# Does Your 401(K) or IRA Need To Be Rescued?

Many people are shocked at how much of their tax-deferred balances will be erased by current taxes when funds are withdrawn, and it is not uncommon for these accounts to have amassed seven figures. Little attention is often focused on what will happen to one's hard-earned money when it comes time to withdraw it from the Plan.

**Reductions Due To Taxes Can Be Dramatic**

The tax-caused decrease in total assets going to family members can be dramatic. For example, a client recently reviewed their situation in which the plan holder had a $6 million balance. The client wished to begin distributions at age 70½. Further, the client did not require any distributions to maintain their lifestyle and wanted all the funds to go to children. The client was disappointed to learn that, under the current structure, the $6 million, when distributed over ten years, would be slashed by $2.6 million in taxes and only yield $3.4 million in net proceeds to the beneficiaries.

The $2.6 million of asset erosion occurs because all funds from a qualified plan are fully taxable as ordinary income. And contrary to common belief, assets in an IRA do not benefit from a step-up basis when passed on. While this case was confronting a reduction of some 43%, other plans can be crushed by as much as 75% because of income and estate taxes.

The existing Plan had other vulnerabilities, as well. The assets were all held in equities, subject to significant drops in value. Over a lengthy period, the probability that such a reduction will occur is substantial.

**How To Increase Net To Beneficiaries Without Risk**

Fortunately, a solution that could produce guaranteed results was possible in this situation. A plan was set up where taxable distributions from the IRA would be used to purchase the appropriate type of life insurance with the family named as beneficiaries. The client and the client's family would be better off with this solution because:

* Assets shift from taxable to non-taxed.
* Total net after-tax assets to the family significantly increase.
* The increase in assets is immediate.
* There is no need to enter speculative investments to achieve the gain.
* The value of the account is not subject to market losses.
* The results are guaranteed by some of the most substantial financial companies in the world.
* The entire Plan can be implemented on a set-it and forget-it basis.

**Implementing IRA Rescue For Your Qualified Plan**

IRA Rescue is achieved by converting a client's weakest assets – those with the most significant tax liabilities – to non-taxed assets. Each rescue of an IRA or 401K or other qualified Plan is custom-made for your particular circumstances. For individuals with separate Plans and assets, net benefits can increase from some 25% of asset value to many times the asset value. For married couples inheriting each others' IRAs, the after-tax yield can be much higher than otherwise.

And while a plan's asset value is significantly increased immediately, the tax liability on distributions from the Plan is spread over time, much to the client's advantage.

All plans should be coordinated with accounting and legal, trust, and estate advisors, as a matter of course. A complete solution is available with plan distributions to be executed on schedule, trustees guaranteeing that policy premiums are paid as required, trustees delivering gifts to beneficiaries, and taxes can be paid at the funding source. These solutions can be established to set and forget while offering much more financial benefit to clients who wish to provide financial security.