



THE RETIREMENT PLAN RESCUE STRATEGY

Presentation to:

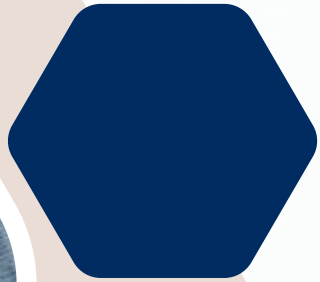


Hypothetical example for planning discussion. Outcomes depend on tax rates, plan type, underwriting, and valuation methodology. All values are estimates based on assumptions. Do not guarantee actual results.



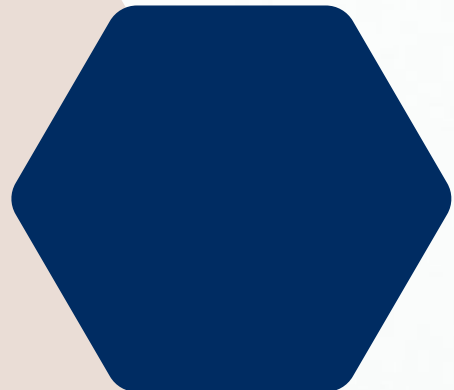


THREE PATHS FOR QUALIFIED PLAN ASSETS IN AN IRA



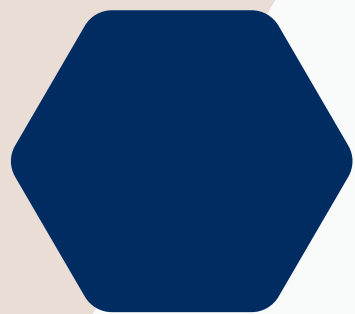
● Traditional “Do Nothing” Approach

- Take RMDs, pay taxes, reinvest after-tax proceed, pay estate and IRD taxes at death



● Roth Conversion

- Convert to Roth IRA, pay taxes upfront, tax-free growth, estate taxes at death



● Retirement Plan Rescue

- Leverage life insurance, significantly reduce double taxation

SPOILER ALERT

\$5M IRA
SECOND DEATH AT AGE 90

Net to Heirs



Who's A CANDIDATE?

For Clients Who...

- ✓ **Have estate tax exposure**
Combined assets exceed estate tax exemption thresholds
- ✓ **Have \$1M+ in qualified retirement assets**
IRA, 401(k), profit-sharing plans, or other qualified plans
- ✓ **Don't need some or all of their plan assets for lifestyle income**
Significant other sources of income to support desired lifestyle
- ✓ **Want to maximize wealth transfer to heirs**
Priority on leaving a lasting financial legacy to family



THE PROBLEM: IRAs FACE DOUBLE TAXATION

Traditional “Do Nothing” Approach:

- Federal and State Income Tax on RMDs During Lifetime
- Estate Tax on Assets Remaining in Plan
- IRD Tax on Assets Remaining in Plan (net of Estate Tax Deduction)
- Estate tax on Reinvested after-tax RMDs

Roth Conversion:

- Federal & state tax on Conversion
- Estate Tax on assets in Roth at Death

THE RETIREMENT PLAN RESCUE STRATEGY

A proven, IRS -compliant* approach to transform
retirement assets into generational wealth

(*when using the Safe -Harbor Rev. Procedure 2005 -25)

Why this strategy WORKS

- Life insurance can be purchased in a Qualified Plan, if the Plan document allows for it.
- IRS allows “Reverse Rollovers” from an IRA into a Qualified Plan if the Plan allows for it.
- Incidental Death Benefit Rules do not apply as funds are considered “Seasoned Money” – (generally two years or more)
- **ERISA’s Prohibited Transactions provides an exception to Life Insurance. Prohibited Transaction Exemption 77-8 later updated by PTE 92-6**
 - permits employee benefit plans to sell individual life insurance or annuity contracts to plan participants, their relatives, employers, or other plans, bypassing ERISA's strict prohibited transaction rules.
- **Policy is later distributed or sold based on FMV**



HISTORY & COMPLIANCE

Pre-2004: Early Implementations

Original "Pension Rescue" strategies utilized springing cash value mechanics, sometimes achieving discounts of more than 80%.

2004: IRS Regulatory Framework

The IRS introduced the concept of Fair Market Value (FMV) requirements to ensure proper valuation of policy transfers.

2005 -Present: Safe Harbor Compliance

Rev Proc 2005-25 established safe harbor formulas for determining FMV:

The Higher of:

- Interpolated Terminal Reserve (ITR)
- PERC Formula: Premiums + Earnings - Reasonable Charges

FMV must be determined at time of policy sale or distribution, typically, in year 3-5 after initial purchase.

CASE STUDY



CLIENT PROFILE

- Location & Ages: California couple, ages 69/67
- Health Status: Very good health, insurable at Preferred Rates
- IRA Assets: \$5,000,000
- Estate Status: Assets significantly exceed lifetime exemption

TAX ENVIRONMENT

- Federal Income Tax Rate: 37.0%
- Combined Fed/CA Income Tax Rate: 50.0%
- Estate Tax Rate: 40.0%
- Exemption Available: None

OTHER ASSUMPTIONS

- Pre-Tax Growth Rate: 6.5%
- Portfolio Mix: 50% Cap Gains (all deferred) /50% Ord. Income
- After-Tax Growth Rate on Income: 4.88%
- Analysis Period: To second death at age 90



THE TRADITIONAL “Do Nothing” APPROACH

LEAVE ASSETS IN IRA, TAKE RMDs,
REINVEST AFTER-TAX PROCEEDS

Starting Point
\$5,000,000 IRA

Begin RMDs at Age 73
Required minimum distributions taxed as income

Reinvest After -tax Proceeds
Taxable account grows until second death

At Second Death (Age 90)
Estate taxes + income taxes on IRA balance*

*Ignoring 10-year stretch IRA option for beneficiaries

TRADITIONAL APPROACH SUMMARY

At Second Death, Assumed Age 90:

Balance in IRA	\$6,716,000
Reinvested in RMDs	\$6,790,000
Estate Taxes	-\$5,402,000
Income Taxes (Net of IRD Deduction)	-\$2,364,000
Net To Heirs	\$5,740,000

2

THE ROTH CONVERSION

CONVERT TO ROTH IRA, PAY TAXES
UPFRONT, GROW INCOME TAX FREE

Starting Point

\$5,000,000 IRA

Convert to Roth IRA

Pay income taxes on conversion from estate assets

Tax-Free Growth

All income and reinvestments grow tax-free

At Second Death (Age 90)

Estate taxes on gross account value

Cost to the Estate (Age 90)

Opportunity cost of taxes on conversion compounded in estate, net of estate taxes at death

ROTH CONVERSION SUMMARY

At Second Death, Assumed Age 90:

Balance in Roth IRA	\$22,666,000
Estate Taxes	-\$9,066,000
Cost to Estate (net of estate tax)	-\$4,701,000
Net To Heirs	\$8,899,000

55% Improvement Over
Traditional “Do Nothing”
Approach

3

RETIREMENT PLAN RESCUE

The SET-UP

Create or Use Existing Profit -Sharing Plan

Establish a profit-sharing plan or KEOGH if one doesn't exist

Roll IRA Assets Into Plan

Transfer IRA assets back into the profit-sharing plan

Purchase Life Insurance Policy

Use plan assets to buy single-premium or 5-pay life insurance policy (individual or joint-life)

Pay 1-Year Term Cost

While policy in plan, Participant pays net amount at risk based on carrier's term cost (or plan issues 1099 and participant pays taxes)

Set-up Flowchart



IRA (\$5,000,000)

Profit Sharing Plan

Life Insurance Policy



Insured/Participant

IRS (Tax on Term Cost)

Participant to pay tax on
1-year term cost
(Table 2001-10 or Carrier's
Term Rates)

3

RETIREMENT PLAN RESCUE

The Roll-Out (Option A)

Create Irrevocable (Grantor) Life Insurance Trust
Establish trust to receive policy outside of taxable estate

Fund the ILIT
Estate transfers assets to the ILIT to acquire the policy. Gift taxes paid if no exemption available

Sell Insurance Policy from the Plan
ILIT purchases the policy from the Plan (PTE 77-8) at the FMV: PERC or ITR (or independent appraisal).

Policy Owned by ILIT
Death benefit outside of taxable estate. No Transfer for Value issue.

THE ROLLOUT (Option A)

In year 3 or 5 of the policy:



3

RETIREMENT PLAN RESCUE

The Roll-Out (Option B)

Create Irrevocable (Grantor) Life Insurance Trust (ILIT)
Establish trust to receive policy outside of taxable estate

Distribute Policy to Participant
Plan distributes the Policy to the participant under PTE 77-8 at the FMV: PERC or ITR (or an independent appraisal)

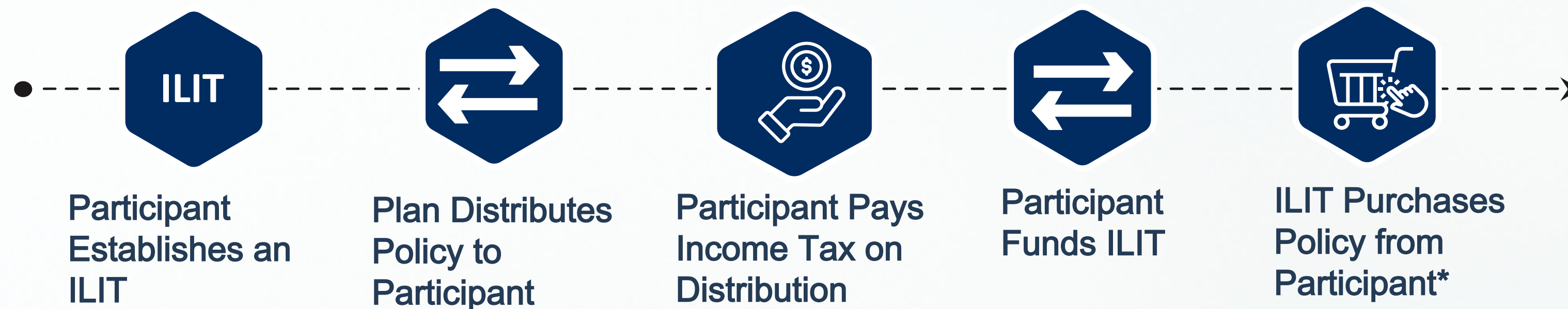
Pay Income Taxes on Distribution
Estate pays Income Tax on the FMV in Year following the distribution

Fund the ILIT
Participant gifts the ILIT with cash for full FMV or a downpayment

ILIT Purchases the Policy
ILIT to purchase the policy with cash for full FMV or downpayment plus note

THE ROLLOUT (OPTION B)

After 3-5 years in the plan, transfer policy to ILIT:



*This could also be structured as a gift to the ILIT from the Participant if there is available Gift Tax exemption. However, the gift would now be subject to the 3-year rule and if Participant passes in those 3 years, policy will be pulled back into the estate.

RETIREMENT PLAN RESCUE SUMMARY

(Option A)

At Second Death, Assumed Age 90:

Funds in ILIT	\$19,794,000
Profit-Sharing Plan Balance	\$3,720,000
Reinvested RMDs	\$3,757,000
Estate Tax	-\$2,991,000
Income Tax (net of IRD deduction)	-\$1,309,000
Opportunity Cost to Estate, Net of Estate Taxes	-\$7,516,000
Net To Heirs	\$15,455,000

169% greater than the traditional “do nothing” approach

SIDE-BY-SIDE COMPARISON

At Second Death, Assumed Age 90

	Traditional	Roth Conversion	Retirement Plan Rescue
ILIT	\$0	\$0	\$19,794,000
IRA/Plan/Roth IRA	\$6,716,000	\$22,666,000	\$3,720,000
Reinvested RMDs	\$6,790,000	\$0	\$3,757,000
Estate Taxes	-\$5,402,000	-\$9,066,000	-\$2,991,000
IRD Tax	-\$2,364,000	\$0	-\$1,309,000
Cost to Estate (net)*	\$0	-\$4,701,000	-\$7,516,000
Net to Heirs	\$5,740,000	\$8,672,000	\$15,533,000

*The opportunity cost to estate accounts for income taxes (Roth conversion) or gifts to the ILIT and gift taxes, net of estate tax savings.



Spreadsheets Time

ADDRESSING COMMON CLIENT CONCERNS

What if I need the IRA money for income?

This strategy is specifically designed for clients with significant other income sources. It's ideal when retirement assets aren't needed for lifestyle and can be optimized for wealth transfer instead.

Why doesn't everyone with an IRA in a taxable estate do this?

Great question, whoever asked it! First, it could be for one of the candidate “filtering” reasons: needs the funds for retirement or doesn't wish to maximize wealth transfer. Second, the strategy has complexity: Newco, PSP, Life Insurance, attorneys.

This sounds too good to be true. Is it legal?

Absolutely. This is an IRS-compliant strategy that's been in use since 2005, following Rev Proc 2005-25 guidelines. It leverages existing tax law provisions in a compliant, sophisticated manner.

What if tax laws change?

While future tax policy is unpredictable, this strategy positions assets in the most tax-advantaged vehicles available today. Historically, any changes to life insurance regulations have always “grandfathered” existing plans into pre-amendment rules.

NEXT STEPS



- **Review Detailed Financial Projections**

Examine comprehensive spreadsheets customized to each specific situation

- **Obtain Life Insurance Illustrations**

Get actual quotes based on current health and age for precise planning

- **Coordinate With Advisors**

Review strategy with CPA, tax counsel and client for their specific situation

- **Begin Implementation**

Launch the 90-120-day setup process

THANK YOU

Richard Myerson

CPA, CLU, ChFC

Managing Principal

Framework Insurance & Financial Solutions, LLC



richard@framework.llc



Office: (424) 363 -0301
Mobile: (818) 430 -0100



www.framework.llc

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26 W. Dry Creek Circle, Suite 800, Littleton, CO 8012

