

Pay Now...or Pay Later?

Planning for Retirement with *After-Tax* Dollars



While putting away funds for retirement on a pre-tax basis may be an attractive investment now, think ahead. What could you be paying out to Uncle Sam in 10, 15, or 20 years when you're ready to start taking withdrawals from your retirement fund?

Although statistics show that Federal Income Tax rates have actually decreased in recent years, it is uncertain if we can continue to rely on this trend. Tax rates may rise in the future due to demographic trends, long-term commitments, economic contingencies or unforeseen events.

Tax-Free, Worry-Free Retirement

The Idea in 50 Words or Less ...

A *Roth IRA* provides an attractive combination of benefits – growth of investment earnings and tax-free, penalty-free withdrawals, if requirements and guidelines are met. If you are not eligible for Roth contributions (due to higher income), *permanent life insurance* is a good alternative with similar relative advantages.

SIMILARITIES

Roth IRAs and life insurance are similar in many ways:

- Financed with after-tax dollars.
- Tax-free income on withdrawals up to basis (non-MEC life insurance policy).¹
- No minimum distribution requirements during owner's lifetime.
- Income tax-free benefit to heirs after death.
- Both vehicles can help assure a comfortable financial future.

DIFFERENCES

The main differences are:

- Roth contributions are available only to those who meet the modified adjusted gross income requirements.
- Contributions to a Roth IRA are limited to relatively small dollar amounts. In fact, for 2006 individuals can contribute \$4,000 plus an additional "catch-up" of \$1,000, if over age 50.
- Life insurance is available to every income level.

¹ A Non-MEC policy is a life insurance policy that meets requirements for tax-advantaged loans and distributions and is not considered a Modified Endowment Contract.

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ROTH IRA ELIGIBILITY LIMITS			
Single		Married Filing Jointly	
Modified AGI	Contribution Allowed	Modified AGI	Contribution Allowed
Less than \$95,000	Full	Less than \$150,000	Full
\$95,000 to \$109,999	Partial*	\$150,000 to \$159,999	Partial*
\$110,000 or more	None	\$160,000 or more	None

* Partial eligibility is available for taxpayers with incomes in excess of the limits. For example, a single taxpayer with an AGI of \$100,000 in a given year would have allowable contributions reduced by 33.3%. A married couple with an AGI of \$155,000 would have allowable contributions reduced by 50%.

If you are not eligible for Roth IRA contributions or simply want to consider another after-tax supplement for retirement, see the following relative advantages of permanent life insurance as compared to a Roth IRA.

Permanent Life Insurance¹

- No tax or penalty on withdrawals of principal at any age.
- Loans are generally not considered distributions and are not recognized as income while the policy is in force
- While Roth IRA contributions are limited to, at best, \$5,000 annually, much larger amounts can be paid into a life insurance policy, subject to underwriting requirements.
- Death benefit payable always exceeds the policy's cash value.²
- With Waiver of Premium rider in force, policy may be self-completing if insured becomes totally disabled.
- With an Enhanced Accelerated Benefit Rider (EABR, available only on Whole Life policies), a portion of the death benefit may be paid out if the insured is permanently, chronically or terminally ill.
- Policy ownership can be transferred or pledged as collateral for a loan.

¹ Assumes a non-MEC policy – i.e. a life insurance policy that meets requirements for tax-advantaged loans and distributions and is not considered a Modified Endowment Contract.

² Additional fees and charges may apply for life insurance benefits.

Roth IRA

- Distributions before age 59 1/2 subject to tax and possible 10% penalty.
- No loans.
- Maximum annual contribution limited by law.
- Financial goals may not be met if owner becomes disabled or dies.
- Typically no transfer of ownership allowed except to a spouse at death.

Did You Know?

Life expectancies measure the year in which half of a group of people are living. When we say that Life Expectancy for a woman, age 45, who doesn't smoke is currently about 40 more years, that means that half of these women can expect to live beyond this age. If individuals spend all of their savings within the proscribed life expectancy limits, there's a 50% chance they may run out of money.

Guardian's broad portfolio of solid financial products provides a wide range of retirement planning offerings for any income level.

Whether you select a before-tax or after-tax vehicle, the important point is to start today.



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