Winning Financial Strategies for Seniors

How to –

- Find Hidden Income
- Provide Asset Protection
- Get Paid to Give Money Away
- Provide for Your Heirs
- Minimize Risk

Prepared by:

Tony Gallardo

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43714 Cadbury Terrace

Ashburn, VA 20147

(703) 729-9893

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Introduction

The challenges that seniors face are greater today than perhaps they have been in decades. At one time, retirees could rely on a nice interest rate from their CD (certificate of deposit), or a dividend check combined with social security. With people living longer and generally being healthier many seniors plan to work longer, and live a much more active lifestyle than they did just a few years ago. Financial considerations are a central part of being able to get the most out of life in the golden years, but turbulence in the financial sectors sometimes complicate planning and decision making.

There is a bewildering array of options for seniors to consider when thinking about their estates, wills, living wills, asset protection trusts, revocable trusts, and more.

The purpose of this report is to outline a series of simple but effective strategies for seniors to increase income, provide asset protection, shelter assets from the estate tax, and provide flexibility in the use of those assets while the person is living and after they have passed.

Like all strategies, these are suitable for a great number of people, but not for everyone. Even though they are simple and straightforward compared to some options, no one should consider any of them without the advice and consultation with an experienced financial advisor.

In the succeeding pages I will outline some of these strategies with the intention of providing the reader some basic insight and understanding of how they work. The ideas outlined in this paper are a small fraction of the total number of options available, but these are intended to introduce the concept.

Tony Gallardo

Insurance Broker and Financial Advisor

Tony Gallardo – tony@winstratseniors.com

Tony Gallardo has more than 40 years business experience, including as a senior executive in a publicly traded company and as a business owner in real estate development, and the insurance and financial services industries. He holds a B.S. degree from the University of Tennessee and a Master of Business Administration degree from American University. He is currently working as an insurance broker and financial advisor to seniors.

Overview and Philosophy

Tony's objectives for each client he works with are to satisfy that client's needs for increased income, safety of principal, retention of a satisfactory cash reserve for immediate needs, protection of assets from taxes, and to insure that the client's wishes upon death are fulfilled.

Tony knows that his strategies are not suitable for everyone and he commits to conducting a thorough evaluation of each potential client's personal situation to determine whether to proceed with a detailed proposal.

This evaluation will be cost free to the client and will be on a no obligation basis. Together, we will look at the client's current financial situation, the assets he potentially has to devote to one or more of these strategies, along with his needs and goals.

We will insure that the client has enough readily accessible reserves to provide a secure feeling that should they need it, the reserves are available when needed. The strategies we use are with only the top rated insurance companies in the industry, and represent minimal risk; the principal is as safe as any other option available (all the companies are at least "A" rated by AM Best, Moody's and Standard and Poor's. We call this reserve the "sleep well at night" reserve.

Tony works with only the top 50 insurance companies in the country; names such as Prudential, Transamerica, John Hancock, G.E. Capital, GenWorth, Franklin Life, New York Life, Mutual of Omaha, Met Life, and about 40 others. Safety of the client's principal is the primary concern in all of our transactions.

Each client's profile is different than all other clients, so we shop all 50 companies for each client, to put together the best proposal for each individual. This takes time, so that is the reason we make the effort in advance to see if any of the strategies are suitable before we take on a client to prepare a proposal.

Our goal is to exceed our clients' expectations.

CD Strategy to Increase Income

Mr. Johnson is 60 years old, in reasonably good health and has a $250,000 CD, earning less than 2% at today's rates. This yields him an annual income of $5,000 before tax and assuming a 25% tax rate, after tax income of $3750.

We put that $250,000 in a pension contract (an annuity) that pays $16,680 per year, and simultaneously purchase a $250,000 life insurance policy. This strategy does two things; it increases his income, and protects the $250,000 from estate taxes.

The summary looks like this:

	Before	**After**
Assumed Gross Income	$5,000	$16,680
Tax Due	$1,250	$1,790
Insurance Premium	$0	$3,880
Spendable Income	$3,750	$11,010
Tax Advantage to heirs?	$0	YES
Size of Inheritance	Subject to Estate Tax?	$250,000

Assumptions: 60 year Old Male, Income Tax Rate: 25%

CD Interest Rate: 2%, Tax Exclusion Ratio: 57 %

Bond Strategy to Increase Income

Mr. White is 65 years old, in reasonably good health and has $500,000 in bonds, earning 3%. This yields him an annual income of $15,000 before tax and assuming a 30% tax rate, after tax income of $10,500.

We put that $500,000 in a pension contract (an annuity) that pays $35,940 per year, and simultaneously purchase a $500,000 life insurance policy. This strategy does two things; it increases his income, and protects the $500,000 from estate taxes.

The summary looks like this:

	Before	**After**
Assumed Gross Income	$15,000	$35,940
Tax Due	$4,500	$4,098
Insurance Premium	$0	$12,398
Spendable Income	$10,500	$19,444
Tax Advantage to Heirs?	$0	YES
Size of Inheritance	Subject to Estate Tax?	$500,000

Assumptions: 65 year Old Male, Income Tax Rate: 30%

Bond Interest Rate: 3%, Tax Exclusion Ratio: 62 %

IRA Strategy to Maximize Inheritance

Taxes due on IRA's or other retirement plan based on the presently scheduled estate tax rate of estates over $5.0 million.

Estate Tax	35%
IRD Tax	19% *

*IRD tax is the tax on a recent decedent

Mr. Baker is 70 year old and decides to keep his current IRA, lives another 20 years, and receives a 5% fixed rate of return.

Mr. Baker's situation and goals are as follows:

- He does not need income
- He would like to maximize the inheritance to his heirs
- He wants to minimize the taxes paid

So, instead of passing a potential IRA tax along to his heirs, there is an option that may be used to more efficiently pass the value of his IRA to his heirs, while increasing his income.

As before, we put Mr. Baker in an income contract and purchase a life insurance policy to help him realize his goals. The $500,000 pension contract produces an after tax income of $38,100 which is used to purchase a life insurance policy with a face value of $1,100,000.

The summary looks like this:

Account Balance	$500,000
Income	$50,800
Tax Due	$11,900
Net Income After Taxes	$38,100
Insurance Premium	$38100
Spendable Income	$0
Tax Advantage to Heirs?	**YES**
Size of Inheritance	$1,100,000

Assumptions: 70 year Old Male: Estate Tax 35%

Income Tax Rate 25%

IRA Strategy – Tax Free Inheritance

Taxes due on IRA's or other retirement plan based on the presently scheduled estate tax rate of estates over $5.0 million.

Estate Tax	35%
IRD Tax	19% *

*IRD tax is the tax on a recent decedent

Mr. Baker is 70 year old and decides to keep his current IRA, lives another 20 years, and receives a 5% fixed rate of return.

Mr. Baker's situation and goals are as follows:

- He would like to maintain his income
- He would like to maximize the inheritance to his heirs
- He wants to minimize the taxes paid

So, instead of passing a potential IRA tax along to his heirs, there is and option that may be used to more efficiently pass the value of his IRA to his heirs, while increasing his income.

As before, we put Mr. Baker in an income contract and purchase a life insurance policy to help him realize his goals. The $500,000 pension contract produces an after tax income of $38,100 which is used to purchase a life insurance policy with a face value of $500,000.

The summary looks like this:

Account Balance	$500,000
Income	$50,000
Tax Due	$12,500
Net Income After Taxes	$37,500
Insurance Premium	$17,000
Spendable Income	$20,500
Tax Advantage to Heirs?	**YES**
Size of Inheritance	$500,000

Assumptions: 70 year Old Male: Estate Tax 35%

Income Tax Rate 25%

Funding Education for Grandchildren

Mr. Harris is 70 years old, in reasonably good health and has a $500,000 CD, earning less than 2% at today's rates. This yields him an annual income of $10,000 before tax and assuming a 25% tax rate, after tax income of $7500.

Mr. Harris has the following goals:

- Fund Education for his grandchildren
- Protect assets from estate taxes
- Retain some income

We put that $ 200,000 toward the education fund, purchase a $300,000 a pension contract (an annuity) that pays $30,000 per year, and also purchase a $500,000 life insurance policy. This strategy meets his goals; it protects his assets from estate taxes, provides a source of funding for his grandchildren's education, and leaves some income for his living expenses.

The summary looks like this:

$500,000 CD Account	Put $200,000 in Education Fund Put $300,000 in Pension Contract
	Pension Contract Produces $30,000 Income- After tax, Income is $27,500
	Purchase $500,000 Life Policy for $17,000 per Year
	Net Income is $10,525-Heirs receive $500,000 tax free

Funding Favorite Charity or Church

Mr. Chambers is 70 years old, in reasonably good health and has a $250,000 CD, earning less than 2% at today's rates. This yields him an annual income of $10,000 before tax and assuming a 25% tax rate, after tax income of $7500.

Mr. Chambers has the following goals:

- Fund his favorite charity or church
- Protect assets from estate taxes
- Retain some income

We purchase a $250,000 a pension contract (an annuity) that pays $20,000 per year, and also purchase a $250,000 life insurance policy. This strategy meets his goals; it protects his assets from estate taxes, provides a donation to his favorite charity, and leaves some income for his living expenses.

The summary looks like this:

	Before	**After**
Account Balance	$250,000	$250,000
Tax Due	$1250	$1650
Insurance Premium	$0	$8600
Spendable Income	$3750	$9,750
Tax advantage to heirs?	NO	YES
Donation to charity	$0	$5,000
Size of inheritance	Subject to Estate Tax?	$250,000

Assumptions: Income Tax Rate 25%

Tax Exclusion Ratio: 67%*

What You Need to Know About Annuities

When considering annuities, there are a few important things to know. First, know that nearly 70 million people benefit from annuities daily in the US alone, and in 2010, about $150 billion in annuities were purchased in the US.

So, annuities are popular today, but they're not new. In fact, annuities can actually trace their origins back to Roman times.

Contracts during the Emperor's time were known as "annual stipends". Back then, Roman citizens would make a one-time payment, in exchange for lifetime payments made once a year.

For anyone considering an annuity, here are some frequently asked questions and concerns.

What about safety of principal? Most Annuities are Safety-First Investments .From a risk tolerance and safety perspective, annuities can be boiled down to two simple categories for consideration:

The first type emphasizes safety - These are fixed annuities that provide tax deferred benefits, long term growth, guaranteed interest rates, probate protection, trust advantages, and lifetime income benefits, and guarantee the security of principal and earnings over the lifetime of your annuity. Your options range from fixed, immediate, split, and equity indexed annuities, and are utilized by those whose *primary objective is preservation of assets.*

The second type emphasizes growth. - These are variable annuities, which allow you to get many of the benefits above, and offer subaccounts for investments made in stocks, bonds, money market instruments and securities. A variable annuity provides more growth opportunity and direct control than other annuities, but the potential for risk to your earnings principal can be a very real concern for individuals who have low or no tolerance to risk.

At USA Insurance Brokerage and Financial Advisors, we work only with fixed annuities, because our objective is to provide our clients with increased income and safety of principal.

Are Insurance Companies Safe?

Annuities are products offered by insurance companies, so an investor should consider the financial strength of the company that writes annuity contracts.

The insurance industry employs millions of people in the US alone, and they provide protection for ourselves and our families through life insurance, healthcare, accident and vehicle insurance, homeowner and property insurance, and business insurance. They protect millions of us from unexpected catastrophic events every year.

The legislation governing insurance companies is designed to provide absolute protection, as federal law requires them to hold a reserve that at all times equals the withdrawal value of your annuity policy. In addition, state law also requires surplus capital be available to increase your protection,

Since the entire industry is based on trust and faith that they will be there when claims are filed, insolvencies are usually handled by contracts being taken over by one or more solvent insurance companies.

That being said, most advisors recommend that their clients work only with "A" rated companies, as rated by AM Best, Moody's, or Standard and Poor's.

What about withdrawal penalties?

Some of the features of annuities are that much like a certificate of deposit with your local bank, there are often, but not always, early withdrawal penalties if you are forced to cash in your annuity early. These penalties vary widely depending on the product, so it is important to know what they are for any annuity product you are considering, and to take into account that your own situation allows you to have enough of a ready cash reserve for unforeseen needs.

In the end, it is important to work with a financial advisor who is thorough in answering all your questions and concerns and with whom you have developed a relationship of trust.

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