

# Tax-Efficient Retirement Planning For High-Earning Clients

Your high-earning clients may need your help to achieve their retirement goals in a tax-efficient manner.



PACIFIC LIFE

## Three retirement challenges your clients may face:

### 1. QUALIFIED PLAN AND IRA CONTRIBUTION

**LIMITS**—Your clients may not be able to save as much as they'd like to in a tax-efficient manner.

**2. TAXES ON RETIREMENT INCOME**—Your clients receive less in take-home income due to taxes.

**3. SEQUENCE OF RETURNS RISK**—Your clients' portfolios may decline in value just as they begin to depend on them for retirement income.

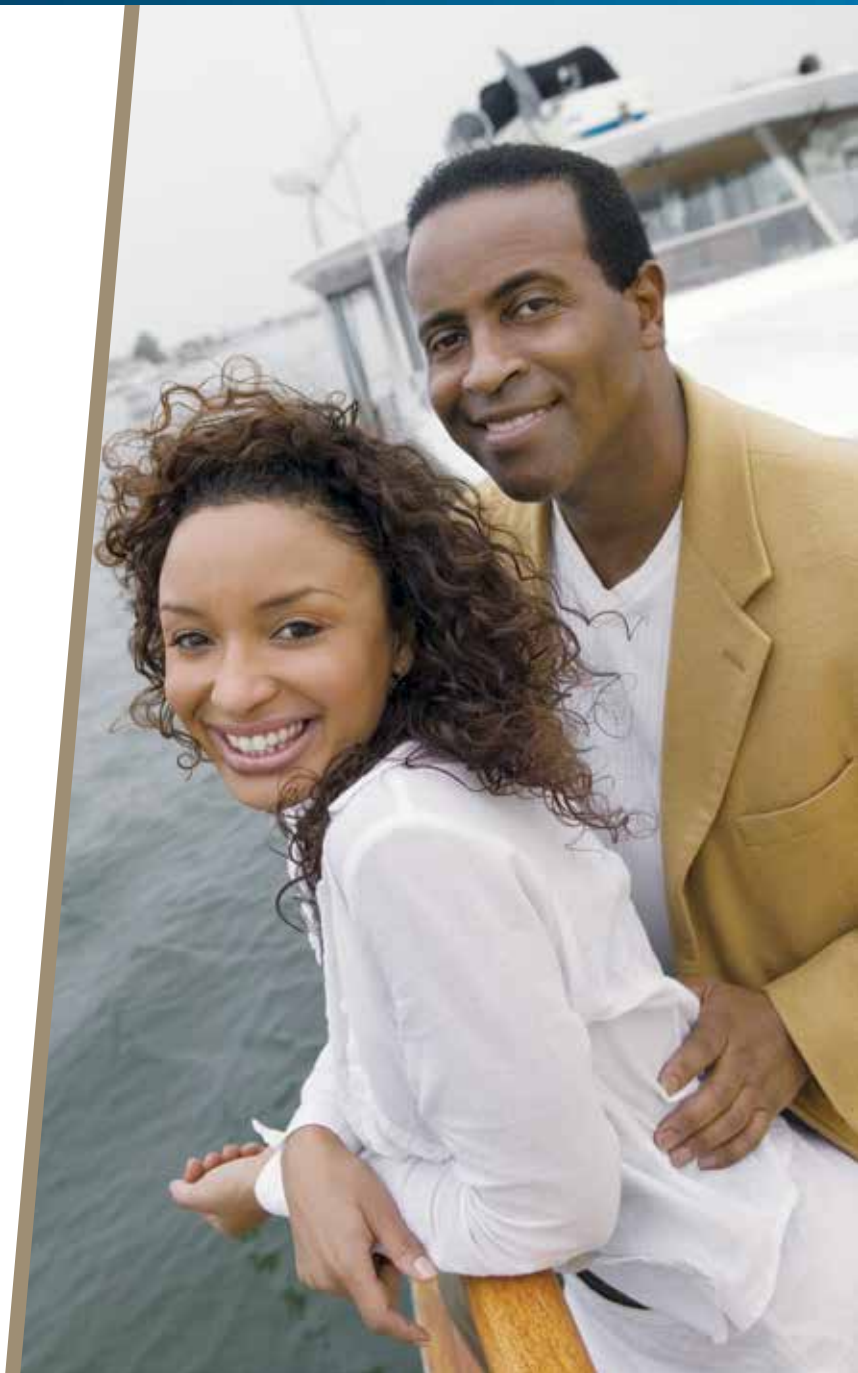
Cash Value Life Insurance may provide your clients death benefit protection now and tax-efficient supplemental retirement income later.

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Your clients may plan to meet their retirement income needs with a mix of assets held both in and outside of retirement plans. However, there are other sources of potential tax-free† income that many clients may overlook.



- Qualified Plans, such as Defined Contribution (401(k) or 403(b)) or Defined Benefit (pension plans)
- IRAs (Traditional, SEP, or SIMPLE)

Distributions typically taxed at **Ordinary Income Tax Rates** (Max rate=37%)<sup>1</sup>

- Stocks
- Mutual Funds<sup>4</sup>
- Real Estate

Earnings typically taxed at **Capital Gains Tax Rates** (Max rate=20%)<sup>1</sup>

- Roth IRA<sup>6</sup>
- Municipal Bond Interest<sup>5</sup>
- Cash Value Life Insurance

Distributions typically **Income Tax Free†**

Cash value life insurance is one potential tax-free† source of retirement income. How does it compare to other retirement-income-producing assets?

Financial Tool	Annual Contribution Limits‡	Tax-Deductible Contributions‡	Tax-Deferred Accumulation	Income Tax-Free Distributions	Penalty Tax for Early Withdrawal	Income Tax-Free Death Proceeds
Qualified Plan	Yes	Yes	Yes	No	Yes	No
Traditional IRA <sup>2</sup>	Yes	Yes <sup>2</sup>	Yes	No	Yes	No
CD <sup>3</sup>	No	No	No	No	No	No
Stocks	No	No	No	No	No	No
Mutual Funds <sup>4</sup>	No	No	No	No	No	No
Municipal Bond <sup>5</sup>	No	No	Yes	Yes	No	No
Variable Annuity	No	No	Yes	No	Yes	No
Roth IRA	Yes	No	Yes	Yes <sup>6</sup>	Yes	Yes <sup>6</sup>
<b>Cash Value Life Insurance</b>	<b>No<sup>7</sup></b>	<b>No</b>	<b>Yes</b>	<b>Yes†</b>	<b>No†</b>	<b>Yes**</b>

Income tax treatment includes the treatment of capital gains and dividends. This chart excludes Estate Tax treatment as there are ways to structure your client's estate to help protect against this impact.

## Client Profile

Which of your clients may benefit from this strategy?

**OCCUPATION: High-income-earning professionals**

**AGE: 35–60**

**HEALTH: Good with no major medical impairments**

**RETIREMENT SAVINGS: Currently maximizing contributions to qualified retirement plans**

**TWO FINANCIAL NEEDS:**

1. Additional death benefit protection
2. Additional retirement savings

For numbered footnotes, see page 4.

\* This example assumes: Male age 45 insured, Preferred Nonsmoker risk class, and Pacific Discovery Xelerator IUL 2 (PDX IUL 2) Indexed Universal Life Insurance with minimum death benefit (increasing, switching to level in policy year 8) Assumed 5.50% interest annually (0% guaranteed). Solved-for monthly distributions (withdrawals switching to policy loans at cost basis) from ages 65-84 targeting \$1,000 in cash value at age 100. Enhanced Performance Factor Rider (EPFR) (Form #R18EPF and S18EPF or ICC18 R18EPF and ICC18 S18EPF, based on state of policy issue). EPFR design selected is Performance. Riders will likely incur additional charges and are subject to availability, restrictions, and limitations. Clients should be shown policy illustrations with and without riders to help show the rider's impact on the policy's values. 100% Basic Coverage. PDX IUL 2 is policy form# P15IUL and S18PDX2 or ICC15 P15IUL and ICC18 S18PDX2, based on state of policy issue. Indexed Universal Life Insurance does not directly participate in any stock or equity investments. Life insurance is subject to underwriting and approval of the application.

† For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death (any outstanding policy debt at time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC Sec. 72, 7702(f)(7)(B), 7702A. Any policy withdrawals, loans, and loan interest will reduce policy values and may reduce benefits.

‡ For life insurance policies, contributions refers to life insurance premiums.

\*\* For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e. the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

## Strategy in Action

**Protection Now. Supplemental Income Later.**

## CHALLENGE

A high-income-earning professional wants to protect his family and save an additional \$350,000 towards retirement in a tax-efficient manner.

## STRATEGY

A cash value life insurance policy\* may provide financial security and help him achieve his retirement savings goals.



### MAKE

*Client "makes" \$50,000 annual premium payments for 7 years.*



### BAKE

*The policy "bakes" 13 years before the client takes any policy distributions (withdrawals and policy loans from the available cash value).<sup>8</sup>*



### TAKE

*Client "takes" policy distributions for 20 years to supplement retirement income.*

## THE BOTTOM LINE

**Total Premiums Paid:** \$350,000

**Initial Death Benefit:\*\*** \$1,184,270

**Total Tax-Free<sup>†</sup> Retirement Income (Ages 65-84):** \$1,339,960

**Cash Surrender Value Internal Rate of Return (Age 84):** 5.51%

**Taxable Equivalent IRR:<sup>9</sup>** 7.99%<sup>10</sup>

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- 1 Source: Tax Cuts and Jobs Act 2017. <http://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-466.pdf>
- 2 Traditional IRA: If you are covered by a qualified retirement plan at work, traditional IRA contributions are fully deductible only if your adjusted gross income falls with the following 2018 limits: single up to \$63,000; married filing jointly up to \$101,000. Nov. 2016. Source IRS.gov <https://www.irs.gov/newsroom/irs-announces-2018-pension-plan-limitations-401k-contribution-limit-increases-to-18500-for-2018>.
- 3 A Certificate of Deposit (CD) is FDIC insured.
- 4 Mutual funds may be subject to income tax and/or capital gains tax. Consult your tax advisor for more information.
- 5 Municipal bond: Generally, interest paid on municipal bonds is tax-free, but not all municipal bonds are exempt from federal and/or state income tax. Some bonds may be subject to capital gains tax at sale. Clients should consult their tax advisors for more information.
- 6 ROTH IRA: A distribution from a ROTH IRA generally is income-tax free if (a) it meets all the requirements for a qualified distribution (which include a 5-year waiting period and one of several additional requirements, one being that the distribution is made to a beneficiary on or after the death of the individual), or (b) it is a nonqualified distribution to the extent of after-tax contributions (basis). See IRC Sec. 408A.
- 7 Life Insurance: There is not a specific limit on dollars allocated to purchase life insurance; however, there are maximum premium limits determined by a specified policy face amount. A policy will qualify as life insurance if it meets the requirements of IRC Sec. 7702, which includes limits on the amount of premium that may be paid into a specific face amount and still qualify as life insurance.
- 8 Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.
- 9 Internal Rate of Return.
- 10 Taxable equivalent yield based on maximum federal marginal income tax rate of 31%. Source: Tax Cuts and Jobs Act 2017. <http://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-466.pdf>



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Not FDIC Insured	No Bank Guarantee	May Lose Value