



Baystate Financial Planning

HDaroff@BaystateFinancialPlanning.com

www.BaystateFinancialPlanning.com

RETIREMENT PLANNING

Why Defer?

Retirement Planning Alternatives

	Current Deduction for Corporation	Not Deductible to Corporation
Currently Taxed to Employee	Compensation and Bonus	Dividends
Not Currently Taxed to Employee	Qualified Retirement Plans	Non-Qualified Deferred Compensation

How about Current Deduction for Corporation,
Not Currently Taxed to the Employee, AND
Not Taxed when Benefits are Paid -- LTC

Qualified Retirement Plans -- Summary

	2001	2002	2003	2004	2005	2006	2007
Compensation	\$170,000	\$200,000	\$200,000	\$205,000	\$210,000	\$220,000	\$225,000
Defined Benefit	\$140,000	\$160,000	\$160,000	\$165,000	\$170,000	\$175,000	\$180,000
Defined Contribution	\$ 35,000	\$ 40,000	\$ 40,000	\$ 41,000	\$ 42,000	\$ 44,000	\$ 45,000
Profit Sharing	15%	25%	25%	100%	100%	100%	100%
Money Purchase*	10%	15%	15%				
401(k) / 403(b)	\$ 10,500	\$ 11,000	\$ 12,000	\$ 13,000	\$ 14,000	\$ 15,000	\$ 15,500
Plus Age 50+		1,000	2,000	3,000	4,000	5,000	5,000
Simple	\$ 6,500	\$ 7,000	\$ 8,000	\$ 9,000	\$ 10,000	\$ 10,000	\$ 10,500
Plus Age 50+		500	1,000	1,500	2,000	2,500	2,500
IRA	\$ 2,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 4,000	\$ 4,000	\$ 4,000
Plus Age 50+		500	500	500	500	1,000	1,000

* The full 25% of compensation funding limit in 2001 or 40% in 2002 and 2003 could be funded through the Money Purchase plan. It has been customary, for greater flexibility, to fund the maximum available through the profit sharing plan and only the balance through the Money Purchase plan.

In 2007, 25% profit sharing will be sufficient to fund the full \$45,000 at \$180,000 of income.



Life Insurance in Qualified Plans

Tax Deductible Buy/Sell Agreements

Profit Sharing:

The participant can insure anyone with whom they have an insurable interest.

- the participant
- spouse
- survivorship
- business partner

Defined Benefit:

Insurance must be on the life of the participant. Use for “indirect” funding (employee benefits) to reduce the “direct” buy/sell funding.

Life Insurance in Defined Benefit

Contribution For:	Owners I & II Total Contributions	Total Plan Contributions	%
A) Retirement Benefit Only No Life Insurance	\$215,400	\$293,800	73.32
B) Retirement Benefit and Life Insurance of 100 x Monthly Benefit \$1,333,300 on Owners I & II	\$226,800	\$312,400	72.60
Increase between A) and B) Income Tax Deductible @ 40%	\$11,400 \$6,840	\$18,400 \$11,040	
C) Retirement Benefit and Life Insurance \$1,900,000 on Owner I <u>\$2,400,000 on Owner II</u> \$4,300,000 (Rev.Rul.74-307)	\$230,200	\$316,400	72.76
Effective Cost of Additional \$1,633,400 of Life Insurance Increase between A) and C) Income Tax Deductible @ 40%	\$3,400 \$2,040	\$4,000 \$2,400	

Life Insurance in Qualified Plans

Defined Benefit

Instead of Plan Contributions, if Owners received compensation:

\$312,400	Taxable Income
<u>(124,960)</u>	TAX (40%)
\$187,440	NET

Instead, with Plan Contribution of \$312,400:

\$226,800	Contribution for Owners
\$ 39,360	<u>NO COST</u> -- <u>GAIN!</u>

Retirement Income

Qualified vs. Non-Qualified

Defined Contribution and/or Defined Benefit

What are the tax consequences during

CONTRIBUTION

ACCUMULATION

DISTRIBUTION

Qualified:

Tax deductible contributions. Tax-deferred Accumulation. Ordinary income distributions.

Non-Qualified:

After-tax dollars accumulated with current taxes (unless “cash value” and taxable when received, or sooner, or not at all).

QUALIFIED vs. NON-QUALIFIED



Deferral Elections:	Change during the year	Election made before beginning of calendar year (may not change during the year)
Loans:	Permitted	NOT ALLOWED
Distribution Date and Form of Payment:	Made at time of distribution	Made at time of deferral
Account Balance:	Funds allocated in the plan trust	“hypothetical” UNFUNDED
Access by Corporate Creditors:	NO	YES (general assets on the books)

The Choice is Yours

Contribution Accumulation	Before Tax Tax-Deferred	After Tax Tax-Deferred	After Tax Tax-Deferred	After Tax Taxable
AGE	\$ 9,000 at 9%	\$ 6,000 at 9%	\$ 6,000 at 9%	\$ 6,000 at 6%
50	\$ 9,810	\$ 6,540	\$ 6,540	\$ 6,360
51	20,503	13,669	13,669	13,102
52	32,158	21,439	21,439	20,248
53	44,862	29,980	29,980	27,823
54	58,710	39,140	39,140	35,852
55	73,804	49,203	49,203	44,363
56	90,256	60,171	60,171	53,385
57	108,189	72,126	72,126	62,948
58	127,763	85,158	85,158	73,085
59	149,043	99,362	99,362	83,830
NET	\$ 99,362	\$91,490	\$99,362	\$83,830

Distribution

Taxable

Cap. Gains

**Tax-free
plus ins. cost**

Tax-Free

Setting Aside Dollars for the Future

There are three periods of time to consider:

- **Contribution** -- pre-tax dollars; or
after-tax dollars;
- **Accumulation** -- growing with current taxes; or
tax-deferred; and
- **Distribution** -- subject to ordinary income taxes;
capital gains; or
tax-free

NET After Tax Results

If tax brackets remain the same during the three periods,
(as the following slide demonstrates) then:

Pre-Tax dollars accumulating Tax-Deferred,
but, distributed subject to ordinary income taxes
(e.g., qualified retirement plans)

results in exactly the same NET value as:

After-Tax dollars accumulating Tax-Deferred,
and accessible free of income taxes (e.g., Roth IRA,
Roth 401(k), 529 plans, and cash value of life insurance)

ROTH LOOK ALIKE PLANS

Tax Deferred Growth*

Plan	Profit Sharing Plan	Roth IRA "if you could"	C-Corp Cash Value Life Insurance
Contribution	\$9,000	\$6,000	\$7,200
Net After Tax Return	9%	9%	9%
Year 1	\$9,810	\$6,540	\$7,848
2	\$20,503	\$13,669	\$16,402
3	\$32,158	\$21,439	\$25,727
4	\$44,862	\$29,908	\$35,890
5	\$58,710	\$39,140	\$46,968
6	\$73,804	\$49,203	\$59,043
7	\$90,256	\$60,171	\$72,205
8	\$108,189	\$72,126	\$86,551
9	\$127,736	\$85,158	\$102,189
10	\$149,043	\$99,362	\$119,234
Gross	\$149,043	\$99,362	\$119,234
Tax 33.33%	\$49,681	\$0	\$0
NET	\$99,362	\$99,362	\$119,234

* plus cost of life insurance -- to "self-complete" the benefit

What if tax brackets are **NOT** the same?

In the last 100 years, the top marginal income tax bracket has only been lower than the current top bracket of 35% **TWICE**

1986 top bracket was 28%

1929 top bracket was 25%

What if the tax bracket at Distribution is 50%, then (as the following slide demonstrates)

- After-Tax dollars accumulating Tax-Deferred and Distributed Tax-Free produces a **HIGHER** result than
- Pre-Tax Dollars accumulating Tax-Deferred and Distributed subject to ordinary income taxes

Tax Deferred Growth*

Plan	Profit Sharing Plan	Roth IRA "if you could"	C-Corp Cash Value Life Insurance
Contribution	\$9,000	\$6,000	\$7,200
Net After Tax Return	9%	9%	9%
Year 1	\$9,810	\$6,540	\$7,848
2	\$20,503	\$13,669	\$16,402
3	\$32,158	\$21,439	\$25,727
4	\$44,862	\$29,908	\$35,890
5	\$58,710	\$39,140	\$46,968
6	\$73,804	\$49,203	\$59,043
7	\$90,256	\$60,171	\$72,205
8	\$108,189	\$72,126	\$86,551
9	\$127,736	\$85,158	\$102,189
10	\$149,043	\$99,362	\$119,234
Gross	\$149,043	\$99,362	\$119,234
Tax 50%	\$74,521	\$0	\$0
NET	\$74,521	\$99,362	\$119,234

* plus cost of life insurance -- to "self-complete" the benefit

Ledger using Enterprise Executive Advantage

Variable Universal Life Insurance Illustration

Prepared for the Company

Martha Washington, Female Preferred Non Smoker, Age 47

Initial Face Amount: \$2,029,341

Adjustable Term: \$0

Initial Annual Premium: \$103,810.00

Death Benefit: Face + Cash Value

Initial Underwriting: Fully Underwritten

Corporation Tax Bracket: 40%

Loan Interest Rate: 4.75% in arrears

Hypothetical Rate: 7.29%(Net) 8.00%(Gross)

Cost of Money: 0% Discount Rate: 0%

Definition of Life Ins.: Guideline

Standard Illustration Using Current Charges assuming Arithmetic Average

Policy Year	Age Beg of Year	Total Policy Premium	Partial Surrender & Withdrawals from Ins. Contract	Annual Loan	Loan Interest	After-Tax Insurance Outlay	Net Cash Surrender Value	Cash Value	Net Death Benefit After Loans
1	47	103,810	0	0	0	103,810	105,635	97,531	2,126,872
2	48	103,810	0	0	0	103,810	209,712	201,407	2,230,748
3	49	103,810	0	0	0	103,810	311,973	311,973	2,341,314
4	50	103,810	0	0	0	103,810	421,641	421,641	2,450,982
5	51	103,810	0	0	0	103,810	537,996	537,996	2,567,337
		519,050	0	0	0	519,050			
6	52	103,810	0	0	0	103,810	662,243	662,243	2,691,584
7	53	103,810	0	0	0	103,810	795,530	795,530	2,824,871
8	54	103,810	0	0	0	103,810	944,512	944,512	2,973,853
9	55	103,810	0	0	0	103,810	1,105,024	1,105,024	3,134,365
10	56	103,810	0	0	0	103,810	1,278,383	1,278,383	3,307,724
		1,038,100	0	0	0	1,038,100			
11	57	0	146,953	0	0	-146,953	1,201,026	1,201,026	3,160,771
12	58	0	146,953	0	0	-146,953	1,118,185	1,118,185	3,013,818
13	59	0	146,953	0	0	-146,953	1,029,658	1,029,658	2,866,865
14	60	0	146,953	0	0	-146,953	935,042	935,042	2,719,912
15	61	0	146,953	0	0	-146,953	833,870	833,870	2,572,959
		1,038,100	734,765	0	0	303,335			
16	62	0	146,953	0	0	-146,953	727,398	727,398	2,426,006
17	63	0	146,953	0	0	-146,953	613,361	613,361	2,279,053
18	64	0	9,429	137,524	0	-146,953	490,229	634,286	2,125,567
19	65	0	0	153,485	6,532	-146,953	357,110	661,942	1,964,791
20	66	0	0	160,776	13,823	-146,953	213,104	686,349	1,796,378
		1,038,100	1,038,100	451,785	20,355	-431,430			
21	67	0	0	21,460	21,460	0	219,807	715,531	1,773,899
22	68	0	0	22,479	22,479	0	226,710	745,961	1,750,352
23	69	0	0	23,547	23,547	0	233,740	777,676	1,725,667
24	70	0	0	24,665	24,665	0	240,809	810,583	1,699,850
25	71	0	0	25,837	25,837	0	247,962	844,800	1,672,786
		1,038,100	1,038,100	569,774	138,344	-431,430			
26	72	0	0	27,064	27,064	0	254,812	880,000	1,644,436
27	73	0	0	28,350	28,350	0	261,186	916,070	1,614,739
28	74	0	0	29,696	29,696	0	267,011	953,002	1,583,632
29	75	0	0	31,107	31,107	0	272,455	991,031	1,551,048
30	76	0	0	32,585	32,585	0	277,704	1,030,412	1,516,916
		1,038,100	1,038,100	718,576	287,146	-431,430			
31	77	0	0	34,132	34,132	0	282,642	1,071,103	1,481,162
32	78	0	0	35,754	35,754	0	286,971	1,112,884	1,443,710
33	79	0	0	37,452	37,452	0	290,385	1,156,530	1,404,479
34	80	0	0	39,231	39,231	0	292,738	1,198,977	1,363,365
35	81	0	0	41,094	41,094	0	293,767	1,243,052	1,320,338
		1,038,100	1,038,100	906,239	474,809	-431,430			

The hypothetical rate of return is illustrative only to show how the performance of the underlying investment accounts would affect the policy cash value and death benefit and should not be deemed a representation of past or future investment rates of return.

The values are based on a hypothetical rate of return and an average of the advisory fees and operating expenses of each of the investment accounts underlying New England Life Insurance Company's Variable Life Insurance policies. The average reflects fee waiver and expense reimbursement arrangements that may be voluntary and of limited duration. Without these benefits, results would be less favorable. The average for expenses used in the illustration is 0.66%. This illustration does not show policy values allocated to the Fixed Account.

THIS REPORT IS NOT VALID UNLESS ACCOMPANIED BY ALL PAGES. PLEASE SEE ILLUSTRATION NOTES FOR IMPORTANT INFORMATION.

C:\Program Files\ProMicro\Overture\Cases\Washington#1GP

W09.25.00 03/15/2007 12:36:00 PM

Ledger using Enterprise Executive Advantage

Variable Universal Life Insurance Illustration

Prepared for the Company
 Dolly Madison, Female Preferred Non Smoker, Age 37
 Initial Face Amount: \$2,747,768
 Adjustable Term: \$0
 Initial Annual Premium: \$101,536.00
 Death Benefit: Face + Cash Value
 Initial Underwriting: Fully Underwritten

Corporation Tax Bracket: 40%
 Loan Interest Rate: 4.75% in arrears
 Hypothetical Rate: 7.29%(Net) 8.00%(Gross)
 Cost of Money: 0% Discount Rate: 0%
 Definition of Life Ins.: Guideline

Standard Illustration Using Current Charges assuming Arithmetic Average

Policy Year	Age Beg of Year	Total Policy Premium	Partial Surrender & Withdrawals from Ins. Contract	Annual Loan	Loan Interest	After-Tax Insurance Outlay	Net Cash Surrender Value	Cash Value	Net Death Benefit After Loans
1	37	101,536	0	0	0	101,536	103,544	95,421	2,643,169
2	38	101,536	0	0	0	101,536	205,449	197,326	2,945,094
3	39	101,536	0	0	0	101,536	305,864	305,864	3,053,632
4	40	101,536	0	0	0	101,536	416,087	416,087	3,163,855
5	41	101,536	0	0	0	101,536	532,838	532,838	3,280,606
		507,680	0	0	0	507,680			
6	42	101,536	0	0	0	101,536	656,512	656,512	3,404,280
7	43	101,536	0	0	0	101,536	787,586	787,586	3,535,354
8	44	101,536	0	0	0	101,536	931,919	931,919	3,679,687
9	45	101,536	0	0	0	101,536	1,088,323	1,088,323	3,836,091
10	46	101,536	0	0	0	101,536	1,259,821	1,259,821	4,007,569
		1,015,360	0	0	0	1,015,360			
11	47	0	151,515	0	0	-151,515	1,178,219	1,178,219	3,856,074
12	48	0	151,515	0	0	-151,515	1,091,070	1,091,070	3,704,559
13	49	0	151,515	0	0	-151,515	998,062	998,062	3,553,044
14	50	0	151,515	0	0	-151,515	898,795	898,795	3,401,529
15	51	0	151,515	0	0	-151,515	792,817	792,817	3,250,014
		1,015,360	757,575	0	0	257,785			
16	52	0	151,515	0	0	-151,515	681,440	681,440	3,098,499
17	53	0	106,270	45,245	0	-151,515	561,986	609,380	2,944,835
18	54	0	0	153,664	2,149	-151,515	433,029	641,367	2,783,871
19	55	0	0	160,963	9,448	-151,515	293,791	670,757	2,615,262
20	56	0	0	168,609	17,094	-151,515	143,497	697,081	2,438,645
		1,015,360	1,015,360	528,481	28,691	-499,790			
21	57	0	0	25,103	25,103	0	148,618	728,498	2,412,349
22	58	0	0	26,295	26,295	0	153,769	761,193	2,384,805
23	59	0	0	27,544	27,544	0	158,917	795,194	2,355,952
24	60	0	0	28,853	28,853	0	164,111	830,611	2,325,729
25	61	0	0	30,223	30,223	0	169,380	867,539	2,294,071
		1,015,360	1,015,360	666,499	166,709	-499,790			
26	62	0	0	31,659	31,659	0	174,744	906,065	2,260,908
27	63	0	0	33,163	33,163	0	180,053	946,112	2,226,170
28	64	0	0	34,738	34,738	0	185,284	987,731	2,189,782
29	65	0	0	36,388	36,388	0	190,324	1,030,886	2,151,666
30	66	0	0	38,116	38,116	0	195,028	1,075,517	2,111,740
		1,015,360	1,015,360	840,562	340,772	-499,790			
31	67	0	0	39,927	39,927	0	199,356	1,121,669	2,069,916
32	68	0	0	41,823	41,823	0	203,395	1,169,518	2,025,107
33	69	0	0	43,810	43,810	0	207,087	1,219,100	1,980,216
34	70	0	0	45,891	45,891	0	210,376	1,270,459	1,932,145
35	71	0	0	48,071	48,071	0	213,162	1,323,600	1,881,791
		1,015,360	1,015,360	1,060,084	560,294	-499,790			

The hypothetical rate of return is illustrative only to show how the performance of the underlying investment accounts would affect the policy cash value and death benefit and should not be deemed a representation of past or future investment rates of return.

The values are based on a hypothetical rate of return and an average of the advisory fees and operating expenses of each of the investment accounts underlying New England Life Insurance Company's Variable Life Insurance policies. The average reflects fee waiver and expense reimbursement arrangements that may be voluntary and of limited duration. Without these benefits, results would be less favorable. The average for expenses used in the illustration is 0.66%. This illustration does not show policy values allocated to the Fixed Account.


THIS REPORT IS NOT VALID UNLESS ACCOMPANIED BY ALL PAGES. PLEASE SEE ILLUSTRATION NOTES FOR IMPORTANT INFORMATION.

C:\Program Files\ProMicro\Overture\Cases\Washington#2GP

V09.23.00 03/15/2007 5:08:30 PM

COLI

1. Proceeds from corporate owned life insurance on the life of its employees is NOT received tax-free (it is taxed as ordinary income) UNLESS:
 - a. The employee receives WRITTEN notice of the insurance;
 - b. The employee gives WRITTEN consent;
 - c. The employee is informed IN WRITING that the employer will receive the death benefit;
 - d. EITHER
 - 1) the insured was an employee within 12 months of the death; OR
 - 2) the insured was either a director OR highly compensated employee OR owner of at least 5% of the stock; OR
 - 3) the death benefits are paid directly or indirectly to the insured's immediate family, trust, or estate



The contents of this presentation are intended for education purposes only.

The presentation provides a brief summary based on our understanding and interpretation of current law.

All tax references are to federal tax law only, unless otherwise stated.

This presentation includes changes made by the 2001 Tax Act.

All these changes are to expire at the end of 2010.

Pursuant to IRS Circular 230:

The information contained in this material is not intended to, and cannot be used to, avoid IRS penalties.

This material supports the marketing and promotion of life insurance.

Seek advice based on your particular circumstances from independent tax, legal, accounting, insurance, investment, and financial advisors.

Individuals, including business owners, should not apply any of these concepts without coordinating with attorneys, accountants, life insurance agents, investment advisors, financial planners, etc.

Consult with your professional tax advisor about your personal situation before making any decisions.

This is not intended to provide tax or legal advice.

Advisors should not apply any of these concepts to their clients without:

- (1) establishing a mutually agreed upon scope of their engagement;
- (2) gathering necessary and sufficient objective and subjective data given the client's goals, needs, and priorities; and
- (3) evaluating that data and determining alternative strategies consistent with the mutually agreed upon scope of the engagement and the data collected.

**Herbert K. Daroff, J.D., CFP® is a Registered Investment Advisor in Massachusetts
doing business as BAYSTATE FINANCIAL PLANNING.**