Capital Transfer Strategies

Make Every Dollar Count

Pass More Dollars to Your Children and Grandchildren…
Lose Fewer Dollars to Taxation
Make Every Dollar Count

Choose a Capital Transfer Strategy to...
- Maximize the value of assets you earmark for the next generation
- Minimize the effects of taxation
Preserve Your Legacy

The choices you make today can help preserve your hard-earned assets for tomorrow. With careful planning and Capital Transfer, you can be sure that you make every dollar count for you and your beneficiaries.

With Capital Transfer—the name says it all because this planning tool involves transferring capital from one asset to another. The Capital Transfer Strategy lets you replace a “negative tax consequence” asset with an asset that provides a favorable after-tax result.

Taxes can dramatically shrink your legacy. But Capital Transfer can help stop the drain on your assets.

The Retirement Plan Tax Dilemma

Traditional IRAs and qualified retirement plans—401(k)s, profit sharing plans, etc.—are remarkably efficient accumulation vehicles. Untaxed dollars are used to fund the plan, and income taxes are deferred as long as the funds remain in the plan.

These retirement plans become inefficient vehicles when funds are distributed at retirement. And at death, plan accumulations may be subject to double taxation—both income and transfer taxes. If you die with money in such a plan, income tax may be levied when funds are distributed to beneficiaries. And when your estate is large enough, transfer taxes—federal estate and state inheritance taxes—also come into play.
RMDs: Another Government Mandate

But that’s not all. After you reach age 70½, annual distributions must also be taken from traditional IRAs and most qualified retirement plans. So, whether you actually need your nest egg or not, the IRS requires that you take part of the account each year anyway. It’s called RMD — a required minimum distribution.

Required Minimum Distribution

• This requirement mandates that you take a specified annual distribution after you reach age 70½.

• Failure to take the required distribution — whether you need the income or not—means your assets will be taxed again. This time a whopping 50 percent penalty tax is levied on any amount you were required to withdraw but did not.

The Dilemma

You don’t need the money… but you must take the distribution that is specified by the IRS and pay current income taxes on it. If you don’t take the distribution… you will pay a punitive tax penalty! There is a way to use the required minimum distribution to maximize the inheritance you leave to beneficiaries.

The Solution

The Capital Transfer Strategy lets you place your retirement dollars in one of the most tax-efficient vehicles for transferring property to beneficiaries — a life insurance policy. By using the distribution you’re required to take to purchase life insurance that benefits your designated beneficiaries, you can maximize your legacy and avoid transfer taxes. Properly designed and funded, life insurance passes tax-free to beneficiaries — preserving the legacy you intended for them to enjoy.
**Capital Transfer in Action**

**It Works for Alice and her Daughter Samantha**

Alice is a 70-year-old widow who can live comfortably on her late husband’s pension for her lifetime. Alice has an IRA valued at $450,000. She doesn’t want or need the income her IRA generates. Alice plans to leave the IRA to Samantha, her only child.

Suppose Alice dies today when her IRA is worth $450,000. Assume no transfer taxes are due, and Alice’s combined federal and state tax bracket is 36 percent. Income taxes of $162,000 are due on the IRA, leaving just $288,000 for daughter Samantha.

**Capital Transfer Increases the Legacy**

On the other hand, if Alice withdraws the balance in the IRA today and pays the taxes, she can use the $288,000 to buy a life insurance policy payable to Samantha. This amount buys a lifetime guaranteed death benefit of $449,463—giving Samantha $161,463 more than if the money were left in the IRA and taxed when Alice dies.

If Alice decides not to buy the life insurance contract and instead leaves her daughter the $288,000 lump sum, it would take over 15 years** for the $288,000 to grow to $449,463 provided by the death benefit if Samantha were to invest it.

**Using Capital Transfer with Other Assets**

The same Capital Transfer principles apply to other assets such as mutual funds, savings accounts, stocks, bonds and others. Assets purchased with after-tax dollars are subject to current income tax and possibly capital gain taxes. However, when these assets are utilized to purchase a life insurance policy, you have an opportunity to multiply your legacy, avoid current taxation and, with proper planning, bypass all the estate transfer taxes that may be due.

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**Capital Transfer Increases the Legacy**

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<tr>
<th>Current Plan</th>
<th>Capital Transfer</th>
<th>Purchase Life Insurance</th>
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<tbody>
<tr>
<td>IRA Value</td>
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<td>Premium</td>
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<td>No. years to equal $449,463</td>
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<td>at 3% = 15+ years</td>
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<td>at 5% = 9+ years</td>
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1 Some assets if liquidated prior to 59½ may incur additional penalties in addition to any surrender charge that may apply.

* Based on standard non-tobacco rating for 70 year-old female, Lafayette Life Liberty Single Premium Whole Life policy. Policy series SPWL-05. Loans and/or withdrawals will reduce the death benefit amount.

** Assumes a contract 3% annual growth rate, compounded daily. Present value equals $288,000; future value equals $449,463.

Rates as of 07/2012.
Capital Transfer in Action

An Alternative Strategy
Many people like the Capital Transfer concept but they don’t want to withdraw all of their funds from a qualified plan. Once again, Capital Transfer offers an attractive alternative: use the required minimum distributions to make periodic premium payments on a life insurance policy and accomplish the same goals.

It Works for Warren and Barbara and their Grandson
Warren, age 71, and his wife Barbara have a single heir, their grandson Tyler. Warren does not want to cash in his IRA, but other assets and Social Security provide Barbara and him with enough income to live on for life. The IRA is valued today at $450,000. Warren wants to use the annual required minimum distribution (RMD) to make periodic premium payments on a life insurance policy that names Tyler as the beneficiary.

At Warren’s current age, his required annual minimum distribution is $16,981. Warren pays taxes of $2,545 on this amount, leaving $14,436 available to pay an annual premium into a lifetime guaranteed policy providing him a guaranteed death benefit of $208,185.* This death benefit will be paid to Tyler when Warren dies, with no income tax consequences.

It’s a win-win-win proposition. Warren keeps his IRA in place. Tyler is the beneficiary of an income tax-free life insurance policy. And Warren is assured that, when he dies, Tyler will inherit not only the balance of his IRA, but a sizable life insurance policy benefit as well.

* Based on preferred non-tobacco rating for 71 year old male, Lafayette Life Heritage whole life policy. Policy series WL-05-100. Assumes federal income tax rate of 15%. Rates as of 07/2012.
The Capital Transfer Strategy Works Best for People Who:

• Have reached retirement age
• Live comfortably on other retirement income
• Do not need additional income
• Have designated certain assets for family members or a charity

Will Capital Transfer Work for You?
If you’re looking for a way to meet your financial goals and realize your intended legacy, it’s worth your time to explore the Capital Transfer Strategy. It’s a simple way to maximize assets for beneficiaries, minimize current income taxes, and/or use required minimum distributions to add to your beneficiaries’ inheritance.

The Lafayette Life Insurance Company

With more than one hundred years of service to policyholders, The Lafayette Life Insurance Company has proven itself a leader in providing individual life insurance, annuities, and retirement and pension products and services.

Lafayette Life is a member of Western & Southern Financial Group, a family of financial services companies whose heritage dates back to 1888. With the strength of our organization and our ongoing commitment to servicing you, your business and your family, The Lafayette Life Insurance Company is a company you can depend on. Find out more about our financial strength and distinguished history at www.LafayetteLife.com.