



Meet Bill.

“He’s a company man whom everyone respects, and he’s sought out for advice by those who report to him as well as his superiors.”

## What is the greatest risk to your financial future?

As national debt continues to grow and increased taxes become a heightened consumer concern, financial professionals are in need of a tool to address today’s evolving challenges. Simplicity’s partnership with Patrick Kelly, national best-selling author of *Tax-Free Retirement*, can provide you with an exclusive platform to help overcome these hurdles.

Patrick’s program can show your clients, based on current tax laws as of this writing, how to avoid feeling like their money is held captive until retirement age. In this excerpt from Patrick’s best-selling book, Bill’s story also seeks to help your clients understand why the Indexed Universal Life product can be a powerful tool to consider or utilize in their retirement planning, as well as a strategy that can allow them to access their money in the future, including gains, tax-free, if utilized properly.

Spend just a few minutes right now and learn what Bill did to reduce his future tax liability and protect the longevity of his retirement income.

I'd like to tell you a story about Bill. Bill is a fictitious 36 year old in upper management with a major corporation. However, it wouldn't matter if Bill was a physician, a small-business owner, a lawyer, a farmer, a teacher, or an employee of any large or small company.. Although figures would differ, the story would be the same.

Bill's current annual salary is \$150,000. This is the only company he's worked for since he graduated from college (with honors I might add), and in the fourteen years he has been with this company, he has worked his way up from the front lines due to his faithful and diligent effort. He arrives early and is often the last to leave. He's a company man whom everyone respects, and he's sought out for advice by those who report to him as well as his superiors.

Bill has been married to Marcy for nine years. Together they have three young children – Lauren 6, Tommy 4, and Scott 1. He loves his kids, and though he doesn't get as much time with them as he would like, he wants what's best for them and is willing to help them in any way he can, including financially. He hopes each of them will study hard, go to college (a cost he is planning on paying as his father had for him), and find a solid job with a great company, just as he was fortunate to find. Secretly, Bill hopes that at least one of his kids might follow in his footsteps and become a future employee of his current company.

Bill's company has a wonderful 401(k) plan that he has faithfully contributed to since the beginning of his employment. When he first started with the company, he heard a presentation by a financial professional who told him the best place to invest his money was in his company's sponsored 401(k) for three reasons.

First, the presenter said that the company would match up to \$1,500 per year. This was free money. All Bill had to do to receive it was contribute that amount himself, which sounded good to him. He'd take all the free money he could get.

The second reason he was told why this was the best place to save money for his future was that all the income he contributed was tax deferred. At 22, Bill didn't know what that really meant, but the individual went on to explain that all of the money he contributed would avoid tax in the year



it was put into the plan. So if he made an annual income of \$30,000 and contributed \$1,500 to the 401(k), he would only be taxed on \$28,500. And no tax was owed on the money until he took it out at retirement. The more he contributed, the more tax he would save.

The third reason the presenter gave him as to why this was such a great investment method was that when he began withdrawing money in retirement, he would be in a lower tax bracket. Since he would be in a lower tax bracket, he would pay less tax. Again, another exciting prospect in Bill's mind.

Bill had always been good at seeking advice from other professionals, so he went to see his CPA as well as one of the top executives of his company.

His CPA told him that investing in his company's 401(k) was a wonderful idea and that it would indeed lower his tax bill each year. He encouraged Bill to save as much as he could in his

401(k), even while his income was small.

The executive who he visited (a long-time family friend) gave him similar advice. He told Bill that the 401(k) had been the single best investment choice he had ever made. As a matter of fact, it was the only investment that had really made him money. The executive laughed out loud as he recalled some other investments he had made on "tips" from others – across the board all had been losers.

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Bill was really excited to begin his investing career. He had done his homework, he had sought advice, he could avoid tax now, and he didn't have to pay a penny in tax until he began to withdraw money from his account at a lower tax rate. What could be better than that?

After these two visits, Bill made a commitment to contribute as much as he could afford to his 401(k), even if it meant he would have to stretch in other areas. During his fourteen years with the company, Bill had been a diligent saver and has accumulated \$145,000 in his account. Since his income was meager in the early years, and the demands of his young family were growing, Bill was not able to contribute as much as he would have liked, but he is now proud of his growing nest egg. Now that his current income is much more significant, Bill is able to contribute the full maximum his retirement account will allow. At this rate and with this continued funding, his benefit statement shows a projected value of \$2,669,414 at the age of 62, which is the year Bill hopes to retire. Since he is contributing so much to his 401(k), he is not able to save any additional money, including money toward his children's college education. This concerns Bill, but he figures that with his current income he and Marcy can cut back on some of their extra living expenses when the kids hit college and just pay for each year as the tuition comes due. Bill is 36, and he feels good about his financial future ... a financial future that will come to greet him all too quickly.

Let's take a peek at his future, at least in some possible ways it might play out for this shrewd, hard-working individual.

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Time has passed quickly. Bill is now 50, and his oldest daughter, Lauren, is a junior in college. It has been a great two years seeing his daughter flourish in a small, private university. He has contributed the maximum allowed to his 401(k) every year for the last 14 years. Bill is proud of his wise savings because his 401(k) now sits at \$848,819... he is almost a millionaire.



However, the finances have been far tighter than Bill had expected. Although his income has blossomed to a whopping \$259,751, a 4% increase each year, school costs have escalated far more quickly – at a rate of nearly 6%. That means what was once a \$40,000 price tag for a year of private tuition (including room and board) now demands a whopping \$90,000. He never imagined that one child's college tuition could demand almost 35% of his gross income and over 45% of his net income. Bill and Marcy have been scrambling for the last two years to try and pay for Lauren's tuition out of pocket, but it just isn't happening. They have managed to live right up to their increasing income. They have been able to make some cuts but not enough to pay the entire bill or even half of it for that matter. Bill doesn't want to tell Lauren that she can't continue attending the college of her dreams, so he knows he'll figure out a way to make it happen.

Bill and Marcy have tried looking into financial aid, but with Bill's healthy income, they don't qualify. How can anyone afford to send their kids to college? Bill wonders.

After they had been rejected by the financial aid office, Bill decided to call the benefits department at his company to inquire about taking money out of his 401(k). Bill was told

he cannot make an early withdrawal (before 59 ½) without paying tax on the money as ordinary income. Currently, Bill's federal income tax rate is 40%, his state income tax has risen to 10%, and on top of that, he would have a 10% tax penalty for an early withdrawal. That means he would have to take \$225,000 out of his 401(k) just to be able to pay a \$90,000 tuition bill. Ludicrous! There is no way he is going to do that! That is 26.5% of his entire 401(k) for just one year of Lauren's tuition. Bill and Marcy have spent the last two years significantly cutting back on all the luxuries they had come to enjoy, but they believe their mission is worth the cost.

Besides, it is only for a short season. They have stopped going out to fancy dinners; they have cancelled plans for nice family vacations for the next few years; they were advised to take out a second mortgage on their home; and Bill has even come to the conclusion that he will no longer be able to fund his 401(k), at least not until the kids are done with college and all their debts are paid – a decision he really dislikes.

Bill wonders to himself how he could be almost a millionaire on paper but feel flat broke. He has no access to his money without severe penalties. He feels like his own money is being held hostage by the tax system. But he has not worked so hard to sock money away for his retirement, only to find 60% of it gobbled up in taxes and penalties. A little thought passes through Bill's mind, and he wonders, for the first time, if his 401(k) really has been the best place to save money.

But Bill's financial concerns don't end here. This is also the year that Tommy is going to be a freshman in college.



“At age 50, Bill is no longer feeling so good about his financial future.”

If one child has been a struggle, how in the world is he going to afford two kids in college? And still a third is not far behind. Bill sees only three options: 1. Tell the kids they need to get jobs to help pay for their own tuition. 2. Tell the kids they need to go to less expensive schools. 3. Borrow more money. After Bill and Marcy talk it over, the two of them choose number three.

At age 50, Bill is no longer feeling so good about his financial future.

Now Bill is 65. The financial storm of his kids' tuition is a distant memory of years gone by. He and Marcy have survived and are glad they gave

their kids the gift of a good education. Yes, he did have to delay his retirement until age 65, but that was also a small price to pay. Each of their three children has graduated from college, and all three have good jobs. Lauren owns her own business and is able to juggle all the demands of a working mother of three. Tommy has become an attorney at a local practice in town. And Scott is a high school math teacher in a neighboring community.

Bill and Marcy had borrowed what they needed to make it work and have spent most of the years since then paying off the debt they had accumulated. They were also committed to having their house paid off by the time Bill retired in order to save that expense in retirement. It is a goal they have achieved just in time. They are now debt free and ready to take on the new adventure of retirement, grandkids, and leisure.

Although Bill had not been able to continue to save money in his 401(k) after Lauren's junior year, his original contributions have grown to quite a large sum. His account now stands at a whopping \$3,091,808. Bill sits back in his chair and lets out an audible sigh. Wow, even with those tough years, I have still accumulated over three million dollars. Bill is glad he had chosen to invest in his 401(k). Good thing I invested as much as I could in those early years. I guess I did receive good advice.

BUT... that was before Bill began taking money out of his account. Two months before Bill's retirement, a new president of the United States had been elected. Along with a new president, the country also elected a new Congress and Senate. All three had the same agenda – begin to pay down the horrific national debt. The country was now serious about attacking the problem and had

elected a government it believed would save them from the devastating nightmare of insurmountable debt. The future of America was at stake.

What Americans didn't understand and what was never spoken of during the months of campaigning was how this administration was going to accomplish this task. Those running for office had talked about cutting programs and eliminating governmental waste; the country bought it hook, line, and sinker. No true American wanted to see their country go under, and many believed it was now or never to salvage the mess. However, along with those original campaign promises lurked the real method of accomplishing the task, which was to raise taxes.

Although taxes had continued to go up over the last 15 years, this new tax increase was the granddaddy of them all. Bill's federal tax rate had risen to 55% overnight. He was stunned. To make matters worse, he no longer had any deductions to offset his retirement income. His kids are grown and his house is paid off. All the deductions he used when he was younger have now evaporated. Every dollar he takes out of his 401(k) is going to be taxed – and taxed hard.

Wait a minute! Bill thinks. What happened to lower tax rates in retirement because my income is lower? What happened to the idea of saving the tax during the contribution phase because it is better in the long run?

Bill quickly realizes that the few thousand dollars he had postponed in taxes when he was young will now likely cost him well over a million dollars. For the first time it dawns on him that he had never really avoided taxes; he had simply delayed them. And by delaying them Bill has only compounded them, making them far, far worse than he could have ever imagined. Worse than anyone could have imagined.

At age 65, Bill is feeling a little sick to his stomach. Uncle Sam is going to ruin his golden years.

It is now five years since Bill's death. He passed away at

the age of 80, and Marcy survived her husband by four additional years. It has been nearly a year, since she went to rest beside her husband. All three kids appreciated the financial sacrifices of their parents. For over a year they have worked hard at settling all the estate issues. It has been extremely complicated and far more time consuming than any of the three had ever imagined.

But the biggest shock of all arrived when they got the final distribution from their parents' 401(k).



In Bill's later years, he had confided in his kids about how much money he had saved. He preserved his original savings of \$3,091,808 because he didn't know how long Marcy or he might live, and he didn't want to run out of money while one of them was still living. He knew if he began to spend down his account, he might end up with nothing left to sustain Marcy in her later years if he predeceased her, which was a likely event. He didn't want to take that risk. In order to do this, they lived frugally. With the new tax rates, Bill and Marcy had only been able to live a shadow of the life they were accustomed to. (He never shared this part of his retirement with his kids.)

Once Bill and Marcy's estate was settled and the 401(k) funds were distributed, the kids thought there must certainly be some mistake. Of the nearly three million in their father's account, only \$476,368 (or 15%) was

passed on to them. Instead of each child receiving close to \$1,000,000, after taxes the three children ended up with just over \$150,000 each. Although Scott is nearly retired from teaching math, he knows his skills aren't that rusty. Something has to be in error. He calls a local accountant to show him the situation. After careful review, the CPA tells him that, indeed, the numbers are correct. With the newly instated federal, state, and estate tax rates imposed by Congress, taxes have taken a full 85% of his father's qualified retirement account.

The kids are shocked. Why hadn't someone warned their father about this situation? Why hadn't someone warned them about this situation? Why hadn't someone showed their father a better way to save for his future?

As they asked around to other financial professionals in the community, they quickly realized the answer, no one they talked to knew of a better way.

Although Bill has long since passed, had he realized what Uncle Sam was going to take from his savings once he and Marcy were gone, he would have said to himself, I definitely don't feel good about my financial past or my kids' financial future.

For some of you, this fictitious story may have many similarities to your own life. For others, this may look nothing like your reality; that is always the danger of using examples. You may be older or younger, female not male, make more money or less money. You may be a business owner and have never worked for a corporation a day in your life. Or you might have worked for multiple companies in your career (and probably have). You might not have a matching provision for your 401(k). As a matter of fact, you might not even have a 401(k) – but that's okay! Whatever your situation may be, you could face the same potentially devastating tax disaster!

There is potentially a better option to save money for your future. A simple way. A way that, based on current tax laws as of this writing, won't make you feel like your money is being held captive until retirement age. A way that allows you to get at your retirement savings at any age without paying tax on the gain (if utilized properly\*) ... that's right... zero! A way that does not hold you hostage to the changing tax rates of the future. And a way that gives you a better chance of living a fully-funded retirement, enjoying all the things you want to do, while still leaving behind a potentially huge legacy that will pass to the next generation, free from federal and state income taxes.

“Whatever your situation may be, you could face the same potentially devastating tax disaster!”

## How We Can Help you

In retirement, protecting the income that you need so that you can work to help maximize the income for things that you want is often a priority. As we project tax risk to rise, there's no better time to meet with a qualified financial professional to see if tax-free diversification strategies, specifically that of Index Universal Life Insurance, could help you reduce this risk and possibly increase longevity of your assets in retirement.

**To see if you could benefit from tax-free diversification strategies, contact your Optima Representative.**



\* This brochure is designed to provide general information on the subjects covered. Pursuant to IRS Circular 230, it is not intended to provide specific legal or tax advice and cannot be used to avoid penalties or to promote, market, or recommend any tax plan or arrangement. You are encouraged to consult your personal tax advisor or attorney.

Guarantees are backed by the financial strength and claims paying ability of the issuing company.

The withdrawals are subject to contingent deferred sales charges and may also have additional fees defined by the policy. Withdrawals will permanently lower the death benefit of the contract at the time of the withdrawal. Withdrawals are taken out premiums first and then gains, so it is possible to take a tax-free withdrawal from the values of the policy.