Look Before You LIRP

Why All Life Insurance Retirement Plans
Are Not Created Equal, and
How to Find the Right One for You

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For my children

Acknowledgments

I'd like to begin by acknowledging the legions of financial advisors who read *The Power of Zero*, embraced the tax-free paradigm, and conveyed it to their clients. It was largely through their efforts that *The Power of Zero* reached critical mass. These same financial advisors are on the front lines tirelessly proclaiming the virtues of tax-free planning in a world where the tax-deferred paradigm still holds sway. Without their efforts many Americans would still be sitting on the train tracks bracing for the impact of higher taxes. Without their advocacy, there would have been no audience for this second book. To them, I give my wholehearted thanks.

To the dozens of financial advisors who served as a sounding board for this book, I also give thanks. Their insight, attention to detail, and passion for tax-free retirement planning infused this book with a sharpness and focus that helped bring its message home. For over two years these same advisors encouraged me to write this follow-up to *The Power of Zero*. They insisted that another book needed to be written to bring the Life Insurance Retirement Plan into sharper focus. Through their prodding, the vision for this book slowly materialized and ultimately came to fruition. In many ways, this book is theirs, and for their encouragement I am grateful.

To my editor Gordon Warnock, thank you for your guiding hand, your patience, and your willingness to work long hours to meet deadlines. Your outside-the-box thinking and flair helped give this book personality and verve. Your contributions helped turned this book into a worthy companion to *The Power of Zero.*

I do, of course, save the most important for last. I've been married to my beautiful wife Felice for 16 years, and she has been my rock and my lodestar. She is good and virtuous and inspires me to do better and be better. She brought seven amazing children into the world and does the often unheralded work of turning our house into a home. Without her tireless efforts and unfailing support none of this would have been possible. To her I pledge my undying love and devotion.

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CHAPTER ONE

Finding the Right LIRP

If you read my bestselling book *The Power of Zero*, I hope you found the prospect of getting into the 0% tax bracket in retirement both exhilarating and achievable. I also hope that you came away from the book more cognizant of a few important and undeniable realities. First, taxes *are* going up. There's no way around it. Unfortunately, the only way to liquidate our nation's growing debt load and pay for unfunded obligations like Social Security and Medicare is to double taxes over time.[1] It's simple math. Second, the only way to truly insulate yourself from the impact of higher taxes is to get yourself into the 0% tax bracket. Why? Because if tax rates double, and you're in the 0% tax bracket, two times zero is still zero! Third, in many cases, it's impossible to get to the 0% tax bracket without using a Life Insurance Retirement Plan (LIRP). That's a key proposition, and it's the one driving this book.

For many of you, the LIRP was the one concept in *The Power of Zero* with which you were least familiar. Finding out more about the LIRP may even be what led you to this book! Well, the LIRP *is* a transformational tax-free retirement tool and it merits a full examination. If you're skeptical about using life insurance as a potential retirement tool, let me simply say this: *you don't have to love life insurance or even life insurance companies, you just have to like them a little bit more than*

1 *http://www.cnn.com/2009/POLITICS/04/15/walker.tax.debt/*

you like the IRS. Because in the end, not utilizing the LIRP may actually keep you out of the 0% tax bracket, in which case, the IRS wins. How does the IRS win? Remember, if you can't get into the 0% tax bracket, the next best tax bracket isn't 1% or even 2%. It jumps all the way up to 10%. Throw in another 6% for state taxes and now you're looking at 16%. And, if the experts are right, and tax rates double, 16% is starting to look more like 32%. All of the sudden, barely missing the 0% tax bracket can end up costing you hundreds of thousands of dollars at a time in your life when you need the money the most. When it comes to tax brackets in retirement, you can't afford to settle for second place!

Given the crucial role the LIRP can play in propelling you into the 0% tax bracket, it's important that we review the qualities that make it such a powerful tax-free retirement planning tool:

1. **No Penalties Pre-59 ½:** Unlike retirement accounts like 401(k)s or IRAs, there is no 10% penalty if you take money out of your LIRP before you reach age 59 ½.

2. **No 1099s:** The money within your LIRP's accumulation account doesn't get taxed as it grows like a mutual fund or a CD. This alone can save you thousands of dollars in unnecessary taxes over the course of your retirement.

3. **Distributions Are Not Reportable Income:** Remember, if you take money out of your LIRP in the right way, it doesn't show up on the IRS's radar as reportable income. In short, distributions are tax-free! Furthermore, it doesn't count as provisional income which could otherwise cause your Social Security to be taxed.

4. **No Contribution Limits:** Unlike the Roth IRA, the LIRP has no contribution limits. The IRS only stipulates that the amount of your contributions be tied to your death benefit. I have clients that contribute $50 a month to their LIRPs, and I have clients that contribute $200,000 per year, and everywhere in between.

5. **No Income Limits:** The Roth IRA was always intended for main-street America, so if your modified adjusted gross income is greater

than $194,000 you can no longer contribute. No such rules apply to the LIRP. It should come as no surprise to learn that 85% of the CEOs of Fortune 500 companies utilize the LIRP as one of their primary retirement planning tools.

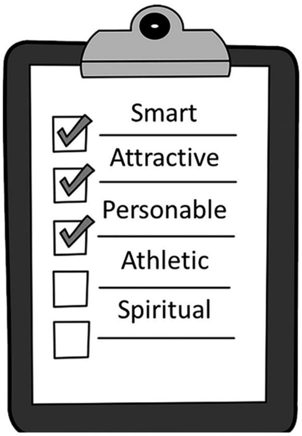
6. **No Legislative Risk:** Though the IRS changed the rules on the LIRP in 1982, 1984, and 1988, every time they did so they made sure that whoever already had the LIRP got to keep it *and* continue to put money into it under the old rules for the rest of their lives. This history of "grandfather clauses" bodes well for the continued protection of LIRPs from the risk of future legislative changes.

To the casual observer, the LIRP seems like the perfect wealth accumulation tool—the proverbial alignment of the stars. You may even be tempted to put *all* of your money into the LIRP. But before you dump your entire life savings into a LIRP, it's important to recognize that the LIRP is not a panacea. It's not a silver bullet. If you're looking for a silver bullet, there are warehouses full of books and countless online advertisements that claim to cure all your retirement ills. The LIRP is simply a tool, one of multiple tax-free alternatives (along with Roth IRAs, Roth 401(k)s, and Roth Conversions) that help contribute to you being in the 0% tax bracket in retirement. That notwithstanding, the LIRP *is* an important part of a sound, tax-free retirement strategy, so it's critical it be understood and properly implemented.

So, You're Getting Married!

While properly structured LIRPs can contribute to your getting into the 0% tax bracket in retirement, not all of them will do so with the same level of efficiency or effectiveness. In fact, I would make the case that choosing the right LIRP is a bit like choosing the right spouse.

Remember back when you were single, in the prime of your youth, and looking for that special someone? You may not want to admit it, but I'd venture to say you probably had a laundry list of qualities you were looking for in a life-long partner. That list may have looked a little like this:



Given the long-term, legally binding nature of marriage, you wanted to be sure that your potential spouse had the right stuff—the qualities that would contribute to a long, happy partnership. Due to the nature of the traits on your list, there's a good chance you didn't propose to your spouse on the first date. In most cases your courtship would have lasted months or even years! One of our Founding Fathers reminded us of the importance of doing our due diligence before taking the plunge:

> *"Keep your eyes wide open before marriage.*
> *Half shut afterward."*
>
> –Benjamin Franklin

In other words, marriage is a long-term proposition with far-reaching implications and you want to make sure you're hitching yourself to the right wagon.

Chances are you know someone who got caught up in a whirlwind romance that led to a hasty marriage to the wrong person. Blinded by love, they failed to look before they leapt. They tied themselves up in a long-term legal commitment without in-depth knowledge of the qualities—good and bad—that the person was bringing into the marriage partnership. It was a bit like watching a train wreck in slow motion, wasn't it? These types of marriages almost always end badly.

A long time ago, I heard a wise man impart some sound courtship advice to a friend. He said, "Before you get married, you need to know everything you possibly can about your future spouse. You have to become a private investigator. Talk to their roommates, talk to their classmates, talk to their teachers, talk to their childhood friends. Get to know their families." If giving that counsel today, he would almost certainly have recommended spending some quality time on Google as well. Why ask all these questions? Why do all this digging? Why be so comprehensive and thorough? Because if your future spouse has skeletons in their closet, it's in your best interest to bring them into the light of day *before* making a decision you may grow to regret.

Just as marriage is a long-term proposition that should not be entered into blindly or haphazardly, so is the LIRP. In short, you must "look before you LIRP!" Some LIRPs, frankly, have stipulations and provisions that you need to know about before you consider signing on the dotted line. In many cases, the untrained eye is unable to tease these qualities out of the pages and pages of legalese that make up these types of contracts. In fact, most people don't come to realize the legal implications of these provisions until years down the road when they're faced with a painful and expensive policy "divorce."

To head all this off at the pass, you have to be able to ask the right questions and look for the right qualities. You have to be a detective. You can't "look before you LIRP" if you don't know exactly what you're looking for. Consider this book your guide. It will help you lay the groundwork for a strong and satisfying LIRP marriage that will stand the test of time.

To aid you in your LIRP "courtship," I've assembled a laundry list of qualities that you should insist upon having before "tying the knot." Keep in mind that when evaluating LIRPs, *good* is the enemy of *best*. When you settle for a *good* LIRP, you do so at the expense of not having the *best* LIRP. To get the *best* LIRP for your tax-free retirement plan, one with which you can happily spend a lifetime, there are a few things you need to check off your list. The most important ones are as follows:

1. **Safe and Productive Growth:** It's not enough for your LIRP to be safe. Remember, savings accounts are safe, but they're a horrible way to fund your retirement. Most of the money you're planning on spending in retirement *hasn't even been earned yet*! We're looking

for a LIRP that can guarantee against market loss while at the same time delivering enough growth to make your retirement dollars last a lifetime.

2. **Low Fees:** Whatever you pay to your life insurance company in fees comes with opportunity cost. Not only do you lose those fees, but you lose what they could have earned for you had you been able to keep them and invest them back into your LIRP. To get the productive growth we talked about in quality #1, it's paramount that your LIRP have low fees.

3. **Tax-Free and Cost-Free Distributions:** By definition, every LIRP allows you to take money out tax-free. But not every LIRP allows you to do so cost-free. In some cases, the expenses for taking money out of your LIRP can end up costing you more than the taxes the LIRP is saving you! To operate at optimal efficiency, the distributions from your LIRP must be both tax-free *and* cost-free.

4. **A Cost-Free Long-Term Care Rider:** A long-term care event is arguably the worst thing that could happen to you in retirement. In fact, you're better off dying than needing long-term care (at least from a financial perspective). So, consequently, *everybody* loves the idea of having long-term care insurance. However, *nobody* loves the idea of paying for something they hope they never have to use. The right LIRP gives you cost-free long-term care protection without the heartburn of being locked into a use-it-or-lose-it proposition.

Now that you have your list, you can start evaluating your LIRP candidates. By way of review, there are essentially three types of LIRPs on the market. The primary distinguishing characteristic of these LIRPs is the manner in which your money grows in the accumulation fund. Those three growth strategies are as follows:

1. **Insurance Company Investment Portfolio**: Your cash value grows within the general investment portfolio of the insurance company. With this option, the insurance company assumes 100% of the

risk. Because insurance companies are conservative by nature, these rates of return tend to be conservative as well.

2. **Stock Market:** You invest your money in mutual fund portfolios called sub-accounts. With this approach, you assume 100% of the risk, and your returns rise and fall with the fluctuations of the stock market.

3. **Index:** Your accumulation account is linked to the upward movement of a stock market index like the S&P 500. You participate in the growth of the index up to a cap, while the insurance company guarantees that you'll never do worse than zero.

To be fair, all three of these options have one or more of the four essential qualities that I've enumerated. All three LIRPs, in fact, *may* help get you into the 0% tax bracket in retirement. But there is only one LIRP that possesses all four of these essential qualities. There is only one LIRP that is *best* equipped to help you enjoy a tax-free retirement: the indexed-based LIRP. In our industry, it's known as Indexed Universal Life (IUL), and it can be a powerhouse in your retirement planning picture.

In Chapters 2 through 5 of this book, I will expound upon each of the four qualities for evaluating a LIRP and show you how each is crucial to a successful LIRP marriage. Then I'll demonstrate how the IUL has been designed and engineered to embody each one of those attributes. I'll also describe the sometimes devastating implications of going without them. In Chapter 6, we'll drill a little deeper and define exactly what you should be looking for in an IUL because, at the end of the day, not all IULs are created equal. Finally, in Chapter 7, I'll take a balanced look at all of the myths surrounding the IUL and help you separate fact from fiction.

So, what do you think? Are you ready to lay the groundwork for the ideal LIRP marriage? Well, turn the page, and let's get started!

Chapter 1: Questions to Consider

1. Why is it important to get to the 0% tax bracket in retirement?
2. What features make the LIRP a powerful retirement tool?
3. In what way is starting a LIRP like getting married?
4. What are the four indispensable qualities of an ideal LIRP marriage?
5. What are the three available growth strategies in LIRP planning?