Money Matters

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Skloff Financial Group Question of the Month

The Protected IRA Plus Plan (PIPP) - Part 3

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Q: We read the articles 'The SECURE Act Brings the Biggest Changes to IRAs Since Their Inception' Part 1, Part 2, Part 3 and 'The Protected IRA Plus Plan (PIPP)' Part 1 and Part 2. Can a PIPP provide more net income after taxes, protect our assets from financial market losses, gain protection against long term care expenses and return our assets to our beneficiaries on a tax-free basis?

A: The Problem - Optimizing Taxes after the SECURE Act
If you stretch withdrawals too long on large pre-tax retirement accounts, you could increase your own tax brackets and your beneficiaries' tax brackets. The higher your income (including withdrawals and Roth IRA conversions), the higher your: income tax bracket, capital gains rates and qualified dividends rates, and probability you will be subject to the investment surtax. IRAs inherited after 12/31/19 must be withdrawn within a mere 10 years (spouses have an exception), potentially increasing beneficiaries' tax brackets. An unexpected death or need for long term care, **7 in 10 people age 65 and older will need long term care (LTC)**, could force large withdrawals at high tax brackets.

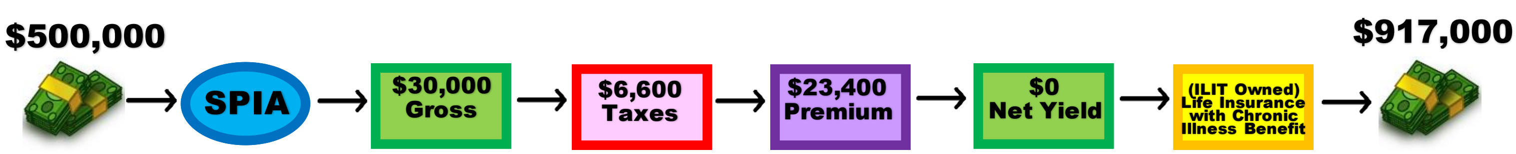
The Solution - Implement a Protected IRA Plus Plan (PIPP) with the Goal of Maximizing Tax-Free Life Insurance and Tax-Free Chronic Illness or Long Term Care Benefits
The Protected IRA Plus Plan (PIPP) can be customized for various goals. If the goal is to maximize tax-free life insurance and tax-free chronic illness or LTC benefits, you complete a tax-free transfer of a Traditional IRA to a Traditional IRA (in whole or in part) that holds a Single Premium Immediate Annuity (SPIA). The SPIA provides a guaranteed lifetime income by accelerating Traditional IRA withdrawals through substantially equal periodic withdrawals before and during the period when RMDs are required. With the guaranteed lifetime income, you purchase life insurance that provides a tax-free death benefit, tax-free LTC or chronic illness benefits (Hybrid Life and LTC Insurance), or both.

The insurance policy leverages premiums paid with IRA withdrawals into significantly more tax-free chronic illness or LTC benefits and/or a tax-free death benefit, while protecting the value of the IRA from financial market losses. **The PIPP protects your assets from an unexpected death or need for LTC, creates more wealth, reduces (combined) taxes for you and your beneficiaries and maximizes guaranteed lifetime income**.

Numbers Speak Louder Than Words. Let us look at an example of a married couple and their son. Harvey (age 65) has a **$500,000** Traditional IRA and his wife Myrna (59) does not have any IRAs. If Harvey transfers his Traditional IRA to a Traditional IRA that holds a SPIA, the SPIA will generate $30,000 per year of guaranteed lifetime income (a 6% cashflow). Based on their income and joint filing status, they can: maintain a low income tax bracket of 12% on some income and 22% on some income, a capital gains and qualified dividends rate of 15% and avoid the 3.8% investment surtax. **Harvey can protect his $500,000 asset from financial market losses, an unexpected death or need for LTC by paying $23,400 per year from age 65 to 85 for a $917,000 Hybrid Life and Chronic Illness insurance policy - maximizing his tax-free life insurance and chronic illness benefits.**

While Harvey receives $30,000 per year, he pays $6,600 in taxes (assuming a 22% tax rate) and $23,400 in insurance premiums. From the age of 65 to 85, Harvey receives $630,000 on a pre-tax basis and $491,400 on an after-tax basis. When he passes away at 85, his beneficiaries receive $917,000 on a tax-free basis and on an estate tax free basis (with an Irrevocable Life Insurance Trust (ILIT). If Harvey needs chronic care before passing away, the policy will pay tax-free chronic illness benefits. See the flowchart below.

Male (65) Protected IRA Plus Plan (PIPP) with the Goal of Maximizing Tax-Free Life Insurance and Tax-Free Chronic Illness Benefits



Action Step — Work Closely with a Registered Investment Adviser (RIA) to Review Your Finances
Work closely with an RIA to review your estate, financial and tax plan to determine if you have the best strategies in place to build and protect your wealth. Implement the solutions described above based on your unique circumstances.

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