



SJTrust
South Jersey Trust™

SENIOR STRATEGIES

The
Financial Preservation Manual
for Protection of Assets from
Medicaid & Inheritance Tax

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Your IRA...a Ticking Tax Time-bomb

You like many people, may have an IRA and you had it for all the right reasons.

- It saved money for your retirement
- It reduced your taxable income

But now, you may have it for the wrong reason. Are you saving it?

Most people, with a substantial IRA, DO NOT need the money to live on. It is a common practice for most people to:

- wait until age 70½ to take distributions
- take only the required minimum distribution
- do so only because they must do it.

It is fairly common to hear, “I don’t really need my IRA. I’m saving it for my children.” They believe their IRA falls under the estate tax exclusion. Since they don’t have \$2,000,000 of assets they further believe their IRA to be safe from taxes. The **ticking tax time bomb** comes from a law many people have never even heard of titled **Income in Respect of Decedent**.

Income in Respect of Decedent means if you have an IRA and die before it was taxed then **whoever inherits that IRA will pay the tax that you were supposed to pay.**

Think about that for a minute. It is only logical. The Federal Government doesn’t miss its chance to collect tax. It doesn’t take this approach, “Gee, Joan just died. I guess we should have taxed her while she was alive. She’s gone now. We really missed out.”

There is a remedy to maximize your IRA turning it into a tax-free inheritance. If you have a passive IRA, which is an IRA you are holding to gift to your children, contact me by one of the methods in the footnote to take the steps to remove the tax pitfall.

Municipal Bond Magic

As we grow into our later years, we tend to be more conservative with our tolerance from risk and justifiably so, as at this stage of our lives we need to be more concerned with the “Return **OF** our investments than the return **ON** our investments.”

Toward that end, you may have decided to use Municipal Bonds for the safety and tax-free income ability. However, you just may be selling yourself short.

What if you could have a vehicle where the safety of principal was equal to that of Municipal Bonds, yet the annual income was vastly superior and not just by a little bit?

What if furthermore, you invoked a strategy to pass tax-free income to your children or whatever heirs you have designated?

The conversion of MUNI's is worth it for the additional income. The table below will show you the approximate income increase of Municipal Bonds, based upon your age.

Age	Increase
<u>65</u>	<u>47%</u>
70	60%
75	77%
80	96%
85	109%
90	119%

Contact me. I will run a sample illustration for you. Please be certain to indicate your return address information using either a postal address or e-mail address.

Avoid ALL Capital Gains

This utilization of Section 170 of the Internal Revenue Code should be the absolute cornerstone of every estate plan. - Dr. Francis J. Maguire, Ph.D

You may have a stock portfolio that is not making the kind of returns you want or perhaps, an investment property that is doing much the same. Selling either of these will create a significant capital gain tax for you, so you just stay put.

But what if you:

- could sell those assets
- completely avoid ALL capital gains
- receive a huge tax-deduction
- create a lifetime guaranteed income for yourself far greater than your present return on these assets

would that put an end to your staying put?

We have a solution. Here is how it works:

- We design a Charitable Trust for you.
- You transfer assets into it.
- You are the trustee of your own trust.
- The trust sells the assets.
- The trust we have created for you is exempt from all Capital Gains.
- You name a Charity to receive the remainder left after your passing.
- In exchange for this promise to Charity you receive an immediate tax deduction, which you can take for up to 6 years.

Don't need the income from the sale of the asset?

- Leverage the income to establish an Irrevocable Life Insurance Trust. This will pass an amount to your heirs that is 3 – 4 times greater than the future gift you have promised to your charity partner.

Readers over 60: Be certain to read "*The Facts of LIFE...Insurance that is.*" for an explanation of why life insurance, if you are 60+ is the **wisest** strategy you can ever invoke, **bar none**.



The 100 Year Untaxed Family Bank

This is a method for people who have considerable assets and who desire to create a lasting financial legacy for their family. The best method of explanation is to use an actual example whereby \$530,000 was, effectively turned into \$25,000,000.

A widower aged 71, had an \$800,000 IRA. He also had considerable other assets, so much so that his IRA was considered “passive”. He simply did not need to draw upon the money accumulated in his IRA.

Conventional advice has always been to withdraw the minimum from an IRA, so it will last as long as possible.

Because of the size of his assets, not only would his IRA be taxed at 35% for Income in Respect of Decedent but his estate would be above the estate tax exclusion. This would trigger an additional 45% tax on his IRA for a total of 80%. Thus, his \$800,000 IRA would be worth only a net \$160,000 to his family. Sad but true.

He was instructed to cash in his IRA all at once and pay a tax of \$270,000. We created a SPLIT™ (Single Premium Life Insurance Trust) with the balance of \$530,000. The trust was value at \$3,180,000.

When he passes on the value of the SPLIT \$3,180,000 will NOT be included in his estate for estate tax purposes. This occurs because the SPLIT trust is payable to a **Generation Skipping Family Trust**. A **GSFT** allow the money to be **untaxed for two generations plus 21 years**, approximately 100 years.

The family will draw 8% of \$3,180,000 or \$254,400 for 100 years, an approximate total of \$25,440,000. It all began with \$530,000, not needed and being saved for the next generation.

Private Family Foundation

A Private Family Foundation bearing your name is perhaps, not only the best vehicle to structure a financial legacy but also the best tax strategy for someone with significant assets.

There is no maximum amount set on funding a family foundation. However, a minimum of \$750,000 of liquid assets is required.

Once again, the best method of explanation is an actual example.

A woman aged 74 had a significant portfolio of stocks. It had grown from the time she inherited them, some 23 years ago, when her husband died prematurely. The value of these holdings was \$3,200,000. She would have to pay capital gains of \$560,000 if she sold them outright.

We formed a Charitable Trust for her and transferred the stock into the trust. She avoided ALL capital gains and received an immediate tax deduction of \$1,523,000 that she could take over the next 6 years.

The stocks were sold and re-invested in an annuity so as to GUARANTEE a lifetime, annual pay out of \$232,000. However, she did not need the money from the annual pay out. To maximize the use of the payout we funded an Irrevocable Life Insurance Trust in the amount of \$8,800,000.

Her own family foundation was named the recipient of the Charitable Trust.

When she does pass on, her children will receive \$8,800,000 totally tax-free. The original trust assets of \$3,200,000 transfer to her foundation. Her children are appointed lifetime, salaried directors. They are responsible for making distributions to various charities.

The Facts of Life...INSURANCE that is!

If I told you there was a “new issue” coming out GUARANTEED to be worth 40 times its value on the day of issue, would you want some? If I further enhanced the “deal” by explaining the value of this issue would pass through your estate to your heirs with **absolutely no tax**, would you want to get in on it?

Well, what if I told you that the “issue” I just mentioned is NOT a stock at all? This is something that pre-dates the 1724 formation of the stock market by 85 years.

The single most powerful financial leveraging tool available anywhere is life insurance.

Stocks go up and down, bonds are callable and real estate rises and falls whimsically, often with catastrophic results. Investment potential takes time and none of us are guaranteed time. And when investments do perform...they are taxed.

Life insurance is the absolute worst investment anyone can ever make if used AS AN INVESTMENT. Investing in a life insurance policy for the purpose of someday getting the cash back out, is a terrible decision. However, if you are over age 60, purchasing life insurance is the ideal financial planning strategy.

Why it is advantageous to persons 60+?

An insurance company will NEVER be paid more in premiums than your family will receive in untaxed death benefits. The law governing this is titled Adverse Selection. What this means is the insurance companies CANNOT “cherry-pick” their deals. They are not permitted to take only the risks that favor them. They MUST enter into less favorable contracts they know will not work for them economically.

Again, let’s use an example to make this clearer.

A woman age 67 uses \$12,000 of her assets to purchase \$476,000 of life insurance. Let’s divide \$476,000 by \$12,000. We see that she would need to pay premiums for 39 years or until she is 106 for the company to reach a “break even point”. Yet the company takes this case. Why? Not because they are nice but because they MUST!

Now let’s look at another example: a 35-year old man is spending \$600 per year. This pays for \$50,000 of life insurance. Again, dividing \$50,000 by \$600 you will see that he would have to pay his premiums for 83 years or until he is 118.

Neither of these people will live to these ages. The 35-year old will pay premiums for 40 years. His premiums will be invested producing an amount far greater than the \$50,000 his family will someday be paid.

So the end result is this: Because insurance companies are limited, by regulation, as to the amount of profit they can make on premiums; premiums are immediately invested into unregulated markets. Life insurance for the older woman is a loss leader but the 35-year old will be a company money maker.

Life insurance is easy to understand. There is no mystery here. It is contractual. You buy it, you die and it pays your family.

I can work with 10% of any asset and increase its value 250% and have it pass tax-free to your heirs.

- Our woman aged 67 will only pay \$12,000 for 12 years.
- At that point there will be enough cash to continue paying the policy for 5 years past her estimated life expectancy.
- \$12,000 paid for 12 YEARS is a total of \$144,000.
- Paying \$144,000 for something that will be worth \$476,000 to her family is a discount of 70% on this strategic purchase.

Do you know of any other investment this woman could have invested \$144,000 into that would **GUARANTEE** from day one it would be worth \$476,000 TAX-FREE?

Aside from an Irrevocable Life Insurance Trust ...there is none.