



Agent and Advisor Guide to Advanced Markets Concepts



Traditional IRA, Roth IRA or...

What is the best accumulation vehicle to help supplement your client's retirement?

Depends ...

Depends on what? Depends on how they feel about their future marginal tax bracket.

Lower – Traditional IRA, but do they qualify?

Higher – Roth IRA, but do they make too much money?

If they are convinced they will be in a lower bracket at retirement, a Traditional IRA is great. Defer tax in a higher bracket, pay tax in a lower bracket. No brainer right? Not so fast. What if they don't qualify because they are covered under a qualified plan or they make too much money? Also, being in a lower bracket at retirement might not be a given. Many times people lose deductions at retirement. No more dependents, no mortgage interest deductions, lower charitable contributions, no business expenses, in addition they may be assuming Congress won't raise taxes in the future. This could be wishful thinking.

O.K., so if they don't qualify for a Traditional IRA or if they think they might be in the same marginal bracket or higher, how about a Roth IRA? Roth IRAs are great; pay tax now and never pay tax again. But what if they don't qualify because they make too much money or they want to contribute more than is allowed? Are there alternatives?

YES! Roth 401(k) and Life Insurance

Roth 401(K)

Starting in 2006, participants in qualified plans were given the opportunity to elect after-tax contributions to a Roth 401(k) account, if the

plan adopted this feature. The key is if the employer adopted the Roth provision in the qualified plan. Roth accounts inside qualified plans require separate accounting. This could increase administrative cost and therefore may not be desirable to the employer. If it is available, a Roth contribution to a qualified plan works just like a Roth IRA except: 1. there are no income qualifications 2. they are subject to required minimum distributions and 3. the amounts contributed are the same deferral limits as non-Roth 401 (k) contributions.

Life Insurance

A properly funded life insurance policy can be a great accumulation vehicle because it is taxed just like a Roth IRA, but has several advantages. A properly funded life insurance policy in this situation means a policy that is maximum funded and is not a Modified Endowment Contract. It is also critical that the contract stay in force until death in order to avoid taxation of any gain borrowed during life.

Advantages of Life Insurance:

- Creates an immediate estate. If the insured dies prematurely, the plan will be self-completing. The beneficiaries receive income tax free death benefit not just equal to contributions and interest, but the full face amount.
- No compensation requirements or fixed contribution limitations.
- Earnings can be accessed prior to age 59 ½ without penalty.
- Can produce significant IRR on the accumulated cash values in the future and on death benefit in the early years.

Continued ▶

The preceding summary is intended to be a general discussion of the topic presented, and is based on our current understanding of applicable tax laws, regulations and rulings. In actual practice, the transaction discussed may be more complex and will require the attention and expertise of professional advisors. In no way should this summary be construed to constitute tax or legal advice. For Advisor Use Only.

Side-by-side Comparison

Below is a comparison of key features of a Roth IRA and a life insurance policy. In this example, the life insurance policy is not a Modified Endowment Contract (MEC) and stays in force until death of the insured.

Feature	Roth IRA	Life Insurance
Non-Deductible Contribution	Yes	Yes
Tax-Deferred Growth	Yes	Yes
Defer Distributions Until death	Yes	Yes
Income Tax Free to Beneficiaries	Yes	Yes
No Compensation Requirements	No	Yes
No Income Limitations	No	Yes
Unlimited Contribution Limitations	No	Yes (Subject to Insurability)
Early Withdrawals of Gain Without Penalty	No	Yes
Immediate Estate Creation Upon Premature Death	No	Yes

At the end of the day, what is best for your client depends on many factors. No matter what option is chosen, indexed annuities and life insurance are great choices to help accumulate money on a tax favorable basis for retirement. Aviva Life and Annuity are the market leaders for both.



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