ANNUITIES & LIFE

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Tax Diversification of Retirement Accounts

Did you know it's important, from a tax perspective, to diversify retirement accounts?

Consider these three categories when evaluating growth:[1]

Taxable[2]	Tax-Deferred	Tax-Advantaged
Taxes due currently on gains	Taxes due when money is withdrawn	Funded with after-tax dollars, no taxes due on gains or distributions for owners/beneficiaries
CDs and Money Market Mutual Funds Savings Accounts	401(k) / 403(b) Accounts Traditional IRAs	Roth IRAs Cash Value Life Insurance[3]

Let's take a closer look at some of the most important and valuable features of financial products and how they're taxed. You can see from the table that life insurance can be a valuable addition to a retirement portfolio. It helps minimize taxes and offers other advantages.

[1] The descriptions and features of the various assets in these tables are for general information purposes and address the most typical circumstances. There are many regulations governing the taxation and operation of all assets mentioned and your client should seek the advice of a tax professional before making any changes to their current or future retirement plans, accounts or assets.

[2] Taxable investments reflect taxes being paid on any earned income each year. Any distributions taken from these accounts assume that taxes have already been paid.

[3] Cash value life insurance policies are subject to Modified Endowment Contract rules that discourage overfunding based on face amount, insured's age and other factors. Cash value life insurance also contains additional mortality charges that will increase the expense of this product. Also, distributions in excess of total premiums paid are taxable unless taken as loans (which are subject to interest charges).

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A closer look at each asset category

	Taxable[4] Taxes due on gains					Tax-Deferred Taxes due when money is withdrawn			Tax-Advantaged Funded with after-tax dollars, no taxes due on gains and distributions for beneficiaries		
	Stocks	Bonds	Mutual Funds	CDs	Savings Accounts	Fixed Annuities (traditional IRA)	Variable Annuities (traditional IRA)	Qualified Plans 401(k) or 403(b)	Fixed Annuities (Roth IRA)	Variable Annuities (Roth IRA)	Fixed Indexed Universal Life
Premium protection from market decline	No	Yes	No	Yes	Yes	Yes	No	Maybe	Yes	No	Yes
Annual limits on tax-deferred contributions	n/a	n/a	n/a	n/a	n/a	Yes	Yes	Yes	n/a	n/a	n/a[5]
Tax-deferred growth on gains	Yes	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Tax Free Distributions of Gains	No	No	No	No	No	No	No	No	Yes[6]	Yes[6]	No
Distributions impact taxation of Social Security benefits	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
Subject to 10% penalty on distribution before age 59 ½	No	No	No	No	No	Yes	Yes	Yes	No[7]	No[7]	No[7]
Subject to Required Mini-mum Distributions (RMDs) after age 72	No	No	No	No	No	Yes	Yes	Yes	Yes[8]	Yes[8]	No
Income tax-advantaged death benefit	No	No	No	No	No	No	No	No	No	No	Yes
Pay to a beneficiary outside probate	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes

4 Taxable investments reflect taxes being paid on any earned income each year. Any distributions taken from these accounts assume that taxes have already been paid.

5 IRS contribution limits may apply. Policy must not be a modified endowment contract (MEC) and withdrawals must not exceed cost basis. Policy must not be surrendered, lapsed, or otherwise terminated during the insured's lifetime. Accessing cash value may result in surrender fees and charges, may require additional premium payments to maintain coverage, and will reduce the death benefit and policy values. Assumes life insurance is not part of a qualified plan.

6 Must hold the Roth IRA for five years and be over age 59 ½.

7 Subject to penalty if withdrawals of earnings occur before age 59 ½.

8 Subject to RMDs after the owner dies (the beneficiary must take RMDs)

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The favorable tax advantages of life insurance

Diversifying income sources is an important part of income planning. The most common sources of retirement income are Social Security and 401(k)s. 401(k) distributions are taxable income[9] and, depending on circumstances, Social Security may be too. If your clients have a tax-advantaged option built into their income plan it can help them increase the income for their retirement years. Fixed Indexed Universal Life (FIUL) insurance is a great option for tax-advantaged income.

Let's look at some hypothetical examples:

1 John retires and wants to begin funding his retirement.

He decides on a $100,000 distribution from his 401(k).

Assuming a 25 percent tax bracket, John pays $25,000 in taxes, with a net distribution of $75,000.[10]

2 John owns an F&G FIUL insurance policy which he purchased while in the workforce.

John decides to take a distribution of $50,000 from his 401(k) and $50,000 from his FIUL.[11] The net distribution that John receives from his $50,000 401(k) is $37,500 because of the taxes he paid. John's FIUL is not subject to income tax because he purchased it with post tax earnings. His $50,000 distribution is $50,000 in income.

John receives a net distribution of $87,500, a total of $12,500 more than example one.

[9] This is a hypothetical representation for illustrative purposes, only. The individual 401(k) plan and life insurance policy withdrawals are aggregated in the illustration for convenience. It is not a comprehensive analysis of the subject matter and your client should work with a tax professional before making changes to their circumstances.

[10] Withdrawals are subject to federal tax of 25% and may be subject to state income taxes. A 10% federal early withdrawal tax penalty may apply if taken before age 59 1/2.

[11] Withdrawals in excess of total premiums paid are taxable unless taken as loans (which are subject to interest charges).

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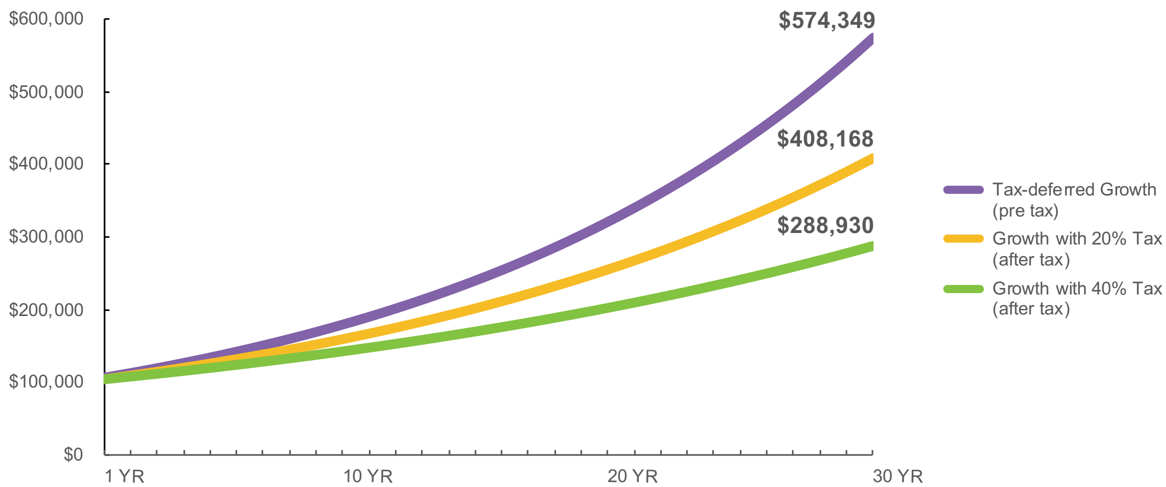
The Impact of Taxes Makes a Big Difference
in How Much Money You Have in Your Account



The chart shows a hypothetical $100,000 premium growing at an annually compounded rate of 6% in three tax scenarios: tax-deferred, a 20% tax rate each year and a 40% tax rate each year.

Life insurance helps your clients meet both objectives: the security and death benefit protection of life insurance for their loved ones and a potential tax-advantaged asset to help with their diversification.

	Taxed Later		Tax-Advantaged Potential	
Withdrawal	401(k) Distribution	$50,000	F&G FIUL Policy Distribution	$50,000
Taxes Due	Income Tax 25%	- $12,500	Income Tax 0%	- $0
Net Income	Net Distribution	$37,500	Net Distribution	$50,000

This information is general in nature, may be subject to change, and does not constitute legal, tax or accounting advice from any company, its employees, financial professionals or other representatives.

Applicable laws and regulations are complex and subject to change. Any tax statements in this material are not intended to suggest the avoidance of U.S. federal, state or local tax penalties. For advice concerning individual circumstances, consult a professional attorney, tax advisor or accountant.

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