

Year End Retirement Planning

Americans aren't doing enough to save for retirement. In fact, according to the Employee Benefit Research Institute, 55% of American workers are behind schedule in saving for retirement. Here are two possible ways to help clients address this problem.

First is the year-end bonus option. Universal life and Variable universal life (VUL) can supplement education and retirement savings programs. UL and VUL both provide an opportunity for long term cash value accumulation. "Overfunding" a contract with a year end bonus can help provide for the long term accumulation of cash value which can be used for any long term objective. An advantage of this approach is the absence of the 10% excise tax on early withdrawals (as with qualified plans) and the ability to leverage withdrawals and loans to maximize distributions. Additionally, the death benefit can provide retirement, pre-retirement, and college funding for the family in the event of death. Furthermore, the accelerated benefits option can provide for tax-free distribution in the event of a terminal illness.

Next is the no bonus, bad year option. A Roth IRA Conversion may be in order because Roths can create tax-free accumulations at retirement or even used to pass funds to heirs in an estate plan. Although the converted amount is income taxable in the year of conversion, having future tax free withdrawals may be in the client's best interest, particularly if they stand to inherit money or have other appreciated assets. This is a "bad year" option because of Roth's strict income eligibility limits.