Tax Diversification of Retirement Assets

Background

Most people understand the benefits of diversifying investments among asset classes to help manage the risk and return of a retirement plan. But diversification can also be used to help manage the tax treatment of retirement assets—resulting in the potential for higher net income during retirement years.

Tax considerations of retirement assets[1]

WHEN IS ASSET GROWTH TAXED?		
TAXED NOW	TAXED LATER	TAXED NEVER
CDs and Money Markets	401(k)/403(b) Accounts	Roth IRAs
Mutual Funds	Traditional IRAs	Cash Value Life Insurance[2]
Savings Accounts		

Feature comparison of various assets[1]

	Taxable Assets	401(k)/ Traditional IRAs	Roth IRAs	Cash Value Life Insurance[2]
Tax-Deductible Contributions		●		
IRS Does Not Limit Contributions Due to Income	●			●
Tax-Deferred Growth		●	●	●
No Penalty for Early Withdrawals	●			●
Tax-Free Distributions			●	●
No Required Minimum Distributions at 70½	●		●	●
Will Not Increase Social Security Taxation or Medicare Premiums			●	●
Includes Income Tax-Free Survivor Benefit				●

For more information, go to RetireStronger.com and visit with your AIG representative.

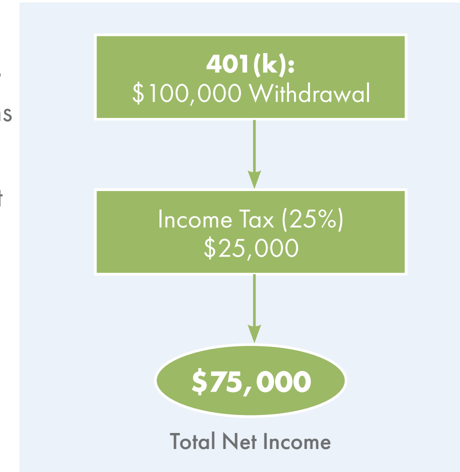
1 The descriptions and features of the various assets in these tables are for general information purposes and address the most typical circumstances. There are many regulations governing the taxation and operation of all assets mentioned and you should seek the advice of a tax professional before making any changes to your current or future retirement plans, accounts or assets.

2 Cash value life insurance policies are subject to Modified Endowment Contract rules that discourage overfunding based on face amount, insured's age and other factors. Cash value life insurance also contains additional mortality charges that will increase the expense of this product. Also, distributions in excess of total premiums paid are taxable unless taken as loans (which are subject to interest charges). Consult a policy illustration for more information.

PROBLEM: 401(k) withdrawals are taxed as ordinary income[3]

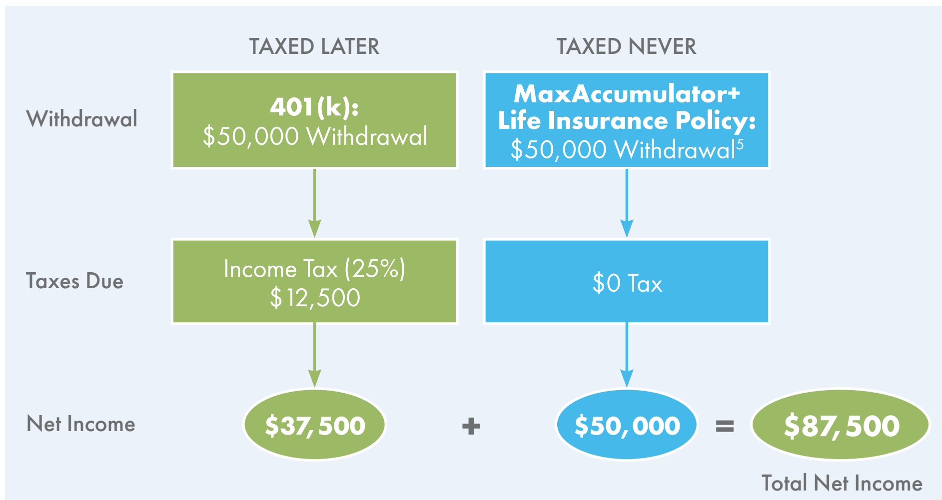
In addition to some rental properties and their Social Security, John and Jane Kozlow's retirement plan consists only of their 401(k) plans. They've maximized their contributions and have a tidy sum saved. Their financial professional (FP) points out that withdrawals from their 401(k) accounts will be taxed as ordinary income. Their FP also explains that John and Jane may be in a higher tax bracket during retirement than they are now– due to possible changes in tax law and their growing account values.

At retirement, assuming a 25% tax rate, an annual withdrawal of $100,000 would result in taxes of $25,000, leaving a net income of $75,000 available for their retirement.[4] They discuss tax diversification as an option and that having some tax-free income would increase the amount available.



SOLUTION: Cash value life insurance such as Max Accumulator+ can help provide tax diversification

Working with their FP, John and Jane have also decided that they need $1 million of life insurance to protect the family. The FP shows the couple how Max Accumulator+, a cash value life insurance policy, can help them meet both objectives – life insurance protection for their family and a 'taxed never' asset to increase their diversification.



RESULTS: At retirement, they choose to take $50,000 from their 401(k) and from their Max Accumulator+ policy. They were able to increase their net income by $12,500 over the 401(k)-only plan.

Max Accumulator+ is an index universal life insurance policy designed to maximize your tax-advantaged accumulation while providing life insurance benefits to your loved ones.

[3] This is a not an actual case. It is a hypothetical representation for illustrative purposes, only. The individual 401(k) plan and life insurance policy withdrawals are aggregated in the illustration for convenience. It is not a comprehensive analysis of the subject matter and you should work with a tax professional before making changes to your circumstances.

[4] Withdrawals are subject to federal tax of 25% and may be subject to state income taxes. A 10% federal early withdrawal tax penalty may apply if taken before age 59 1/2.

[5] Withdrawals in excess of total premiums paid are taxable unless taken as loans (which are subject to interest charges).

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