Pass It On, Inc.

Issue 27 — Planning to Keep Families in Business — Since 1947

S'Not A Roth!!

A couple of years ago I was meeting with a client in his 50s who had chosen a substantial life insurance policy to protect his family while his business was in a very precarious growth mode. As we looked at his policy projection, specifically the cash value, he remarked, "Don, this is the only place where I consistently accumulate money. Can we do more?" Let me think a minute–yeah, I guess you can.

If his income had been less, the best place to accumulate money would probably have been a Roth IRA, at least that's the advice I'm hearing from the financial planners. Jim Waters, CLU, ChFC is a 20+-year financial adviser and retirement counselor who has worked with many of our clients over the years. I asked him what he thought about the Roth IRA.

"It's terrific for those who qualify," he said. "As a matter of fact, there's no reason for anyone over age 55 to put money in a joint checking account until they've maxed out their Roth contribution." That's a strong endorsement from a conservative financial planner. Further inquiry revealed that he meant "anyone who's passed the five year period needed to qualify the Roth for tax-exempt status."

He went on to elaborate Roth IRA advantages:

1. Easy access to the money, very liquid.
2. No penalty for withdrawal, once you've passed age 59½.
3. Tax-free earnings.
4. Tax-free withdrawals once you've qualified the account (5 year period).

"It's not a Roth, and it's not a formal retirement plan, but . . . one of their choices is to 'superfund' the policies and create an additional fund for income purposes following retirement."

About two months ago I was meeting with a client couple who have been very successful in the real estate business. As we discussed their life insurance program, I mentioned that they could take their current policies and "superfund" them by intentionally building the cash value account as an alternate accumulation vehicle. The advantages included:

1. Easy access to the money, very liquid.
2. No age limit on withdrawals, no penalties.
3. Tax-deferred earnings, no taxable income year to year.
4. Tax-free withdrawals of all contributions first, then possible tax-free withdrawal of the balance using policy loans. (Under current tax rules)
5. No income limitation.
6. Guaranteed minimum crediting rate (4%) as part of the dividend.

My client thought for a moment, then said, "So we could treat our life insurance as though it's a Super Roth?" I replied, "It's not a Roth, and it's not a formal retirement plan, but let me think a minute–yeah I guess you could!"

Many of my clients don't qualify for a Roth IRA because of their income. When that is the case, and if they have chosen life insurance to fund business buyouts, income protection or estate liquidity, one of their choices is to "superfund" the policies and create an additional fund for income purposes following retirement. Doing so has the added benefit of extending life insurance plans that might not be funded to life expectancy.

If you've worked with our firm you know that in our world, "Life insurance is not primarily an investment. It should be purchased because the death benefit offsets the loss someone experiences when someone else dies too soon." But if you need it, then you can choose how to pay for it, including the option to treat it as a supplemental accumulation account. Some day the need for the death benefit may be reduced or go away and the primary value of the policy will lie in the additional income it can provide. Wendy and I use our life insurance as a fixed-return investment that is not subject to the disturbing changes in the market. Our cash value went up today! But, it's not a Roth! *Pass It On.*

Don See, President of *Pass It On, Inc.*, has a national clientele of family-owned businesses, providing succession planning and estate conservation assistance. He can be reached at don@passitoninc.com.

Why Offer Group Long-Term Health Care Insurance?

Employees and employers are beginning to report the effects of productivity loss in companies with employees taking time off to care for a family member with long-term care needs. In these days of significant health insurance expenses, employers are looking for creative ways to provide greater benefits to their employees in general, and, key employees in particular without the accompanying outlay of additional benefit dollars.

Group Long-Term Care Insurance is one such benefit that meets those needs and many others. It is unlike any other benefit you can provide your employees.

- Discounted premiums and streamlined underwriting
- Uninsurable individuals can often get LTCI group coverage
- Portability—the policy is the employee's and goes with them even if they leave the company or retire
- Employees, spouses and in some plans, extended family members are eligible
- Carve outs for key executives or manager only, if desired
- Can be used as a Golden Handcuffs Benefit
- Company-paid plans can deduct the premiums up front
- Benefits paid are non-taxable to employee when received
- Provides extra benefits to certain employee classes without discrimination rules and testing

Contact Dianne Crimble, AAMS, or Marcia Williams, LUTCF, for more information or to schedule an appointment.