,575	900,000	124,564	108,319	900,000	0
6	60	26,575	900,000	154,888	141,343	900,000	0
7	61	26,575	900,000	187,177	176,341	900,000	0
8	62	26,575	900,000	221,631	213,504	900,000	0
9	63	26,575	900,000	258,388	252,970	900,000	0
10	64	26,575	900,000	297,771	295,062	900,000	0
		265,750					0
11	65	0	900,000	319,055	319,055	900,000	0
12	66	0	900,000	341,861	341,861	900,000	0
13	67	0	900,000	366,215	366,215	900,000	0
14	68	0	900,000	392,300	392,300	900,000	0
15	69	0	900,000	420,322	420,322	900,000	0
16	70	0	900,000	450,451	450,451	900,000	0
17	71	0	675,000	450,177	450,177	631,463	29,054
18	72	0	675,000	450,119	450,119	590,708	29,054
19	73	0	0	450,351	450,351	552,580	29,054
20	74	0	0	450,960	450,960	516,930	29,054
		265,750					116,216
21	75	0	0	478,946	451,818	485,945	29,054
22	76	0	0	512,191	452,770	478,379	29,142
23	77	0	0	522,335	453,681	479,797	29,142
24	78	0	0	527,029	454,530	480,881	29,142
25	79	0	0	531,862	455,302	481,896	29,142
26	80	0	0	536,791	455,944	482,784	29,142
27	81	0	0	541,562	456,188	483,266	29,408
28	82	0	0	571,170	456,068	484,626	29,408
29	83	0	0	608,059	455,456	485,859	29,408
30	84	0	0	646,451	454,247	486,569	29,408
		265,750					408,612
31	85	0	0	686,336	452,313	486,630	29,408
32	86	0	0	727,676	449,492	485,876	29,408
33	87	0	0	770,455	445,638	484,161	29,408
34	88	0	0	814,635	440,573	481,304	29,408
35	89	0	0	860,194	434,129	477,138	29,408
36	90	0	0	907,092	426,112	471,466	29,408
37	91	0	0	956,411	417,441	455,697	29,408
38	92	0	0	1,008,524	408,317	438,573	29,408
39	93	0	0	1,063,785	398,910	420,186	29,408
40	94	0	0	1,122,952	389,789	401,018	29,408
		265,750					702,692
41	95	0	0	1,184,426	379,151	390,996	29,408
42	96	0	0	1,248,271	366,845	379,328	29,408
43	97	0	0	1,314,605	352,764	365,910	29,408
44	98	0	0	1,383,549	336,790	350,625	29,408
45	99	0	0	1,455,144	318,711	333,263	29,408
46	100	0	0	1,529,586	298,458	313,754	29,408
47	101	0	0	1,606,950	275,823	291,893	29,408
48	102	0	0	1,687,309	250,583	267,456	29,408
49	103	0	0	1,770,733	222,496	240,203	29,408
50	104	0	0	1,857,293	191,299	209,872	29,408
		265,750					996,772

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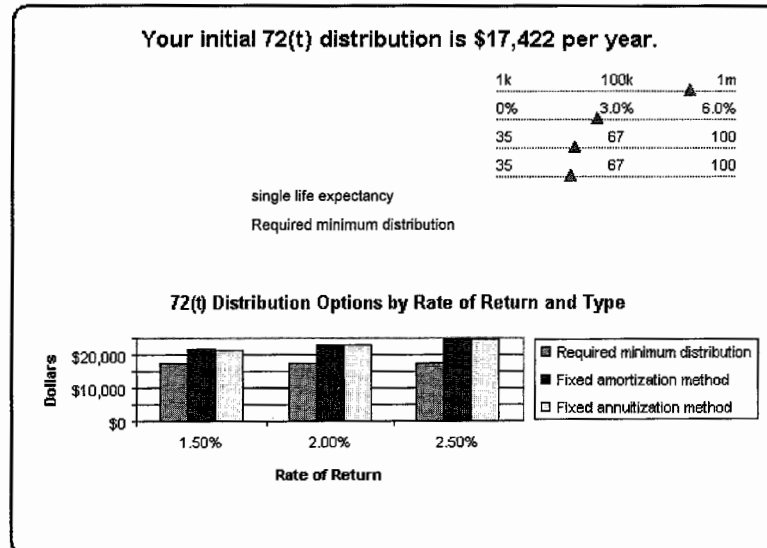| Policy Year	Age	Annual Outlay	Guaranteed DeathBenefit	Total CashValue	Current CashValue	Current DeathBenefit	Annual Income
52	106	0	0	2,040,091	118,431	138,832	29,408
53	107	0	0	2,133,704	75,023	96,360	29,408
54	108	0	0	2,252,565	50,836	73,362	29,408
55	109	0	0	2,378,051	26,911	50,691	29,408
56	110	0	0	2,510,531	3,259	28,365	29,408
57	111	0	0	2,650,395	1,000	15,000	29,408
58	112	0	0	2,798,056	1,000	15,000	29,408
59	113	0	0	2,953,947	1,000	15,000	29,408
60	114	0	0	3,118,529	1,000	15,000	29,408
		265,750					1,290,852
61	115	0	0	3,292,285	1,000	15,000	29,408
62	116	0	0	3,475,727	1,000	15,000	29,408
63	117	0	0	3,669,396	1,000	15,000	29,408
64	118	0	0	3,873,862	1,000	15,000	29,408
65	119	0	0	4,089,727	1,000	15,000	29,408
		265,750					1,437,892

72t Opportunities

- A lot of IRA money available, most clients have one
- Asset allocation to product allocation
  - Allocate assets to a plan for longevity
  - Third investment leg—stocks, bonds, life insurance
  - Grows with the performance of the S&P
- Client does not need to write a check
- Living Benefits, plus death benefit, all income tax free
- Pay taxes on the "Seed" and not the "Harvest"
- No premature distribution penalty
- Can eliminate other insurance policies
- Depleting the IRA does not provide these benefits
  - Investing in this strategy does!

72(t) Calculator: Early withdrawals from retirement accounts

Your initial 72(t) distribution is $17,422 per year.

	1k	100k	1m
	0%	3.0%	6.0%
	35	67	100
	35	67	100

single life expectancy

Required minimum distribution

72(t) Distribution Options by Rate of Return and Type

Legend:
- Required minimum distribution
- Fixed amortization method
- Fixed annuitization method

Calculate   View Report

Definitions

*April 16th, 2002 and again on October 3rd, 2002, the IRS finalized rule changes that affected 72(t) distributions. This calculator incorporates the new regulations, many of which are described in detail below. For more information regarding these changes please see Revenue Ruling 2002-62 on www.treasury.gov.

Substantially Equal Periodic Payments (SEPP) The rules for 72(t) distributions require you to receive Substantially Equal Periodic Payments (SEPP) based on your life expectancy to avoid a 10% tax penalty on any amounts your withdraw. These payments must last for five years or until you are 59 1/2, whichever is longer. Further, the SEPP amount must be calculated using one of the IRS approved methods which include:

- **Required minimum distribution method:**
  This is the simplest method for calculating your SEPP, but it also produces the lowest payment. It simply takes your current balance and divides it by your single life expectancy or joint life expectancy. Your payment is then recalculated each year with your account balance as of December 31st of the preceding year and your current life expectancy. This is the only method that allows for a payment that will change as your account value changes. Even though this may provide the lowest payment, it may be the best distribution method if you expect wide fluctuations in the value of your account.

- **Fixed amortization method:** With this method the amount to be distributed annually is determined by amortizing your account balance over your single life expectancy or your joint life expectancy.

- **Fixed annuitization method:** This method uses an annuity factor to calculate your SEPP. This is one of the most complex methods. The IRS explains it as taking the taxpayer's account balance divided by an annuity factor equal to the present value of an annuity of $1 per month beginning at the taxpayer's age attained in the first distribution year and continuing for the life of the taxpayer. For example, if the annuity factor for a $1 per year annuity for an individual who is 50 years old is 19.087 (assuming an interest rate of 3.8% percent), an individual with a $100,000 account balance would receive an annual distribution of $5,239 ($100,000/19.087 = $5,239). This calculator uses the Annuity 2003 Mortality Table, which is a non-sex based mortality table and an acceptable Mortality Table for the IRS. Please note that your annuitized SEPP is based on your life expectancy only, and is not based on the age of your beneficiary.

The use of the Annuity 2003 Mortality Table was introduced in the Revenue Ruling 2002-62 on October 3rd, 2002. Prior to this ruling the UP-1984 Mortality Table was used to calculate your annuitized distribution. The new mortality table has been updated to accommodate longer life expectancies.

72(t) Calculator:
Early withdrawals from retirement accounts

Your annual 72(t) distribution is $17,422.

Your 72(t) distribution of $17,422 per year was calculated by the 'Required minimum distribution' method at 2.50%. To avoid penalties you will need to continue receiving this Substantially Equal Periodic Payment (SEPP) for either five years or until you turn 59 1/2 whichever is longer.

Summary

Account balance	$500,000
Your age	56
Beneficiary age	55
Applicable life expectancy	28.7 single life expectancy
Initial distribution	$17,422 per year $1,452 per month
Method used	Required minimum distribution
Interest rate used	2.50%

Other Possible 72(t) Distributions

&NBSP;	Life Expectancy Method	Amortized Over Life Expectancy	Annuitized Over Life Expectancy
Interest rate 1.50%	$17,422	$21,568	$21,400
Interest rate 2.00%	$17,422	$23,066	$22,933
Interest rate 2.50%	$17,422	$24,621	$24,507

REV. RUL. 2011-16 TABLE 1

Applicable Federal Rates (AFR) for August 2011

	Annual	Period for Compounding Semiannual	Quarterly	Monthly
Short-term				
AFR	.32%	.32%	.32%	.32%
110% AFR	.35%	.35%	.35%	.35%
120% AFR	.38%	.38%	.38%	.38%
130% AFR	.42%	.42%	.42%	.42%
Mid-term				
AFR	1.90%	1.89%	1.89%	1.88%
110% AFR	2.09%	2.08%	2.07%	2.07%
120% AFR	2.28%	2.27%	2.26%	2.26%
130% AFR	2.48%	2.46%	2.45%	2.45%
150% AFR	2.86%	2.84%	2.83%	2.82%
175% AFR	3.34%	3.31%	3.30%	3.29%
Long-term				
AFR	3.86%	3.82%	3.80%	3.79%
110% AFR	4.24%	4.20%	4.18%	4.16%
120% AFR	4.63%	4.58%	4.55%	4.54%
130% AFR	5.03%	4.97%	4.94%	4.92%

Questions?

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