MDRT
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MDRT Minute

Tax Deferral is not Enough — The Absolute Way to Top of the Table

Many of us save for retirement in tax-deferred investment vehicles like 401(k)s, IRAs, SEP IRAs and Simple plans — and our retirement accounts look like a beautiful pie. What we fail to realize is that taxes eat up a lot of that pie. We love tax deferral because it looks like we have accumulated more money. But we haven't accounted for taxes yet.

Tax deferral is not enough for three big, absolute reasons:

1. Tax-deferred is tax-compounded.
2. As we age, we lose tax deductions.
3. We almost all believe future tax rates will be higher, not lower.

So, how do you approach these problems?

Roth conversion
In a Roth IRA, you never have to make another required minimum distribution. In a traditional IRA or 401(k), you have to pull money out after you are age 70 1/2. In a Roth IRA, you do not. The money you pull out is taxed as income on the withdrawal and then taxed every year you live in a taxable account. And, of course, the Roth IRA tax-free growth stretches to your kids and their kids without any income tax bill due. So, if you compound this out over three generations, you're really talking about a lot of money. When consulting with your clients, you can simplify their decisions by reviewing the absolute reasons tax deferral is not enough.

OUR Plan – cash value life insurance
Optimized Universal life insurance supplemental Retirement plan is a maximum-funded, minimal death benefit supplemental retirement plan. You can grow the money tax-free, pull it out tax-free and, when you die, the death benefits transfer to your heirs' income tax-free. An OUR plan is very similar to the Roth IRA with the tax benefits, and in some ways the OUR plan is better. Of course, in other ways there are restrictions, costs and fees. Add up these costs and ask yourself, is this equal to the income tax? If we maximum fund a policy and minimize the death benefit, the costs for an average 50-year-old male are in the 2 percent range over a 20-year period. Now where, might I ask, is the 2 percent tax rate?

The average length of retirement is 30 years, and over that long a period of time, every year we live, everything we buy gets more and more expensive. The asset class that has delivered the highest average total return is equities, and we must invest more here than we are comfortable. Our job is to comfort our clients on the journey. Start by explaining why tax deferral is not enough.

__Karl Fredrick Frank, CFP, MBA,__ is a six-year MDRT member with six Top of the Table qualifications. He has spoken to thousands of people for many years and won awards for public speaking, appearing regularly both on television and in print media. Frank is the incoming president of the Colorado Financial Planning Association and the founding leader of the nonprofit Denver Financial Planning Day. He earned a CFP, MFS and MBA, but started his education with a master's degree in English. According to Frank, his innate respect for the power of stories and language permeates all of the work he does. Purchase his entire presentation, "The Absolute Way to Top of the Table," at http://www.mdrtstore.org/.