

# Income & Tax Analysis Reports

## Existing Assets

### The No-Compromise Retirement Plan

Stonewood's Income & Tax Analysis software enables you to evaluate two strategies for your client on equal grounds:

- Potential growth, income and tax liability if your client keeps his/her qualified account and grows funds tax-deferred
- Potential growth, income and tax liability if your client converts part of his/her qualified account, pays taxes, and uses the net amount to fund a tax-free IUL policy

The guidelines in this booklet will help you create reports to evaluate these two strategies and determine the best path forward for your client.

**Maintain Q**

Based on assumptions from the page... from your qualified account. The income withdrawal (after taxes) the account of amount of funds every year starting at to when you are no longer living, in the distribution amount (pre-tax) in \$54,000 income below.

Year	Age	Starting Qualified Account Value	Qualified Account Balance, Pre-Tax Income
1	62	\$500,000	\$520,000
2	63		\$562,000
3	64		\$594,000
4	65		\$608,000
5	66		\$632,000
6	67		\$660,000
7	68		\$688,000
8	69		\$716,000
9	70		\$744,000
10	71		\$772,000
11	72		\$800,000
12	73		\$828,000
13	74		\$856,000
14	75		\$884,000
15	76		\$912,000
16	77		\$940,000
17	78		\$968,000
18	79		\$996,000
19	80		\$1,024,000
20	81		\$1,052,000
21	82		\$1,080,000
22	83		\$1,108,000
23	84		\$1,136,000
24	85		\$1,164,000
25	86		\$1,192,000
26	87		\$1,220,000
27	88		\$1,248,000
28	89		\$1,276,000
29	90		\$1,304,000

**IUL Illustrated Values**  
Non-Guaranteed Assumed interest credited rate: 7.13%<sup>1</sup>

Total Premium	Total Cash Value at Age 72 <sup>2</sup>	Annual Potential Tax-Free Income <sup>2</sup>
\$375,000	\$522,778	\$49,553

Total tax-free distributions<sup>3</sup> (assuming death benefit paid at age 90): \$1,030,277

**Qualified Account**

Based on assumptions from the page... of this report, below are potential... information shows the number of... amount of \$56,071 pre-tax, resulting

Total taxes paid based on the... previous page, including... account

Age 85... from the account annually... you access them, and taxed on... of death

Values shown are part of all mortality and expense charges. J&S policy loans. This applies to loans taken after the 10th policy year. See policy illustration for complete information on loan types and restrictions.

<sup>1</sup>Values shown are based on the assumptions and projections made in the illustration. Actual values may be higher or lower than illustrated and are likely to vary with fluctuations in the reference index. The information presented is hypothetical and not intended to project or predict index crediting results.

<sup>2</sup>Non-guaranteed assumed interest rate. This illustration assumes that non-guaranteed values shown continue in all years. This is not likely to occur, and actual results may be more or less favorable than illustrated. This is an average based on past performance and is not intended to predict future performance. Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender, and will reduce both the surrender value and death benefit. The policy design you choose may impact the tax status of your policy. If you pay too much premium, your policy could become a modified endowment contract (MEC). Distributions from a MEC may be taxable and if the trigger is under the age of 59 1/2 may also be subject to an additional 10% penalty tax. Check the attached illustration to determine if the policy illustrated is a MEC.

<sup>3</sup>Values shown are part of all mortality and expense charges. J&S policy loans. This applies to loans taken after the 10th policy year. See policy illustration for complete information on loan types and restrictions.

# Software and Illustration Guidelines

## Income & Tax Analysis Reports – Existing Assets

### Step 1:

### Determine Portion of IRA to Apply to this Strategy

- ❑ Determine how much of your client's IRA will be applied to this strategy.
  - ❑ A good rule of thumb is approximately 1/3 of your client's tax-deferred assets should be considered for this strategy.
  - ❑ Additionally, most insurance carriers have guidelines on the amount of total investable assets that can be devoted to IUL; in most cases, it is between 30-40%. Check with your carrier of choice.
    - ❑ For example, if a client has a \$1,000,000 IRA and another \$1,000,000 of investable assets, he has a total of \$2,000,000 of investable assets.
    - ❑ Up to 30% of these assets can be devoted to IUL. So  $\$2,000,000 \times .30 = \$600,000$
    - ❑ Remember that \$600,000 is an after-tax number. If this client has a 25% tax liability, he could withdraw up to \$800,000 from his IRA, since that would generate \$600,000 of premium (after tax) for IUL.
    - ❑ While the limit may be 30-40% of *total* investable assets, that amount can all come from the IRA. So in the example above, the client could withdraw \$800,000 from his IRA.
- ❑ Remember: **We strongly recommend that funds in the IUL policy should not be required for income purposes for at least 7-10 years.** This is to give the IUL policy adequate time to build cash value. Be sure to leave your client enough assets (inside or outside of the qualified account) to cover any income needs in immediate future.

# Software and Illustration Guidelines

## Income & Tax Analysis Reports – Existing Assets

### Step 2: Determine IUL Premium Payments

- ❑ Determine total premium payments by taking the portion of your client's IRA being considered for this strategy and reducing it by taxes.
- ❑ The software will auto calculate total IUL premiums when you enter the amount being considered for this strategy. Likewise, the software will auto calculate the qualified amount needed for this strategy if you enter the total IUL premium.
  - ❑ For example, if a client has \$500,000 of his IRA to dedicate to this strategy and has a 25% tax liability, the software will determine the total amount of premium by calculating:  $\$500,000 \times .75 = \$375,000$ .
- ❑ Structure premium payments as a **5-pay** (*recommended*)
  - ❑ For the example above, take \$375,000 and divide it by 5:  $\$375,000 / 5 = \$75,000$ . Each year's premium would be \$75,000
- ❑ Remember: Premiums must take into account the IRS's 10% tax penalty for any years your client is under the age of 59½.
  - ❑ For example, if a client is 57, has \$500,000 of his IRA to dedicate to this strategy, and has a 25% tax liability, you would determine the total amount of premium by calculating:
    - ❑ Amount of funds coming out of IRA each year:  $\$500,000 / 5 = \$100,000$  a year
    - ❑ Year 1 and 2: 25% tax liability + 10% tax penalty = 35%, so  $\$100,000 \times .65 = \$65,000$  in premium
    - ❑ For years 3, 4 and 5:  $\$100,000 \times .25 = \$75,000$  in premium
    - ❑ Total premium for this example would be:  $\$65,000 + \$65,000 + \$75,000 + \$75,000 + \$75,000 = \$350,000$

# Software and Illustration Guidelines

## Income & Tax Analysis Reports – Existing Assets

### Step 3: Run the IUL Illustration

- Run your client's illustration at **illustrated rate of your choice**.

### Step 4: Determine IRA Growth Rate Assumptions

- Within the software, you will choose a growth rate assumption for your client's IRA. You have several options:
  - Use the **default** earnings rate of 5%. This is the rate many clients feel is a conservative, reasonable assumption of growth for their retirement years.
  - Select an **alternate** rate of your choosing.
    - This could be based on your RIA's model, or selected in consultation with your client
    - If using this approach, make sure the client is aware of the equities and fixed income performance necessary in your assumptions.