FIRST AMERICAN INSURANCE UNDERWRITERS Summer 2020

Making the case for some current tax planning

Tony O'Kussick, CLU
Director of Operations

The average top marginal tax rate in the 70's was 70.17%; in the 80's 48.4%; 90's 36.72%; 2000's 37.44%, and 2010-2020 38.4%. While the current 38.4% sure looks to be on the low side, we have just spent $2.3 trillion on COVID-19 (that is trillion with 12 zeros!). The deficit is now the second largest in history; only after World War II was it higher. At some point this will need to be addressed.

If you have clients within 10-20 years of retirement, this could be bad news since raising taxes is likely to be the way the government raises money to close the deficit, as indicated by the highest average marginal tax rates in the 70's and 80's. When your clients retire, they will want to keep as much of their income as possible. Higher income taxes mean a lot more when you are on a fixed income.

The options available for them to receive their retirement income tax-free are limited. There is the Roth IRA, but you can only contribute $6,000-$7,000 if over age 50 and your Adjusted Gross Income (AGI) comes into play. To contribute the maximum, a married couple's AGI needs to less than $196,000 and a single filer's less than $124,000.

This leaves the often-overlooked life insurance option. It must be Permanent Life Insurance with Indexed and Variable Universal Life as the leading products. With them, clients are doing the opposite of most life insurance buyers who want to pay the least to get the most death benefit. With the goal being tax-free income, clients choose the lowest death benefit so they can deposit the most in to the cash value account within the policy. This is the money they can use to supplement their retirement income. The good news is it comes without contribution limits, and they aren't required to take it out so they can choose when they want it and how much they want. Since there are no AGI barriers, clients that can't contribute to a Roth IRA now, have another option. There are LTC options available if that is a concern. Even though the death benefit isn't the goal in these situations, it shouldn't be overlooked. In case of an untimely tragedy, their beneficiaries will get the death benefit, tax-free. Needless to say, tax planning now while clients are healthy can make a big difference in their retirement, so don't forget to mention it!

Tony O'Kussick is Director of Operations at First American Insurance Underwriters. He can be contacted at **781.449.6800** *or* **tokussick@faiu.com***. First American Insurance Underwriters helps financial advisors design and implement the most appropriate insurance solutions for their clients. We specialize in Life Insurance, Long-Term Care, Disability Income, and Annuities solutions for personal and business planning.*

FIRST AMERICAN
Insurance Underwriters