

QPAM - QUALIFIED PLAN ASSET MAXIMIZATION

Objective:

To provide a strategy to wealthy families who do not need their qualified money and want to minimize the income tax burden as they pass it onto their heirs.

Typical Candidates:

- Clients who do not need or want their Required Minimum Distributions (RMD)
- Clients who want to minimize their tax liabilities (Income Tax, Gift/Estate Tax and Income Tax in Respect to Decedent (IRD))

Type of Qualified Plans:

- Defined Benefit
- Defined Contribution (Profit Sharing Plan)
- IRA
- IRA Rollover

Current Choices:

- Do Nothing and Take RMD at age 70 1/2
- Multi-generational Stretch IRA
- Conversion to Roth IRA
- Leave to Charity

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Our Solution:

- Use plan assets to purchase maximum amount of life insurance outside of taxable estate
 - Use plan assets to purchase life insurance outside of taxable estate and leave “targeted” plan balance for participant’s needs
 - Use plan assets to purchase life insurance outside of taxable estate and leave “targeted” plan balance for charitable giving

Flexibility of Our Strategy:

Clients are not locked into a pre-set course of action. The strategy provides flexibility in the following areas:

● **Product**

- Premium Payment, Amount of Duration
- Policy Death Benefit
- Policy Design
- Policy Type
- Policy Performance
- Availability of Alternative Term Rates vs. IRS Table 2001
- Availability of Single Life and Survivor Life Insurance

● **Timing**

- Funding Cycle
- Sale of Policy to Trust

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Valuation:

- **Valuation**

- Safe Harbor Formula - Revenue Procedure 2005-25
- Third Party Valuation

- **Client's Health & Financial Circumstances**

- Flexibility to adjust strategy once implemented to accommodate for changes in client's health
- Flexibility to adjust strategy once implemented to accommodate for changes in client's financial goals

Issues Addressed:

- No Prohibited Transaction Issues
- No Incidental Death Benefit Issues
- No Transfer of Value Issues
- No "Springing Cash Value" Issues
- No 412(i) or Other Abusive Tax Strategy Issues

Team Approach:

Our team will work with the client, their estate and/or tax attorney, CPA and plan administrator to coordinate and implement our strategy. Our team includes insurance specialists, ERISA attorney, tax attorneys and valuation specialists.

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Case Study 1:

Use plan assets to purchase maximum amount of life insurance outside taxable estate.

- Male 72 & Female 68
- \$2,650,000 of Qualified Plan Balance
- Assume all assets in the plan grow at 5% for all years
- Assume clients use their lifetime exemptions and/or crummey provisions for this transaction and do not pay any gift/estate taxes out of pocket
- Assume clients save their RMD (net of income tax) in a side fund for the benefit of their heirs at 5% rate of return

<i>Comparing Net to Heirs¹</i>					
			Existing Qualified Plan	QPAM Strategy	
Year	Mr.	Mrs.	Net of Heirs ²	Net to Heirs ³	
1	72	68	\$1,392,609	\$21,988,792	
5	76	72	\$1,495,335	\$20,251,658	
10	82	78	\$1,780,621	\$20,021,912	
15	87	83	\$2,116,198	\$8,761,975	
20	92	88	\$2,414,732	\$8,467,880	
25	97	92	\$2,651,710	\$8,135,139	

¹ Clients use their lifetime exemptions and/or annual crummey provisions to offset gift and estate taxes

² Net to heirs includes income tax & 5% net investment rate of return

³ Insurance net to heirs includes, gifts to trust, premium cost, income tax and lost opportunity cost at 5%

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Case Study 2:

Use plan assets to purchase specified amount of life insurance outside taxable estate and provide targeted plan balance for participant's needs or charitable needs.

- Male 72 & Female 68
- \$2,650,000 of Qualified Plan Balance
- Assume all assets in the plan grow at 5% for all years
- Assume clients use their lifetime exemptions and/or crummey provisions for this transaction and do not pay any gift/estate taxes out of pocket
- Assume clients save their RMD (net of income tax) in a side fund for the benefit of their heirs at 5% rate of return

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Plan balance post implementation of strategy: \$1,500,000 in year 3
Plan balance will be subject to normal distribution rules and taxation
Plan balance can be left to heirs or charity

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Fact Finder

Name(s):

Participant Date of Birth:
Sex:
Smoking Status:
General Health:
Spouse's Date of Birth:
Spouse's Smoking Status and General Health:
Type of Qualified Plan:
Plan Balance:
Plan's Projected Rate of Return:
Percent of Plan Assets Not Needed for Income:
Approximate Net Worth:
Gift/Estate Tax Exemption Available:
Number & Age of Beneficiaries:

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