

Q. I am currently maxing out my 401k plan. A friend told me that to put away more money I should look at investments with tax benefits. What investments are available?

A. There are two types of investments that are advantageous from a tax perspective – Annuities and Life Insurance.

1. Annuities – With most non-retirement accounts, earnings and dividends are taxed annually or upon realization. Since you are paying taxes throughout the “growth” period of your investment, the ability for your investment to compound effectively is decreased. An annuity allows your non-retirement assets to grow **tax-deferred** until distribution. Since you are not paying taxes on your earnings annually, your account is able to compound more effectively. Let’s take a look at an example:

Assume you have \$10,000 you would like to put away for retirement. (in addition to your maxed out contributions) Let’s also assume an average annual rate of return of 10% over the next 20 years.

Based on these assumptions, a \$10,000 investment growing in a tax deferred account for 20 years would grow to **\$67,275**.

Now let’s assume you are in a 25% total tax bracket. Your account is no longer growing tax deferred because it is held in a regular investment account. In 20 years, your same \$10,000 would grow to only **\$42,479!**

THAT IS A DIFFERENCE OF \$24,796!

2. Life Insurance - Many individuals don’t realize that in addition to protection, life insurance can be used as a retirement savings vehicle. Certain types of life insurance policies accrue cash values. By properly formatting your life insurance for investment purposes, we are able to

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maximize these cash values. This cash grows tax deferred, and when you withdraw these funds, you are able to take the income tax free through a policy "loan". This is a great investment strategy for individuals who do not qualify for the ROTH IRA because it allows them to take advantage of the same tax free income benefit.

Using either of these plans can be confusing. It is very important that you speak with a professional who can explain the risks and fees with you.

If you would like information about any of these plans, or other plan options, please contact us at 800.423.4891.

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