



Lafayette Life
Insurance Company

A member of Western & Southern Financial Group

ADVANCED MARKETS | ESTATE PLANNING

CAPITAL PRESERVATION STRATEGIES



MAKING EVERY DOLLAR COUNT

*Pass more dollars to your children and grandchildren,
lose fewer dollars to taxation*



MAKE EVERY DOLLAR COUNT

Choose a Capital Preservation Strategy to help ...

- Maximize the value of assets you earmark for the next generation.
- Minimize the effects of taxation.



PRESERVE YOUR LEGACY

The choices you make today will determine your legacy to those you care about. With careful planning and Capital Preservation, you can help ensure that you make every dollar count for you and your beneficiaries.

This strategy refers to transferring capital from one asset to another, letting you replace a “negative tax consequence” asset with an asset that provides a favorable after-tax result.

Taxes can dramatically shrink your legacy. But Capital Preservation can help stop the drain on your assets.

THE RETIREMENT PLAN TAX DILEMMA

Traditional IRAs and qualified retirement plans — 401(k)s, profit sharing plans, etc. — are efficient accumulation vehicles. Untaxed dollars are used to fund the plan, and income taxes are deferred as long as the funds remain in the plan.

At death, these retirement plan accumulations may be subject to income tax. If you die with money in such a plan, income tax may be levied when funds are distributed to beneficiaries.

RMDs: ANOTHER GOVERNMENT MANDATE

But that's not all. After you reach age 70½, annual distributions must also be taken from traditional IRAs and most qualified retirement plans. So, whether you actually need the money or not, the IRS requires that you take part of the account each year anyway. It's called RMD — a *required minimum distribution*.

The Dilemma

You don't need the money... but you must take the distribution that is specified by the IRS and pay current income taxes on it. If you don't take the distribution... you will pay a 50 percent tax penalty. There is a way to use the required minimum distribution to help maximize the inheritance you leave to beneficiaries.

One solution could be to place your retirement dollars in one of the most tax-efficient vehicles for transferring property to beneficiaries — a life insurance policy. By using the distribution you're required to take to purchase life insurance that benefits your designated beneficiaries, you can help maximize your legacy.

REQUIRED MINIMUM DISTRIBUTIONS (RMD)

- This requirement mandates that you take a specified annual distribution after you reach age 70½.
- Failure to take the required distribution — whether you need the income or not — means you will be taxed again, including a 50 percent penalty tax levied on any amount you were required to withdraw but did not.

Properly designed and funded, life insurance generally passes tax-free to beneficiaries — helping to preserve the legacy you intended for them to enjoy.



CAPITAL PRESERVATION IN ACTION

IT WORKS FOR ALICE AND HER DAUGHTER, SAMANTHA

Alice is a 70-year-old widow who can live comfortably on her late husband’s pension for her lifetime. Alice has an IRA valued at \$290,000. She doesn’t want or need the income her IRA generates. Alice plans to leave the IRA to Samantha, her only child.

Suppose Alice dies today when her IRA is worth \$290,000. Assume no transfer taxes are due, and Samantha’s combined federal and state tax bracket is 33 percent. Income taxes of \$95,700 are due on the IRA, leaving just \$194,300 for Samantha. This is assuming that the entire IRA is distributed to Samantha. Other options may be available to minimize the effect of income taxes on Alice’s IRA at her death.

Capital Preservation Increases the Legacy

On the other hand, if Alice withdraws the balance in the IRA¹ today and pays the taxes, she can use the \$194,300 to buy a life insurance policy payable to Samantha.



This amount buys a lifetime guaranteed death benefit of \$303,155²—giving Samantha significantly more than if the money were left in the IRA and taxed when Alice dies.

ENHANCE THE LEGACY	
Current Plan	
IRA Value	\$290,000
less 33% tax	- 95,700
Legacy:	\$194,300
Capital Preservation	
Life Insurance Premium	\$194,300
Legacy:	\$303,155

HYPOTHETICAL EXAMPLE

USING CAPITAL PRESERVATION WITH OTHER ASSETS

The same Capital Preservation principles apply to other assets such as mutual funds, savings accounts, stocks, bonds and others. Assets purchased with after-tax dollars are subject to current income tax and possibly capital gain taxes. However, when these assets are utilized to purchase a life insurance policy, you have an opportunity to increase your legacy and avoid current taxation.

1 Some assets if liquidated prior to 59½ may incur additional penalties in addition to any surrender charge that may apply.
2 Based on standard non-tobacco rating for 70 year-old female, Lafayette Life Liberty 15 Single Premium Whole Life policy. Rates as of 9/01/2017. Loans and/or withdrawals will reduce the death benefit amount if not repaid.

CAPITAL PRESERVATION IN ACTION

AN ALTERNATIVE STRATEGY

Some people like the Capital Preservation concept but they don't want to withdraw all of their funds from a qualified plan. Once again, Capital Preservation offers an attractive alternative: use the required minimum distributions to make periodic premium payments on a life insurance policy and accomplish the same goals.



IT WORKS FOR WARREN AND BARBARA AND THEIR GRANDSON

Warren, age 71, and his wife, Barbara, have a single heir, their grandson, Tyler. Warren does not want to cash in his IRA, but other assets and Social Security provide Barbara and him with enough income to live on for life. The IRA is valued today at \$450,000. Warren wants to use the annual required minimum distribution (RMD) to make periodic premium payments on a life insurance policy that names Tyler as the beneficiary.

At Warren's current age, his required annual minimum distribution is \$16,981. Warren pays taxes of \$2,547 on this amount, leaving \$14,433 available to pay an annual premium into a lifetime guaranteed policy providing him a guaranteed death benefit of \$223,771.³ This death benefit⁴ will be paid to Tyler when Warren dies, with no income tax consequences. At Warren's Death the IRA must distribute Warren's final RMD to Tyler. Tyler then must receive (at a minimum) RMDs over his life expectancy starting no later than December 31 following the year of Warren's death. Please note that all IRA distributions will be taxable to Tyler.⁵

It's a win-win-win proposition. Warren keeps his IRA in place. Tyler is the beneficiary of an income tax-free life insurance policy. And Warren is assured that, when he dies, Tyler will inherit not only the balance of his IRA, but a sizable life insurance policy benefit as well.

³ Based on preferred non-tobacco rating for 71 year old male, Lafayette Life Heritage whole life policy. Assumes federal income tax rate of 15%. Rates as of 09/01/2017.

⁴ Loans and withdrawals will reduce the death benefit if not repaid.

⁵ There may be tax consequences on the inheritance of the IRA. For specific tax information, consult your attorney or accountant.



IS CAPITAL PRESERVATION FOR EVERYONE?

THE CAPITAL PRESERVATION STRATEGY WORKS BEST FOR PEOPLE WHO:

- Have reached retirement age.
- Live comfortably on other retirement income.
- Do not need additional income.
- Have designated certain assets for family members or a charity.

WILL CAPITAL PRESERVATION WORK FOR YOU?

If you're looking for a way to help meet your financial goals and realize your intended legacy, consider the Capital Preservation Strategy. It's a simple way to help maximize assets for beneficiaries, minimize current income taxes, and/or use required minimum distributions to add to your beneficiaries' inheritance. For specific tax information, consult your attorney or accountant.

It's important to work closely with your financial professional. Contact your agent to find out how this strategy may help you leverage your assets for the next generation.

THE LAFAYETTE LIFE INSURANCE COMPANY

With more than 100 years of service to policyholders, The Lafayette Life Insurance Company is a financially strong provider of individual life insurance, annuities, and retirement and pension products and services.

Lafayette Life is a member of Western & Southern Financial Group, Inc., a family of financial services companies whose heritage dates back to 1888. With the strength of our organization, and our ongoing commitment to servicing you, your business and your family, The Lafayette Life Insurance Company is a company you can depend on. Find out more about our financial strength and distinguished history at www.LafayetteLife.com.



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