

TAX DIVERSIFICATION

CASE STUDY

aimcor

MAXIMIZING YOUR CLIENT'S CASH FLOW IN RETIREMENT

Tax diversification is a strategy in which you hold assets with different tax treatments. It creates flexibility so you can receive income in a way that helps minimize taxes. Retirement assets are generally taxed in one of three ways:

TAXED BEFORE DEPOSIT	TAXED AS IT GROWS	TAXED AT WITHDRAW
<ul style="list-style-type: none">After-tax contributionsNo tax on growthNo tax when withdrawn	<ul style="list-style-type: none">Contributions are after-taxGrowth is taxedNo tax when withdrawn	<ul style="list-style-type: none">Contributions are deductibleNo tax on growthTaxable when withdrawn
Types: Life insurance, Roth IRA	Types: Bank account, CDs, money market, mutual funds	Types: 401(k), IRA, 403(b)

By diversifying among financial products, you have flexibility to take income in the most tax-friendly way and potentially lower your tax bill in retirement.

THE BENEFITS OF DIVERSIFYING WITH CASH VALUE PERMANENT LIFE INSURANCE

Security for your family		No age-based penalties
Tax-free death benefit for the beneficiary	No income-based funding limits	Distributions are permitted prior to age 59 ½ without IRS penalty ²
Growth potential	No restriction on how much can be contributed to the contract based on income.	Greater diversification
Cash value grows tax-deferred		Distributions are received income tax-free ³

HYPOTHETICAL EXAMPLE

Client has a 401(k) account and a cash value life insurance policy as they enter into retirement. They plan to withdraw \$100,000 this year. Their tax bracket is 25%. In this example, tax diversification provided \$12,500 more than the 401(k) strategy.

HERE'S WHAT THE WITHDRAWAL MIGHT LOOK LIKE USING TWO DIFFERENT STRATEGIES

Strategy 1		Strategy 2	
Using 401(k) account money only		Using a tax-diversified strategy	
401(k) account		401(k) account	CV life insurance
Withdrawal amount	\$100,000	Withdrawal amount	\$50,000
Tax amount	(\$25,000)	Tax amount	(\$12,500)
Retirement Income	\$75,000	Retirement Income	\$37,500
Total \$75,000		Total \$87,500	

The above is for illustrative purposes only and does not represent the performance of any particular insurance or financial product. Actual results will vary and may be more or less favorable. Withdrawals and loans from life insurance may decrease the amount of death benefit and cash accumulation value.

¹ In exchange for the death benefit, life insurance products charge fees such as mortality and expense risk charges and surrender fees.

² If the life insurance policy is a MEC, withdrawals prior to age 59 ½ may be subject to a 10% IRS penalty.

³ Distributions from your life insurance policy are generally received income tax-free. If the policy is a Modified Endowment Contract (MEC), however, distributions may be subject to current income taxes.

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