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.

For use with StonewoodFinancial.com software

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 x .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 x .75 = $375,000.

- ❑ Structure premium payments as a **5-pay** *(recommended)*

  - ❑ For the example above, take $375,000 and divide it by 5: $375,00 / 5 = $75,000. Each year's premium would be $75,000

- ❑ *<u>Remember</u>*: 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 x .65 = $65,000 in premium

    - ❑ For years 3, 4 and 5: $100,000 x .25 = $75,000 in premium

    - ❑ Total premium for this example would be: $65,000 + $65,000 + $75,000 + $75,000 + $75,000 = $355,000

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.