

The Roth Alternative

Problem:

You have high-income-earning clients that are concerned they will not have enough income at retirement to maintain their current standard of living. Due to the limits on contributions to qualified plans and social security benefits, individuals earning high incomes may find that a diminishing percentage of their current compensation can be replaced at retirement. Additionally, many high-income earners cannot make deductible contributions to traditional IRAs, or after-tax contributions to Roth IRAs, because their income exceeds the income eligibility limits prescribed by law.

Prospects:

- Individuals between the ages of 30 to 55 who have a need for life insurance coverage
- Individuals who have already maximized contributions to qualified retirement plans
- Individuals who have reached the income phase-out limits for deductible IRAs or Roth IRA contributions
- Business owners who are looking for ways to accumulate assets for retirement not encumbered by ERISA or non-discrimination requirements of qualified plans

Solution:

The Roth Alternative arrangement provides valuable death benefit protection prior to retirement and a potential source of tax-favored income to supplement existing plans during retirement. How does it work? Your client purchases a life insurance policy and pays the premium with after-tax earnings. The policy account values accumulate on a tax-deferred basis and may be accessed via policy loans and withdrawals to supplement income during retirement.¹ Additionally, unlike many qualified retirement plans, life insurance structured as a non-MEC (modified endowment contract) does not have minimum required distributions or a tax penalty for early withdrawals. If the insured dies prior to retirement, the beneficiary will generally receive the death benefit income-tax-free under IRC § 101(a) and the policy can be structured to avoid estate taxation.

Benefits of the Roth Alternative Arrangement:

- **Tax Benefits Similar to Roth IRA** – A policy structured as a non-MEC accepts after-tax contributions, provides tax-deferred growth of the policy cash values and tax-advantaged access to policy cash value.¹
- **Avoids Contribution Limitations and Income Restrictions of Roth IRA** – Contribution limitations are based on the amount of death benefit, **not** on income or compensation.
- **Estate Avoidance** – If your client's objective is to minimize estate taxes, the policy can be owned by a third party to avoid estate inclusion while qualified plan assets are included in the owner's estate.
- **Not Encumbered by ERISA or Non-Discrimination Requirements** – For business owners, this arrangement requires less administration than qualified plans, offers selective participation, and allows contributions that can be varied by participant allowing for individually designed incentive programs.
- **Self-completing.** Income-tax-free death benefit for the family is generally many times larger than the amount contributed. That can help to complete retirement income needs when your client cannot.

Call our Advanced Marketing team to find out how the Roth Alternative can help solve your clients' retirement income concerns.

¹ Withdrawals and loans reduce policy cash values and death benefits, may affect any policy guarantees against lapse, and may have tax consequences.

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