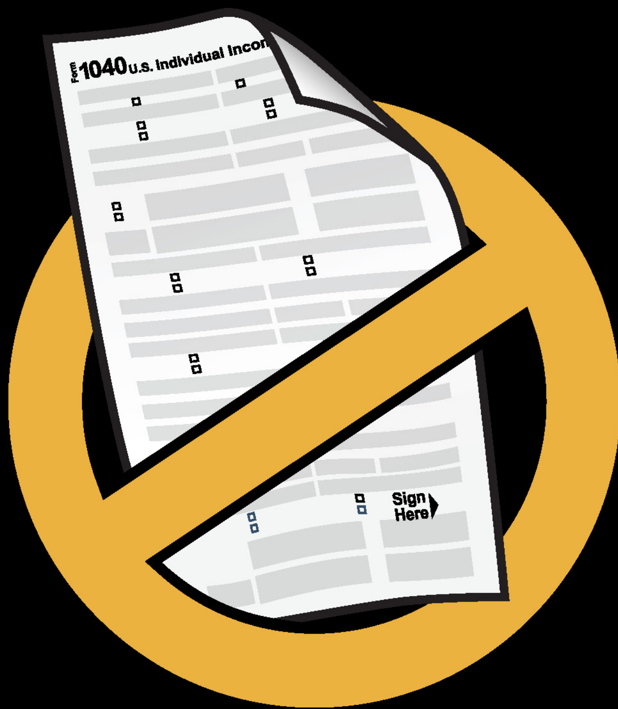
Getting Away Tax-Free in RETIREMENT



How to legally avoid paying more tax than you have to.

By Marc Smith, Michael Neft and Merrick Smith

Table of Contents

Preface i
Not Your Father's Retirement 1
Workers Are Worried 6
Life Insurance Retirement Plans 15
Taxes Are on Sale 19
Social Security 25
Traditional IRAs 25
401(k)s 25
What is Tax-Free Retirement Income? 25
Roth IRAs 26
Life Insurance 26
Build Your Future Today with Secure Retirement Strategies.. 26
Saving for Retirement 29
Three Buckets 33
Bucket No. 1: The Taxable Bucket 34
Social Security 35
Traditional IRAs and 401(k) 36
Bucket No. 2: The Tax-Deferred Bucket 36
Required Minimum Distributions (RMD) 38
Bucket No. 3: The Tax-Free Bucket 39
Roth IRAs 39
Roth 401(k) 40
Conversions 41
Life Insurance 42

LIRPs Vs. Roth IRAs 43
The Importance of Multiple Streams of Income in Retirement .. 45
What Exactly Is Guaranteed Lifetime Income in Retirement? 46
Multiple streams of income 49
Long-Term Care Insurance 53
A Few Startling Facts. 54
National Average Costs for Long-Term Care in the United States. 55
Using a LIRP for Estate Planning 59
Examples of What Not to Do 60
Plan While You Still Can 65
Taxes Revisited— Face Up to Reality 67
Social Security 69
Medicare 69
Medicaid 70
The National Debt 71
Plan Now to Avoid Undue Risk 77
The Right Way to Plan 81
The Gritty Details 84
Don't Go It Alone 86
LIRP Questions and Answers 89
Michael Neft 103
Marc Smith 101
Merrick Smith 103

Preface

In the 1940s, Hollywood was a movie-making mill. Quality of film content didn't matter much—quantity was the name of the game. Almost 800 movies were released in 1942 alone—an exceptional feat considering the much simpler technology used only eighty years ago. Even movies with A-list cast members were often thrown together without much thought to lasting fame. One such movie, starring Humphrey Bogart, Ingrid Bergman, and Paul Henreid, was never expected to achieve long-term success. And yet, at the 1944 Academy Awards ceremony, *Casablanca* was awarded three Oscars. It has endured as one of Hollywood's most beloved and highly acclaimed cinematic masterpieces.

There's a pretty good chance that you've seen the iconic romantic drama chronicling a classic tale of unrequited love. But have you heard this bit of trivia about the famous war-time film? Ronald Reagan was Warner Bros.' first choice for *Casablanca's* main character, not Humphrey Bogart.

Crazy, right? Can you imagine the future president of the United States in that legendary role? Film lovers have passed around that funky factoid for years, postulating how different the film would have been had the suave Bogart been replaced with America's future commander in chief.

Unfortunately, that cool bit of cocktail party trivia is false . . .

To the dismay of many would-be film connoisseurs, Reagan was never considered for a role in *Casablanca*; at the time of its release, his acting career would never have made him a worthy contender against the likes of Humphrey Bogart. Moreover, Warner Bros. didn't have the authority to make casting decisions. But here's something that may be yet more interesting—even if Reagan had been up for the role of *Casablanca's* Rick Blaine, there's a good chance he wouldn't have taken it.

You see, Reagan did not fit the classical "actor" trope. Even if he'd foreseen Casablanca's meteoric rise to legendary status, he wouldn't have cared. Reagan wasn't in the movie business for fame. He was in it for money.

"Okay," you may be thinking. "But why does that mean Ronald Reagan may have turned down the role? After all, it would have earned him a lot of money, right?"

Not necessarily.

When *Casablanca* came out in 1942, the highest income tax bracket was a whopping 88 percent. It would continue to hover around 90 percent for the duration of Reagan's acting career. For a Hollywood actor, two films would earn enough income to put one in the highest tax bracket. That's why Reagan, years later as President, once told his White House Chief of Staff, Donald Regan, that he'd always chosen to "loaf" around each year after finishing two movies.

"Why should I have done a third picture . . . " Reagan said to Regan (Reagan? Regan? It sounds like a joke, we know). " . . . Even if it was *Gone with the Wind*? What good would it have done me?"[1]

---

[1] Sam Pizzigati. Too Much. January 29, 2011. "The Tax That Turned Ronald Reagan Right." https://toomuchonline.org/the-tax-that-turned-ronald-reagan-right/

He had a point. Any additional income would almost entirely have gone to the United States government in taxes. If Reagan wasn't interested in *Gone with the Wind*, chances are he wouldn't have cared about *Casablanca,* either.

The frustration of forfeiting huge amounts of income stuck with Reagan. Changing the system to minimize taxation became a major part of his presidential campaign. When he was elected, he wasted no time in making good on his promises. In an address to the nation, President Reagan broached the subject of heavy taxation:

"Death and taxes may be inevitable," he said. "But unjust taxes are not. The first American Revolution was sparked by an unshakable conviction: Taxation without representation is tyranny. Two centuries later a second American Revolution for hope and opportunity is gathering force again, a peaceful revolution but born of popular resentment against a tax system that is unwise, unwanted and unfair."[2]

In his peaceful revolution, Reagan slashed taxes from 70 percent at the start of his presidency to 28 percent by the time his two terms were up. It was the largest series of tax cuts since World War II. But there was a problem with Reagan's tax cuts: They were unsustainable.

Shortly after President Reagan left office, the tax rate began to climb again. It's now been about thirty years since the top tax bracket came in below 30 percent. Even now, with a tax bracket near 40 percent, federal income is not enough to stymie a mounting national debt, to sustain national defense, and to fund

---

[2] The New York Times. May 29, 1985. "Reagan's Tax Plan: 'Clear, Simple and Fair for All:' Transcript of President's Speech on Revising the Tax System 72 Years of Income Tax: How Individuals have Fared."
https://www.nytimes.com/1985/05/29/business/reagan-s-tax-plan-clear-simple-fair-for-all-transcript-president-s-speech.html

critical government-sponsored programs like Social Security, Medicare, and Medicaid. In short, *taxes will go up*. There's no way around it. President Reagan would not be happy, but it's impossible to avoid the skyrocketing trajectory of federal income taxes in the United States.

"What's the point?" you may be wondering. "Taxes are unavoidable. I don't want to pay higher taxes, but there's no way around it."

Wrong.

That's exactly why we've written this book—to dispel the idea that heavy taxation is inescapable. Now, just to be clear, we are not advocating tax evasion. Every American is obligated to pay his or her fair share in taxes. But one's fair share should never pose a financial burden or interfere with a hard-earned retirement.

According to a Gallup Poll, 46 percent of Americans are worried they will not have enough money for retirement. That's a tragedy. A major part of the problem is retirement funds being forfeited as unnecessary taxes. But that's only part of the issue. Retirement plans can be easily derailed when retirees fail to account for market volatility and risk, health care expenses, inflation, and more.[3]

We can help. Let us help you to secure your financial future. The only thing you should be worrying about on the day of your retirement is what you're going to do with all that free time!

While many retirees lean towards traditional forms of retirement savings such as employer-provided 401Ks, we encourage our

---

[3] Frank Newport. Gallup. May 9, 2018. "Update: Americans' Concerns about Retirement Persist." https://news.gallup.com/poll/233861/update-americans-concerns-retirement-persist.aspx

clients to explore tax-exempt retirement strategies and investment products such as:

• Indexed Universal Life Insurance (IUL): A form of permanent life insurance that allows policyholders to build cash value and withdraw tax-exempt funds.

• Life Insurance Retirement Plans (LIRPs): Unlike traditional forms of life insurance, LIRPs feature a savings component that allows policyholders to accumulate tax-exempt money and withdraw funds tax free while they are still alive.

• Annuities: A contract between an investor and an insurance company where the insurance company provides tax-deferred investment returns and the investor can create an income stream and pass the income and the remaining funds to their beneficiaries.

• Life Insurance: A contract with an insurance company in which, for an agreed upon premium payment schedule, the insurance company will provide a tax-free lump-sum benefit to beneficiaries upon the death of the individual. If structured properly, this contract can build a cash value and provide tax-free benefits for the use of the individual while they are living.

You may be familiar with some or all the above retirement constructs. But, how to effectively integrate them with a sustainable retirement plan—that can pose a challenge to even the savviest investors. Planning for retirement can be overwhelming, but with the proper foresight and planning, you can accomplish your retirement goals. So, let’s get started. Turn the page to learn how you can secure the retirement of your dreams.

Chapter 1

Not Your Father's Retirement

Do you remember the old automobile television ad from the 1980s, "It's not your father's Oldsmobile"?

The same can be said of retirement today. Retirement looks quite different from the days when our parents worked for the same company for twenty-five or thirty years and retired to an easy chair with a party, a gold watch, and a pension. Some even retired with lifetime healthcare benefits!

Back in the day, companies paid into pension funds for their employees and hired professional money managers to organize the fund and make investment decisions. Employees didn't need to understand stocks, bonds, and mutual funds. They didn't worry about the market's volatility. All they knew was that when they retired, they could look forward to a check every month for the rest of their lives. Add to that a monthly Social Security benefit, and whatever they had in personal savings, and most people were set for the rest of their lives.

From 1940 to 1960, the number of people covered by private pensions increased from 3.7 million to 23 million, or to nearly 30

percent of the labor force, according to the Economic History Association.[4] What fueled that growth?

In 1942, Congress froze wages in an attempt to contain wartime inflation. But if companies couldn't increase wages, how would they keep employees satisfied and attract new talent?

With bolstered pensions.

The best indication of a good employer was the quality of pension plan they offered. Those pensions also provided companies with a tax shelter from high wartime tax rates. But near the middle of the twentieth century, circumstances took a turn that would change the pension system forever.

In the 1950s, modern technology was all the rage. Post-world-war industry was booming and the American people were buying up new products left and right. Among the new and improved wares of the day, were automobiles unlike anything seen before. Sure, cars had been around for nearly a hundred years, but the cars of the 1950s were different. Henry Ford famously said in 1909 that customers could buy his car in 'any color you wanted—so long as it was black." After World War II, when auto manufacturers said that you could get a car in any color you wanted, they meant *any color* you wanted. And the modern designs were out of this world. They were long and streamlined, with aerodynamic fins, multiple headlights, and flashy chrome trim. Americans were moving into the future with a fury and it showed in their cars.

One of the largest automobile manufacturers in those days was Studebaker. The company was founded in 1852 and, believe it or not, made its foray into automobile production with an electric car

---

[4] Joanna Short. Economic History Association. "Economic History of Retirement in the United States." https://eh.net/encyclopedia/economic-history-of-retirement-in-the-united-states/

(talk about ahead of its time!). Studebaker made a good product and, for years, consumers loved it. At its peak, Studebaker employed around 23,000 people. Even by today's standards, that's a respectable workforce for any major corporation.

As was general practice in those days, each of those 23,000 workers was promised a pension. It was an excellent pension. Studebaker employees and retirees were among the highest paid in the automobile industry (you may already see where this is going). In 1954, to patch up some financial mishaps, Studebaker was acquired by Packard, a more financially stable car maker. By 1956, to Packard's dismay, it was evident that the financial "mishap" was more like a disaster of perpetual financial mismanagement. By 1957, both companies had nearly succumbed to bankruptcy. They finally shut their doors in December 1963.

When Studebaker closed its last production plant in 1963, the liability of the company's pension plan exceeded its assets by a whopping $15 million ($123 million in today's dollars). That's a lot of pensions that went unpaid.

For the first time ever, a major company had failed to pay out the pensions it had promised its employees. Every employee between age forty and sixty, many of whom had devoted forty years of service to Studebaker, was granted just 15 percent of what his or her pension should have been. Employees under forty got nothing.

The story of Studebaker's rise and demise is important for two reasons. First, it illustrates the volatility of the financial world. It's a horrible cliché, but financially speaking, we must always expect the unexpected. The economy can crash, we can lose our jobs, we can incur surprise health expenses. Ultimately, our financial health is our own responsibility.

Second, Studebaker's failure was a defining moment in the development of the need for retirement planning. For many of us,

especially if we are approaching retirement, we will remember our parents retiring with a pension. For them, retirement planning was simple: Do your work until you can collect your pension and then Social Security kicks in. Easy as that. Personal savings was like gravy on top. Together, those three incomes were described as the three-legged stool of retirement. There was little to no stress and uncertainty involved. But Studebaker's financial *faux pas* set off a chain of events that dramatically complicated things, which gave birth to today's most infamous retirement construct: The 401(k).

The Studebaker disaster revealed a critical flaw in the pension system. Employers were under no legal obligation to fulfill the terms of their employees' pension plans. Shocking, right? But it's true. Sure, it's not like companies could just decide not to pay out. But if they went bankrupt, like Studebaker did, and happened to run out of money before they could fulfill their pension promises, then oh well. There was zero repercussion to the corporation, and jilted Studebaker employees had no way to recover their tremendous losses.

To ensure that something like that would never happen again, Congress passed the Employee Retirement Income Security Act, or ERISA. Employers would now be legally required to insure and protect their employees' pension funds. To accomplish this, the Pension Benefit Guaranty Corporation was established. It was fashioned after the organization that similarly protects bank deposits, the Federal Deposit Insurance Corporation, or the FDIC.

ERISA sounded good on paper and its inception was well intentioned. But, as you might imagine, big corporations didn't like the idea of setting aside money for future pensions that could be used in the moment to expand business. So, the law backfired. Rather than insure pensions, companies decided simply to do away with pension plans altogether. Instead, the onus was transferred to

the employee to fund his future retirement income. Thus, the 401(k) was born.[5,6]

Things continued to change dramatically into the 1980s. Companies found that pensions were costly and burdensome, and they wanted them off of their books. More and more businesses caught on to the burgeoning 401(k) standard and dropped the outmoded pensions of yesteryear.

As a result, the responsibility to save for retirement shifted from the employer to the employee. It was the beginning of the do-it-yourself (DIY) retirement for Americans—a shift that started slowly but then quickly gained steam.

Today pensions are largely reserved for federal and state employees. Only 15 percent of Americans in the private sector are covered by traditional pensions.

With the disappearance of pensions has come several major problems. Many Americans still approach retirement with the ignorance that was common of the pension era. But today's retirement climate behooves soon-to-be retirees to understand the investment options available to them. Unfortunately, statistics indicate that most retirees are ill-equipped to invest proficiently. There are many who are very confident in their ability to retire comfortably (about 23 percent), but there's a number of people who view themselves as confident or somewhat confident in their ability to retire comfortable (about 67 percent). This may be up for debate, though, since some theorize that many of us are

---

[5] DOL. "History of EBSA and ERISA." https://www.dol.gov/agencies/ebsa/about-ebsa/about-us/history-of-ebsa-and-erisa

[6] Investing Answers. Nasdaq, July 8, 2013. "The Surprising Origins of Your 401(k)." https://www.nasdaq.com/article/the-surprising-origins-of-your-401k-cm258685

overconfident.[7] According to one survey, only 55 percent of high income earners were comfortable planning for retirement. Americans are not saving nearly enough and they are thus rightfully worried about their retirements.

Do you remember Enron? The Houston-based energy company was riding high when its stock price peaked at $90 a share. In the frenzy, many of Enron's employees loaded up on the company stock—dreams of early retirement spurring on their irrational behavior.

Then, almost overnight, the bottom fell out.

Financial fraud was exposed in a scandal that dominated headlines for weeks. The company filed for bankruptcy, and most of its executives were indicted and jailed. From its $90 heyday, Enron stock quickly plummeted to less than $1. It's estimated that employees lost a cumulative $850 million from their 401(k)s.

Workers Are Worried

According to a report from Gallup, 46 percent of U.S. non-retirees said they will not have enough money in retirement.[8]

Also, Americans need help to convert savings into income. Many have saved more money in their retirement accounts than they have ever seen in their lives. There is much emphasis on savings, but little instruction on how one can efficiently turn lump sum cash into retirement income.

---

[7] EBRI. 2019. "Retirement Confidence Survey." https://www.ebri.org/docs/default-source/rcs/2019-rcs/rcs_19-fs-1_confid.pdf?sfvrsn=c6553f2f_4

[8] Frank Newport. Gallup. May 9, 2018. "Update: Americans' Concerns about Retirement Persist." https://news.gallup.com/poll/233861/update-americans-concerns-retirement-persist.aspx

According to the annual Franklin Templeton Retirement Income Strategies and Expectations (RISE) report, the majority of Americans are concerned about how they will manage income in retirement—even those within just a few years of retirement.

• 52 percent of workers are concerned about how to turn savings into retirement income to meet expenses.

• More than a third of those within five years of retirement have no strategy to recreate a paycheck.

• A third of workers within five years of retirement say they needed help from their employer in choosing an investment that will generate income.[9]

What's the bottom line? Americans are uncomfortable making their own retirement investment decisions. They are unprepared to save effectively, to avoid undue risk, and to manage a balanced investment portfolio.

For those reasons, a number of retirement experts believe a retirement crisis is looming. But it gets worse. We've only begun to examine the mountain of evidence that suggests the odds of successfully navigating retirement are bleak. Upon examining the preponderance of evidence, it's easy to find at least four major concerns for the twenty-first century retiree:

1. **Americans have not saved enough for retirement.**

---

[9] Franklin Templeton. "Retirement Income Strategies and Expectations (RISE) Report." https://www.franklintempleton.com/investor/investments-and-solutions/solutions/individual-retirement/retirement-research/

According to Northwestern Mutual, Americans are not ready for the financial realities of retirement. Nearly eight in 10 Americans are "extremely" or "somewhat" concerned about affording a comfortable retirement while two thirds believe there is some likelihood of outliving their retirement savings.

• One in five Americans have no retirement savings at all.

• One in three Baby Boomers (the generation closest to retirement age) has between zero and $25,000 in retirement savings.

• Three quarters of Americans believe it is "not at all likely" (24 percent) or only "somewhat likely" (51 percent) that Social Security will be available when they retire.

• 46 percent of adults have taken no steps to prepare for the likelihood that they could outlive their savings.[10]

In addition, the average balance in a 401(k) is less than $100,000, and the average balance for people 65 and older is $200,000. That's not a lot of money when you consider that people are living well into their 80s and 90s these days. In fact, that leads us into our second concern:

2. **Americans are living longer.**

The average life expectancy in the United States is 78.7 years (76.1 years for men and 81.1 for women) according to the Center for Disease Control's National Center for Health Statistics. That's up from 66.8 for men and 73.7 for women in 1965. Keep in mind, that

---

[10] Jean Towell. Northwestern Mutual. May 8, 2018. "1 In 3 Americans Have Less Than $5,000 In Retirement Savings."
https://news.northwesternmutual.com/2018-05-08-1-In-3-Americans-Have-Less-Than-5-000-In-Retirement-Savings

is an average. It's not uncommon for today's retirees to survive well into their 90s.[11]

You're probably thinking, "longer life expectancy hardly seems like a problem." It's true, who of us doesn't want to live as long as possible? But, imagine running out of money ten years before you die. Now you start to see the problem. There's a good chance that you will spend as many years in retirement as you spend in your working life. That's a long time to live without a regular working income. It's probably why 41 percent of financial planners say running out of money is their clients' top concern about retirement—including those clients who have a high net worth.

Concerns about running out of money transcend generations. The Franklin Templeton report shows that it is among the top three concerns for both Generation X and Baby Boomers:

Generation X

• 40 percent say running out of money during retirement is their top concern.

• 49 percent are concerned about managing their retirement income to meet their retirement expenses.

Baby Boomer Generation

• 37 percent say health issues are their top concern during retirement.

---

[11] Elizabeth Arias, Ph.D. and Jiaquan Xu, M.D. June 24, 2019. "United States Life Tables, 2017." https://www.cdc.gov/nchs/data/nvsr/nvsr68/nvsr68_07-508.pdf

• 37 percent are concerned about managing their retirement income to meet their retirement expenses.[12]

3. Americans are not prepared to cover health care and long-term care.

Health care costs are usually among the top two concerns for retirees and soon-to-be retirees—and with good reason. Health care is one of the largest expenses in retirement. Fidelity Investments says a sixty-five-year-old couple retiring in 2019 can expect to spend $285,000 for health care and medical expenses throughout their retirement. For singles, that estimate is $150,000 for women and $135,000 for men.[13]

An earlier Fidelity survey says long-term care insurance could add another $130,000 to the equation.[14] According to Genworth, a leading provider of long-term care insurance, seven out of ten people over sixty-five will need some sort of long-term care.[15] Medicare, Medicare supplement insurance, and employer provided health insurance generally don't pay for long term care.

Genworth estimates that long-term care in an assisted living facility will cost an average of $4,000 a month. The cost of a home

---

[12] Franklin Templeton. "Retirement Income Strategies and Expectations (RISE) Report." https://www.franklintempleton.com/investor/investments-and-solutions/solutions/individual-retirement/retirement-research/

[13] MeeJin Annan-Brady and Michelle Tessier. April 2, 2019. "HEALTH CARE PRICE CHECK: A COUPLE RETIRING TODAY NEEDS $285,000 AS MEDICAL EXPENSES IN RETIREMENT REMAIN RELATIVELY STEADY." https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/press-release/healthcare-price-check-040219.pdf

[14] Fidelity. August 16, 2016. "Health Care Costs for Couples in Retirement Rise to an Estimated $260,000, Fidelity Analysis Shows." https://www.fidelity.com/about-fidelity/employer-services/health-care-costs-for-couples-in-retirement-rise

[15] Genworth. 2019. "Cost of Care Survey 2019." https://www.genworth.com/aging-and-you/finances/cost-of-care.html

health aide is roughly $4,000 a month. Long-term care in a nursing home will cost from $7,441 to $8,365 a month, depending on whether you have a semi-private or private room.

4. Social Security is not enough.

The Social Security Act was ratified on August 14, 1935 by its creator, President Franklin D. Roosevelt. Social Security was just one branch of a larger program called the "New Deal." It was designed to boost the United States economy and its faltering morale during the Great Depression, to combat unemployment among the working classes, and to provide supplemental income for those in retirement. President Roosevelt said the program was for "young people [who may] wonder what [their lot would be] when they came to old age."[16]

Unfortunately, Roosevelt's reasoning betrayed a lack of forethought. The New Deal established sixty-five as the magic number for retirement—at that point, Americans qualified to collect a monthly check from the federal government. But here's the thing, in 1935 the chances of reaching age sixty-five were bleak. Men couldn't have expected to reach even sixty. Women were, on average, fortunate enough to reach sixty-three. Either way, the average American would never live to collect his or her Social Security check. So, as you can imagine, it was easy to fund Social Security—a program that from its onset was designed more as an insurance policy for people living too long than as a bona fide retirement plan.[17] ('

---

[16] History.com. August 13, 2019. "FDR Signs Social Security Act."
https://www.history.com/this-day-in-history/fdr-signs-social-security-act
[17] Allainz. 2016. "Rethinking What's Ahead in Retirement."
https://www.allianzlife.com/-/media/files/allianz/documents/ent_1154_n.pdf

These days, it's not uncommon for retirees to live thirty years beyond their working lives. That alone places Social Security under heavy strain, but the problem is compounded by a lack of tax-payer funding. In 1950, assuming you made it to sixty-five and could retire, your Social Security check would have been funded by the taxes of sixteen working Americans. In the next few years, however, almost 30 percent of adults in the United States will not be working as the retired population continues to saturate. Having more retirees and fewer workers is bad news for Social Security. In 2010 there were already only 3.3 workers per Social Security beneficiary. By 2025, that ratio is predicted to drop to two workers per retiree. In reality, however, the ratio can never get that low without Social Security failing. In other words, Social Security's current trajectory is unsustainable. To make up for the deficit, the federal government would have to expend 92 percent of all federal revenue for every retiree to receive his or her due payment. That's not going to happen.[18]

The government has been trying to keep Social Security afloat, though. In 2011, President Barack Obama budgeted 3.8 trillion dollars for all government spending. Of that, 60 percent—or 2.2 trillion dollars—was dedicated to Social Security funding. That's not surprising when you consider that 35 percent of American retirees rely on Social Security as their primary income. It's no wonder Social Security is running out. As of 2010, Social Security has been tapping into other federal revenue sources to sustain its dependents. It receives less in funding than it is required to pay out.

---

[18] Childstats.gov. September 2018. "Pop2 Children as a Percentage of the Population: Persons in Selected Age Groups as a Percentage of the Total U.S. Population, and Children Ages 0-17 as a Percentage of the Dependent Population, 1950–2018 and Projected 2019–2050." https://www.childstats.gov/americaschildren/tables/pop2.asp

According to legend, President Roosevelt made a second claim regarding the Social Security Act on that momentous day in 1935. As reporters pressed in on the oval office, Roosevelt was asked if Social Security benefits would be taxed. The president looked up, his face red with anger. He then slammed his fist on the desk and solemnly vowed *never* to tax unemployed and retired Americans.

Well, we can't say for sure if folktale is true, but Social Security did remain tax-free during Roosevelt's presidency and lifetime. Shortly thereafter, however, the President may have rolled over in his grave. Later politicians were less keen on sacrificing a potential revenue source for the federal government and Social Security taxes were instituted.

In 1983, President Ronald Reagan enacted amendments to the Social Security Act that allowed for up to 50 percent of one's benefits to be taxed. Ten years later, President Bill Clinton increased the taxable percentage to 85. What's surprising is that a retiree's annual income only needed to exceed $34,000 to have his or her benefits so heavily taxed.

It's not hard to imagine, then, that many investors discover only upon retiring that their retirement nest egg might be severely taxed. Many realize too late that they're in a higher tax bracket than expected. Some don't realize they'll need to pay taxes at all. And Social Security is just the tip of the iceberg. Many retirement investment vehicles are subject to taxation. It can all feel overwhelming. Many thus resign themselves to their over-taxed fate. After all, taxes are the law, what's the use in fighting, right?

We'll look at taxes more closely in a future chapter. But for now, suffice it to say, Social Security benefits are not cutting it. Many people don't realize that Social Security was never meant to be a sole source of income in retirement. It was always designed to supplement pensions and personal savings.

The average Social Security retirement benefit in 2018 was $1,413 a month, or about $17,000 a year. Is that enough for you to live on?

Social Security is the single greatest income source for most elderly Americans. For about half of seniors, it provides at least 50 percent of their income. For about one in five seniors, it provides at least 90 percent of income.

Nearly 60 percent of Americans take Social Security before retirement age, according to government statistics, despite locking themselves into lower payments for life. Thirty-four percent of Americans take Social Security at sixty-two.

Waiting eight years to claim Social Security at seventy rather than at sixty-two can increase monthly payments by more than 75 percent. But many retirees don't think it's worth it to miss out on eight years of benefits. Often, Americans file early when they are forced to retire early, whether for health or other reasons.

Millennials, meanwhile, don't believe Social Security will be around when they reach retirement age, and there's good reason for their skepticism.

According to the 2018 annual report of the Social Security Board of Trustees (the trust funds that disburse retirement), disability and other Social Security benefits may be depleted by 2035.[19] That doesn't mean that Social Security will no longer be around; it means the system will exhaust its cash reserves and will be able to pay out only what it takes in year-to-year in Social Security taxes. If this comes to pass, Social Security would be able to pay about 77 percent of the retirement benefits workers are entitled to receive.

---

[19] Social Security. 2019. "A SUMMARY OF THE 2019 ANNUAL REPORTS." https://www.ssa.gov/oact/TRSUM/

All this is to say that the entire retirement climate has changed. Americans need help. They need fresh ideas and current strategies that will help them to survive retirement without fear of depleting their funds.

Retirement planning is difficult. We have evolved into a society of do-it-yourselfers. Unfortunately, the DIY attitude has permeated even the retirement community. But the fact remains, most Americans are unable to save enough on their own to live a successful retirement. And, many are uncomfortable making the investment decisions necessary to develop a health retirement nest egg.

It's time to think about new alternatives and new strategies.

Time magazine columnist Dan Kadlec wrote in 2013: "It's time to recognize that your retirement security is in your hands alone. We have a retirement savings crisis in America and the safety net keeps being eaten away. Social Security is a mess. Public and private pension plans are underfunded. We've moved squarely away from secure defined benefit plans towards riskier defined contribution plans, and now defined contribution plans are under assault."[20]

Life Insurance Retirement Plans

In a world where most individuals rely upon traditional savings vehicles to fund their golden years of retirement—whether it be through Roth IRA funds or 401(k)s—Secure Retirement Strategies offers an additional savings solution. **Life Insurance Retirement Plans** (LIRPs) provide insured individuals a variety of exemptions and protections, unlike most IRAs and 401(k)s,

[20] Dan Kaldec. December 13, 2012. "Why Your 401(k) Match Will Get Cut." http://business.time.com/2012/12/13/why-your-401k-match-will-get-cut/

which often carry restrictions, early withdrawal penalties, and taxes.

We'll talk often about LIRPs in this book. That's because they are unrivaled among the myriad options in today's retirement climate. It's important that you understand exactly what a LIRP is. Simply put, LIRPs are insurance contracts that allow you to invest your money without paying taxes on their growth; neither will you pay taxes upon withdrawing the accrued interest. In other words, you put money in, take *more* money out, and never pay taxes along the way.

It probably sounds too good to be true, but it's not. In fact, it gets even better. LIRPs can be left to inheritors while remaining tax-free and the death benefit comes with no expiry. You can also use the money from your LIRPs without incurring early withdrawal fees and penalties. And, unlike other more traditional retirement accounts, LIRPs are not subject to stock market volatility and risk despite offering compensatory growth.

Roth IRA funds and 401(k) accounts have age and income restrictions put in place by the Internal Revenue Service that may disqualify certain individuals. LIRPs, on the other hand, are available to everyone. Are you starting to see why we're so enthusiastic about Life Insurance Retirement Plans? They are the best way to provide as many individuals as possible with the opportunity to start saving now and to ensure a better tomorrow.

In addition to serving as a tax-deferred means of securing surplus funds after one has already maxed out his or her allowed 401(k) and IRA contributions for the year, another major advantage of a LIRP is that it can be custom tailored to each person. Whether your life insurance retirement plan includes a whole, or universal indexed life policy, LIRP offers policyholders the freedom to determine which product would be best when saving for retirement.

Maybe you've heard of LIRPs but thought they were reserved for the absurdly wealthy. For many years, you would have been correct. The only time LIRPs were mentioned was in connection with people like Ronald Reagan, Joe Biden, and Hillary Clinton. That's why some have traditionally called LIRPs "Rich People Roths." But the landscape has changed. Life Insurance Retirement Plans are no longer reserved for the top one percent. With intelligently designed LIRPs, Americans can protect their retirement savings by purchasing the minimal amount of life insurance death benefit while maximizing the cash value of their savings through tax-free premium contributions. In later chapters, we'll examine the benefits of LIRPs in greater detail.[21]

---

[21] David Rae. Forbes. September 20, 2018. "The Rich Person Roth: For the Most Tax-Free Retirement Income." https://www.forbes.com/sites/davidrae/2018/09/20/rich-person-roth/#308d9c6a71fe

Contact Us

We hope you enjoyed this free chapter of Getting Away Tax-Free in Retirement. To purchase a copy online, visit:

https://www.amazon.com/Getting-Away-Tax-Free-Retirement-Legally/dp/1677384212

To speak with the authors, book an event, or get a review of your own retirement strategy:

Marc Smith, Michael Neft and Merrick Smith

Secure Retirement Strategies Main Office

2525 Holicong Road

Doylestown, PA 18902

Phone: 610.983.8531

https://srsstrategies.com/