Retirement Planning
Utilizing Your Practice

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Wealth Strategists, helping you with retirement plans: tax-free, risk free, health benefits, 8-13% return, index strategies

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Assumptions are based on federal personal income tax rates for 2012. This information does not take into account differences between various savings vehicles which may include eligibility requirements, sales charges, surrender charges, tax penalties or mortality and expense charges. It also does not take into consideration lower maximum tax rates on capital gains or dividends which might affect the taxable strategy.
How Much Do You Think Retirement Costs?

$1,000,000?

60%, 75%, 80%, or more of your current income?

$2,000,000?
Presentation Agenda

• Accumulating Money For Retirement
  – Pre-Tax
  – After Tax

• Types of Plans

• Distribution and Taxation of Retirement Income

• Combination of Plans
Where Will The Money Come From?

- Social Security?
- Qualified Plan
- Personal Savings
- Sale of Practice
- Non-Qualified Plan

Retirement
Strategies to Save for Retirement

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Contribution</th>
<th>Earnings</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable</td>
<td>After Tax</td>
<td>Taxable</td>
<td>Non-Taxable</td>
</tr>
<tr>
<td>Tax-Deferred</td>
<td>After Tax</td>
<td>Tax-Deferred</td>
<td>Taxable</td>
</tr>
<tr>
<td>Pre-Tax</td>
<td>Pre-Tax</td>
<td>Tax-Deferred</td>
<td>Taxable</td>
</tr>
<tr>
<td>Tax-Free</td>
<td>After Tax</td>
<td>Tax-Deferred</td>
<td>Tax-Free</td>
</tr>
</tbody>
</table>
Strategies to Save for Retirement

Examples

- **Pre-Tax**
  - Traditional IRA*
  - Qualified Pension Plan*

- **Tax-Free**
  - Roth IRA*
  - Permanent Life Insurance*

- **After Tax**
  - Private Savings, i.e. CD

- **Tax-Deferred**
  - Annuities*

*Examples shown:
- No bank guarantee
- Not a deposit
- Not FDIC/NCUA insured
- May lose value
- Not insured by any federal or state government agency
Types of Retirement Savings Vehicles

Private Savings
Is a savings account that you have at a bank or credit union. You would make deposits with after tax dollars. Each year you pay taxes on the interest earned. Bank accounts are typically insured by the FDIC.

Annuities
Are purchased from an insurance company. During the deferral stage, interest is allowed to accumulate tax-deferred. During the distribution stage, the interest portion of each payment is taxable as ordinary income. Most annuities have surrender charges that are assessed during the early years of the contract if the contract owner surrenders the annuity. The guarantees of annuity contracts are contingent on the claims-paying ability of the issuing insurance company.

IRAs
Are Individual Retirement Accounts that allow you to save money for retirement. During the deferral stage, interest accumulates tax-deferred.

If you choose to open a Traditional IRA, you may be eligible for a current tax deduction. If your IRA is tax deductible, distributions will be subject to income taxes when received.

If you choose to open a ROTH IRA, contributions will not provide a current tax deduction; however, distributions are received tax-free. In order for distributions to be received income tax-free, the account will need to be in place for at least 5 years and distributions cannot be taken prior to age 59 ½.

Distributions taken from annuities and IRAs prior to age 59 ½ may be subject to an additional 10% Premature Distribution Penalty.
Types of Retirement Savings Vehicles

Qualified Pension Plan

Is a plan that your practice would sponsor that meets certain IRS requirements and must cover all of your eligible employees. Your practice can take a current tax deduction for contributions to the plan, and participants would defer current taxes on the contributions that were made on their behalf.

When distributions are taken at retirement, they are subject to income taxes and possibly a 10% premature distribution penalty is received prior to age 59 ½.

Permanent Life Insurance

The primary benefit of permanent life insurance is to provide a death benefit for the named beneficiary. However, permanent life insurance also offers the opportunity to grow cash value within the policy tax-deferred. Furthermore, permanent life insurance offers the potential for tax-free income through loans and withdrawals from the policy.

Policy loans and withdrawals reduce the policy’s cash value and death benefit and may result in a taxable event. Withdrawals up to the basis paid into the contract and loans thereafter will not create an immediate taxable event, but substantial tax ramifications could result upon contract lapse or surrender. Surrender charges may reduce the policy's cash value in early years.
Which Strategy will Accumulate More?

Taxable

or

Tax-Deferred
You Will Generally **Accumulate More**
Using a tax-deferred Strategy vs. a Taxable Strategy

Hypothetical example for illustrative purposes only – not representative of any particular investment

<table>
<thead>
<tr>
<th>Accumulation At Retirement</th>
<th>Taxable</th>
<th>Tax Deferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Savings: $50,000</td>
<td>600k</td>
<td>650k</td>
</tr>
<tr>
<td>Assumed Interest Rate: 6%</td>
<td>700k</td>
<td>750k</td>
</tr>
<tr>
<td>Years of Accumulation: 15</td>
<td>800k</td>
<td>850k</td>
</tr>
<tr>
<td>Assumed Tax Rate: 35%</td>
<td>850k</td>
<td>850k</td>
</tr>
</tbody>
</table>

Initial Savings: $50,000
Assumed Interest Rate: 6%
Years of Accumulation: 15
Assumed Tax Rate: 35%
Question:
Would you like to transfer money from your practice to yourself on a tax favorable basis?
Question:

Do you want all your money working for you today, deferring the taxes until retirement?

Then consider saving using a Pre-Tax Strategy
Pre-Tax Strategy
Consider a Qualified Plan

• A qualified plan is a retirement plan that qualifies for special tax treatment.

• Qualified plans include:
  – Profit Sharing
  – 401(k)
  – Defined Benefit
  – 412(e)(3)

Diversification does not assure a profit or guarantee against loss.
True or False:
The cost to contribute to employees’ accounts in a qualified plan may be less than the current tax savings you could receive.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed Federal Tax Rate for the Business</td>
<td>35%</td>
</tr>
<tr>
<td>Total Plan Contribution</td>
<td>$92,200</td>
</tr>
<tr>
<td>Tax Savings to Business</td>
<td>$32,270</td>
</tr>
<tr>
<td>Net Current Cost of the Plan</td>
<td>$59,930</td>
</tr>
<tr>
<td>Contribution for Physicians</td>
<td>$90,000</td>
</tr>
<tr>
<td>Net Gain of Doing the Plan</td>
<td>$30,000+</td>
</tr>
</tbody>
</table>

TRUE!

Hypothetical example for illustrative purposes only – not representative of any particular investment.
How Much Can You Contribute to a Qualified Plan?

**Defined Benefit Plan**
Over $300,000
Depending on Age and Salary

**401(k)**
Deferral Only
$17,000

**Defined Contribution Plan**
100% of Pay up to $50,000

Does Your Plan Allow for the Maximum Contribution?
Are You Prepared?

- Do you have a Qualified Plan?
- Does your plan have the most up-to-date formula in order to maximize the plan for you?
  - Are you paying too much to cover your employees?
  - Does your plan formula allow you to favor certain employee groups and minimize cost of others?
  - Are you contributing money for highly compensated employees unnecessarily?
Is Your Qualified Plan Enough?

- Do you have enough time to accumulate money for your retirement?
- Do you have the right plan to put away as much as you need – tax efficiently?
- What can you do in addition to your qualified plan?

Tax Diversification and Asset Diversification
Don’t Put All Your Eggs in One Basket

The Importance of
Tax Diversification and Asset Diversification
What can you do if your Qualified Plan isn’t enough?
“Tax-Free” Strategy
Consider a Section 79 Plan

Code Section 79 permits Employers (such as a Physician’s Practice if structured correctly) to offer group life insurance to Employees – including the Owner Physician

- Contributions to the plan are fully deductible for the practice and only partially taxable to you as an Owner Physician.

- The Internal Revenue Code allows for the use of cash value life insurance if certain conditions are met, which may provide:
  - Income Tax-Free Death Benefit\(^1\) for your family
  - tax-deferred Build-up of Cash Value
  - Potential for Tax-Free Income\(^2\) at Retirement using policy loans and withdrawals

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\(^1\)Internal Revenue Code § 101(a)(1). There are some exceptions to this rule. Please consult a qualified tax professional for advice concerning your individual situation.

\(^2\) Policy loans and withdrawals reduce the policy’s cash value and death benefit and may result in a taxable event. Withdrawals up to the basis paid into the contract and loans thereafter will not create an immediate taxable event, but substantial tax ramifications could result upon contract lapse or surrender. Surrender charges may reduce the policy’s cash value in early years.
Section 79 Plan

- With a specially designed policy, you may be able to exclude about 35%-40% of the contribution from your personal taxable income.
- A tax efficient method of providing life insurance benefits for your employees and yourself.
- Cost to cover employees can be significantly less than under a qualified plan since employees often choose an option costing them the least amount out of their own pocket.
- Plan can be in addition to qualified plan or instead of

As with all life insurance, there is the cost of insurance to consider, policy loans and withdrawals reduce the policy’s cash value and death benefit and may result in a taxable event. Surrender charges may reduce the policy's cash value in early years. The expenses and costs associated with life insurance are not reflected in the hypothetical illustrations that follow, as these are illustrations of the effect of taxes only.
Which Strategy Will Accumulate More?

A Pre-tax Strategy will typically accumulate the most for retirement before taxes are paid on distributions.

Hypothetical example for illustrative purposes only – not representative of any particular investment.
It’s Not Just about Accumulation

You need to consider future taxes on retirement income
If you were a farmer would you rather pay tax on the seed... or the harvest?
What direction do you think tax rates are heading?

History of Federal Individual Income Top Marginal Tax Rates

Source: truthandpolitics.org, referencing IRS Statistics of Income Bulletin Pub 1136
If Taxes Are Lower at Retirement
20% Tax Bracket

Don’t Forget State Taxes!

A Pre-Tax Strategy produced the greatest net income

Hypothetical example for illustrative purposes only – not representative of any particular investment. This illustrates only the effect of Federal income taxes and does not take into account differences between various savings vehicles.
If Taxes Are Higher at Retirement
40% Tax Bracket

A Tax-Free strategy will produce the greatest net income

Hypothetical example for illustrative purposes only – not representative of any particular investment. This illustrates only the effect of Federal income taxes and does not take into account differences between various savings vehicles.
How Good Are You at Predicting the Future?

• Tax rates may rise in the immediate future, but what about 5, 10 or 20 years from now?
• Tax laws can change
• If retirement is still 20 years away, how can you determine with any certainty what tax rates will be?
Diversify, Diversify, Diversify....

- Fundamental principle for retirement planning
- Don’t put all your dollars in one basket
- Consider hedging your future tax rate “bet” and diversify between various tax strategies

Diversify By Adopting a Combination of Strategies

Tax Diversification and Asset Diversification
Q. Which plan is the right plan?

A. It depends on your unique goals....

...It may be a combination of plans.

*Policy loans and withdrawals reduce the policy’s cash value and death benefit and may result in a taxable event. Withdrawals up to the basis paid into the contract and loans thereafter will not create an immediate taxable event, but substantial tax ramifications could result upon contract lapse or surrender. Surrender charges may reduce the policy's cash value in early years.

** The use of trusts involves complex tax rules and regulations. Customers must consult competent legal and tax advisors prior to implementing such sophisticated strategies.
Evaluation Form Review

Seeking A Tax-Free Retirement Seminar

Can you help us by taking a moment to complete this form? Your feedback will help us to evaluate and improve our services for you.

Thank you.

Please Print:

Name ____________________________________________

Address ____________________________________________

City: __________________ State: __________ Zip: ________ Date of Birth: __________

Home Phone: ___________________ Business Phone: __________

Email Address: ____________________________________________

Occupation: ____________________________________________

Single: ______ Married: ______ Widowed: ______ Divorced: ______

Spouse (if applicable) ____________________________________________

Date of BPN: ____________________

1. Did you enjoy the educational seminar?

2. What did you find most useful or interesting?

3. What was the least interesting or useful?

Areas of Interest:

_____ Real Estate Planning

_____ Cost Management

_____ Tax Planning Strategies

_____ Retirement Plans

_____ Estate Planning Strategies

_____ Employee Benefits

_____ Long Term Care

_____ Other: __________________

YES, I am interested in scheduling a complimentary consultation.

I would like the opportunity to read Patrick Kelly’s Tax-Free Retirement before talking with a financial professional about any questions. Please call me in ______ days/weeks.

Please call me to schedule an appointment:

Day Phone: __________________ Evening Phone: __________

Referrals:

Please invite the following people to your next seminar as my guests:

Name: ___________________________ Address: ____________________________

Name: ___________________________ Address: ____________________________

Name: ___________________________ Address: ____________________________

In the interest of the environment, if you are not interested in reading your complimentary, no obligation copy of Patrick Kelly’s Tax-Free Retirement, please take it with us before you leave.

Thank you very much for your assistance. We appreciate the opportunity to be of service to you.

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Getting Started!

Complete the evaluation form and request a meeting

And then we will:

• Schedule a meeting with you over the next few days
• Meet to review your retirement goals
• Analyze your existing plans
• Make recommendations to help you achieve your retirement goals

Agent Contact Information
Address
Phone Number