

TAX FREE

Retirement Income

Our Government has a Plan...

The United States currently spends approximately 76 cents of every tax dollar it collects on four things: Medicare, Social Security, Medicaid and the interest on the National Debt. By the year 2020, experts believe that expenditures on the same four things will comprise 92 percent of collected tax revenue. Today the top marginal tax rate at which the wealthiest Americans pay taxes is only 39.6%. Taxes haven't been this low in 80 years. According to the Congressional Budget Office, if Social Security, Medicare, and Medicaid go unchanged, the rate for the lowest tax bracket will increase from 10% to 25%, the current 25% bracket will rise to 63% and the highest marginal tax bracket will go from 35% to 88%. Do you have a plan to deal with this reality?

We do...

We believe our clients should start preparing for tax-free income in retirement. Our plan is named RAFT (Retirement Approach Free of Tax). It is like a Roth account on steroids.

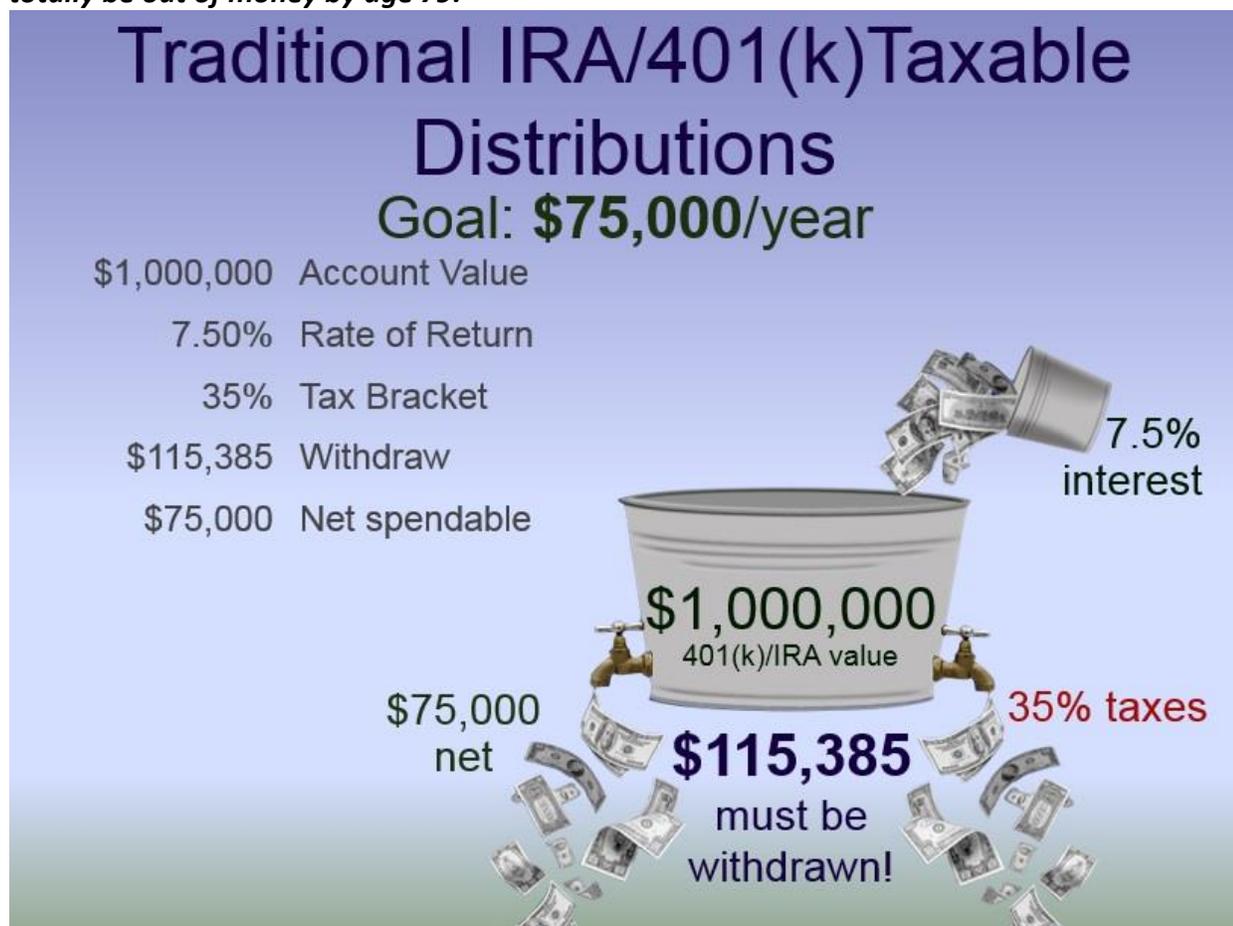
- Unlike a Roth, there are no limits on contributions, no pre 59 ½ penalty
- The account grows tax-free
- The account is liquid – you are in control when you access the money.
- Distributions are tax-free and unreportable to the IRS
- The account can never lose money, average rate of return over 30 years is over 8% compounded.
- The growth in the account “locks-in” every year, protecting your gains.
- These accounts have a death benefit that is passed on to your designated beneficiary tax-free; this can be used to pay for Long Term Care costs if you wish.

There are so many ways you can use this strategy; moving capital gains, 401(k), IRA's, paying for children or grandchildren's college, retirement planning, etc. into a tax-free account. Based on conservative past performance we have come up with the following scenarios

- “Olive” Age 1, Grandparents depositing \$5,000/yr into the account for just 15 years. One option is at age 18 Olive will have \$125,000 tax-free cash value that can be used for college. Another option is at age 41 have a tax-free cash value of \$568,000; generating a \$59,000 tax-free lifetime income stream, which she can never outlive.
- “Pace” male age 26; deposit \$500 per month (\$6,000 per year) for 30 years. One option is at age 50, he will have \$316, 000 tax-free cash value he could withdraw to start a business, pay for kids college, buy a home, or whatever. Another option is to generate a tax-free income stream of \$73,000 per year for life at age 61.
- “Ken”, male age 43 deposits \$10,000/yr for 15 years. At age 67 this will have a cash value of \$395,000, which can generate a tax-free income of almost \$42,000/yr for life.
- “Ladawn”, Female age 55 deposits \$40,000/yr into the account for 5 years. At age 66 her tax-free accumulation will be \$254,000, generating a tax-free income of almost \$26,000/yr for life.

- “Bill”, male age 60 has a million dollar 401(k). He wants to convert that account into a Roth-like tax-free account, but doesn’t like the fact he will have to pay over \$300,000 in taxes to do so. By using our strategy of depositing \$333,000/yr from the 401(k) account for 3 years, then using a participating loan from the policy to pay the taxes the following years (no out of pocket money used to pay the taxes). After five years the account balance will have over \$1,000,000 tax-free accumulation in the account, and could generate a tax-free income of \$79,000 for life. At age 70 it could generate \$ 132,000/yr tax-free for life.
- “Bob”, male age 57 sells a rental property with a \$250,000 capital gain. He doesn’t like the fact he will have to pay over \$35,000 in capital gain taxes to do so. By using our strategy of depositing \$76,000/yr into the account for 3 years, then using a participating loan from the policy to pay the taxes the following year (no out of pocket money used to pay the taxes). After five years the account balance will have over \$374,000 tax-free accumulation in the account, which at age 70 could generate over \$42,000/yr tax-free for life.

Below illustrates the effect current tax rates (NOT future tax rates) have on a million dollar 401(k), a 64 year old withdrawing enough to net \$75,000/yr income from the account. Note the account will totally be out of money by age 79.



We use the same scenario as above, but with the following exception; the \$75,000/yr comes from a TAX-FREE RAFT* account. At age 79 the account will still have over one million dollars in it.

A Better Way

Goal: \$75,000/year

\$1,000,000 Account Value
7.50% Rate of Return
0% Tax Bracket
\$75,000 Withdraw
\$75,000 Net spendable

\$1,000,000
R.A.F.T. value

7.5% interest

\$75,000 net

0% taxes

You only withdraw \$75,000!

This a powerful tool to increase returns, maximize income, minimize risk, reduce taxes, protect against the unknown. If you are interested in learning more about this strategy, or would like to discuss a specific application of the RAFT strategy to fit your needs, please give us a call at 1(888) 203-8797. Please listen to Hometown Radio AM 1360 Sundays 8 to 9am for the Freedom Financial Network for more information on this strategy.

Russ Brown, CFP®

**The RAFT Account is funded by an Indexed Universal Life policy (IUL) with Minnesota Life an A Rated Life Insurance company. The illustrations are based on past performance; however past performance does not guarantee future results.*