AMERICA'S RETIREMENT CRISIS

How to Build Wealth in the New Retirement World

Michael Cosentino

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Introduction

When looking at the current retirement system, I sometimes feel like the whole world has gone crazy, and we are all buying into this craziness together.

We only need to go back about thirty-six years ago to 1978 to find what I call the end of retirement stability for many. Back then we lived in a world of pensions with guaranteed income amounts. They were based upon years of service and income made during service to the company. People talked about the comfort of the pension they would receive, the time they would spend with their families, and traveling. Fast forward to 2014 and we have about eighty-eight million people in 401(k)s with a value of about 4.5 trillion dollars—all with 100% risk and most not having a clue what their income will be in retirement.

HOW DID THIS ALL HAPPEN

This all started with the changes from Employee Retirement Income Security Act (ERISA) 1978. The world went from defined benefits with many companies paying for your pension to defined contributions with a 401(k) plan. These plans put people in charge of putting their own money away along with being their own manager with no guarantees of income and no principal protection. They don't choose the plans, and they don't choose the fee structure their company does both.

Today everyone focuses on one thing—return, return, return, or should I say—risk, risk, risk. Most have no idea of what type of income their 401(k) will create for their retirement or if they will be able to even retire. I want to be clear on this point, this book is not a beat-up on stocks book, but rather a wakeup call for the portion of your savings you have flagged as needed for retirement income. I will show you options to help protect and grow your retirement income in ways you most likely never

knew about. I feel that so many people would enjoy retirement planning if they just used the strategies we will discuss in this book and let them work for them. They would have a happier and, most importantly richer retirement future without losing sleep every night, worrying if retirement savings is going into a free fall with the next market correction.

For many reading this book, these strategies I will share will seem like a strange new world. Unfortunately most people talk about nothing but returns, but what we will talk about in this book is what really matters—income. How to create it, how to build it tax-free, how to protect your principal, create interest rates as high as twelve percent and sometimes fifteen percent annually, and most importantly how to take your money out tax-free in retirement.

TWO MOST COMMON QUESTIONS PEOPLE ASK

The most common question I get after presenting this strategy is—what is the catch? It can't be this good. And my answer is always the same. The first time I saw the strategy I asked the same question. Bottom line—I believe hands down it is the best long-term, income-generating strategy out there.

The second most common statement I hear after presenting these strategies is—why don't more people know about this? Unfortunately I believe when something is not sexy like the next new tech stock or the next new IPO, somehow it does not get the attention it deserves. It is my job here to educate you on it , because I believe it can really change your family's financial future and give you some excitement and certainty with you retirement that is sorely missing in America right now.

LOSSES ARE FINE

The saddest thing about our current retirement income saving system is we are told that it is ok to take losses because it is not a loss unless you sell. I am here to tell you that when it comes to the money that is used to replace or supplement your pension, a loss is not acceptable. In my

opinion this is the reason our country is in so much trouble as it relates to retirement savings. People invest for return and take on more risk in their 401(k), then take a big loss and pull out their money from the fund for fear of more losses. They wait until the "market comes back" to put their money back in. This cycle continues until many of them give up or pick a fixed account. Clearly, this is not a long-term strategy for success. This all comes down to the fact that there is no principal protection and no income plan in place. Always remember you can replace the money you lost because of stock market correction over the course of several years' time, but you can never replace the lost time you lost, which is something we explore more in this book.

FUTURE CONCERNS

We really have not even begun to see the problems we will face starting in 2016 as the first baby boomers starting turning 70.5 years of age and the required minimum distributions (RMD) start to take effect in this country at a compounding rate every year. More and more baby boomers will be required to take money out of the market. How those growing withdrawals amounts every year from the stock market will affect market stability long term is also very concerning for future stability and has been well documented.

In this book I will take you through the current 401(k) system and the massive problems facing Americans with only saving that way for retirement. We will look at the current social security system and the challenges it presents to future retirees. Most importantly I will share with youstrategies that you can implement in your retirement plan. These strategies have been used for hundreds of years by the wealthy, and unfortunately very few people know about them.They will help you build wealth and sleep at night.

So let's begin our journey into a better, safer way to build wealth and save for your retirement income.

CHAPTER 1

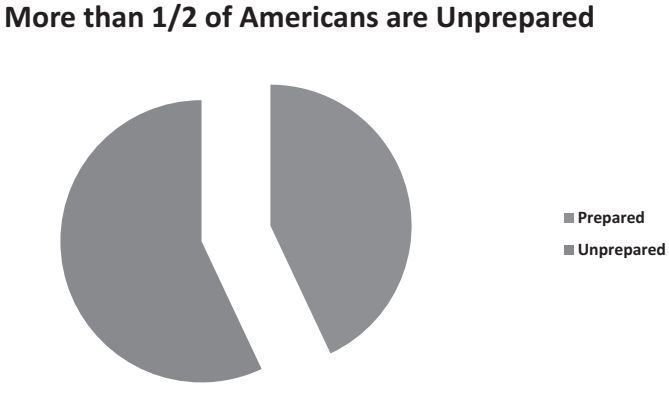
"Courage is what it takes to stand up and speak; courage is also what it takes to sit down and listen."

Winston Churchill

Retirement Meltdown

While you may or may not have heard this before, I think it still bears repeating. It is a known fact that many people in the US today spend more time planning for a two-week vacation than they do planning for retirement.

According to the Employee Benefit Research Institute, roughly fifty-seven percent of US workers are not prepared for retirement. That's more than half of us!



More than half of Americans are not financially prepared for retirement.

Most people think that 401(k) plans will be the saving grace for their retirement. But the truth is that these plans were really only meant to simply augment pensions when they first came out back in the 1978. Then as pensions starting disappearing, they became the new "main pension replacement" for most employees.

401(K) VS. PENSION AND THE FUTURE OF RETIREMENT PLANNING

A 401(k) is what is referred to as a "defined contribution" plan. This is because you are allowed only a certain amount of money that you can put into your plan each year. In other words, you have a "defined" amount of contribution.

This differs a great deal from the "defined benefit" pension plans that were offered by companies in the past. These plans had a specific, or defined, amount of benefit that they had to pay out to employees after retirement.

In fact, one of the biggest differences in how most retirees received income years ago and how most will receive retirement income in the future lies in the type of retirement plan their employer offers today.

As the name suggests, defined benefit pension plans pay out a set amount of retirement income benefits to their recipients. With this type of plan, the employer has promised to pay the participants a specific amount of retirement income for the remainder of the employee/retiree's life—regardless how long that was. With those plans, there was no worrying about running out of money in retirement.

Because of this, the liability of the pension rested solely with the employer. In fact, one hundred percent of the contributions into the defined benefit plan were made by the employer—not the employee.

Likewise, the decisions that were made regarding how to invest the funds in a defined benefit plan were also made by the employer. Therefore, with a defined benefit retirement plan, all of the investment risk—as well as management of the portfolio—were up to the sponsoring company.

Therefore, if there was a shortfall in the amount of money that was necessary to pay out an employee's retirement income benefits, that amount would be made up by the employer.

Employees who participated in a defined benefit plan were always entitled to the amount of vested accrued benefit that was earned. Should an employee leave his or her employer prior to their retirement, the benefits

that they had earned up until the time of their departure from that employer would be frozen and held in a trust for them until they reached retirement age.

Defined benefit plans provided a great way for retirees to receive a lifetime income. However, because of the massive expense that fell on the employers' shoulders to fund these types of plans, many employers have moved away from defined benefit pensions over the past few decades.

Also the fact that corporate profits were shrinking and other obligations for companies' funds were increasing, most employers today do not offer defined benefit plans at all. Instead they offer "defined contribution" retirement plans such as 401(k)s. These plans are what most people are now relying on to sustain them throughout retirement.

Defined Benefit versus Defined Contribution Plans

Defined Benefit Plan	Defined Contribution Plan
Benefit received at the time of retirement is fixed based on certain working factors.	Benefit received at the time of retirement is not fixed on any specific or set calculation.
This is beneficial to the employee.	This is beneficial to the employer.
There is an element of comfort and surety to the employee with this method.	There is no element of surety to the employee with this method.
The employee does not have to worry about how the plan earnings are going to be managed.	The employee has to worry about the way in which the earnings come with this method.
If there are inadequate earnings, the employer makes up the shortfall against the amount that is due.	If there are inadequate earnings, then the employee gets a lesser amount of benefit.

CHAPTER 2

"There's a better way to do it find it "

Thomas A Edison

Why 401(k) Plans Don't Work for Retirement Income Planning

WHO CAME UP WITH THIS 401(K) IDEA ANYHOW?

The 401(k) plan came about back in 1978 during a congressional provision that was actually intended to provide taxpayers a break on deferred income. These savings plans, named after a section in the Internal Revenue Code (IRC), allow their participants to invest in a variety of different investment options. In many cases, there is also a percentage of "matching" funds contributed from the employer or sponsor.

According to the Employee Benefits Research Institute (EBRI), the Revenue Act of 1978 included a provision that became Internal Revenue Code (IRC) Section 401(k). Under this particular IRC, employees are not taxed on the portion of the income that they elect to receive as deferred compensation rather than as direct cash payments.

The Revenue Act of 1978 added permanent provisions to the IRC, sanctioning the use of salary reductions as a source of retirement plan contributions. The law actually went into effect on January 1, 1980.

Between the time of 1979 and 1982, several large corporations, including PepsiCo, Johnson & Johnson, Honeywell, Hughes Aircraft Company, and JC Penney all developed 401(k) retirement plan proposals—many of which officially began operation in January 1982.

Because 401(k) plans let the individual employees decide on their own investments within their accounts, the founding of these plans helped to spark a large boom in the investment of mutual funds that still continues today.

These 401(k) plans are considered "defined contribution" retirement plans. This is because participants in these plans are only allowed to contribute a certain maximum amount of money each year into the plan. If more than the maximum is contributed, the participant can be penalized.

WHY 401(K) PLANS REPLACED PENSIONS

Prior to offering defined contribution 401(k) retirement plans to their employees, many companies previously provided pensions. These retirement plan offerings were also known as "defined benefit" plans.

This is because rather than having a set maximum amount of deposit each year, these types of pension plans offered a set amount of income benefit to their retired participants.

In other words, upon retirement, a retired employee would receive a guaranteed amount of income, year in and year out, typically for the remainder or his or her life.What made these plans even nicer was that all of the responsibility for ensuring that there was enough money in the plan fell to the employer, not the employee.

Unfortunately, even though defined benefit pension plans provided many nice benefits and guarantees to their participants, most employers have been moving away from offering these types of plans over the past thirty years.

One reason for this is because contributions by the employer are required each year in order to fund the pre-determined retirement benefits of the participants—regardless of the company's yearly profit or losses.

Therefore, defined benefit pension plans can be a real liability for an employer. And, because the funding for a pension plan comes from the employer's earnings, this tends to have a direct impact on the company's profits—which can also weaken the company's ability to compete in the marketplace and lose market share. This would eventually make the company insolvent, at least in their eyes, long term with the liability of a growing pension funding on their books.

In many instances—and most especially when a company goes out of business and files for bankruptcy—the responsibility for paying the employees' retirement benefits become the responsibility of the United States government—which in turn, passes on the burden to the taxpayers.

In other cases, employees who were counting on their company's pension plan have had to start over with their retirement savings when they discovered that their employer had failed to fund the pension due to the high expense of doing so.

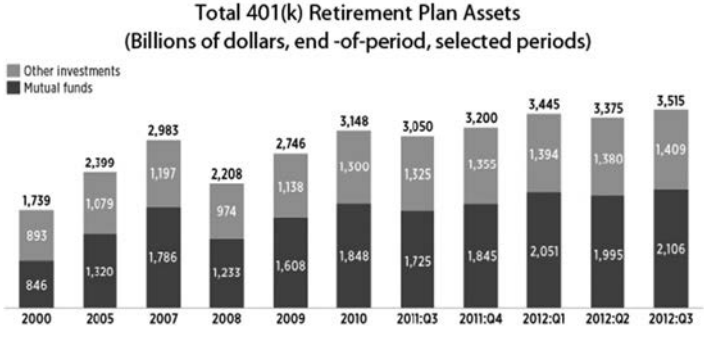
Therefore, given the shrinking of corporate profits today, higher amount of global competition, and other pressing obligations for companies' funds, many employers are no longer offering defined benefit pension plans and are instead offering defined contribution 401(k) plans. This is because 401(k)s are much less costly and less of a responsibility overall to the employer.

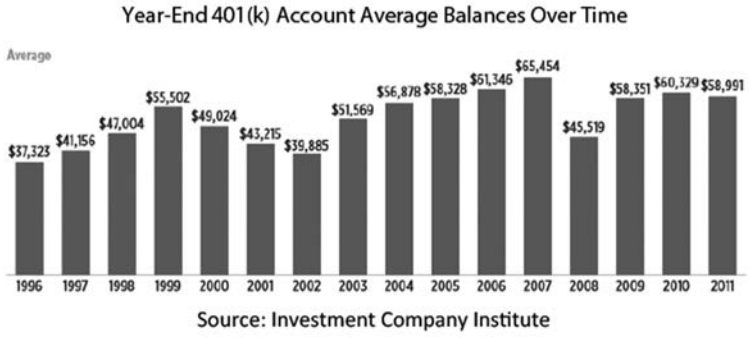
THE POPULARITY OF THE 401(K) PLAN

According to the Investment Company Institute (ICI), as of March 31, 2014, 401(k) plans held an estimated $4.3 trillion in assets, and they represented approximately nineteen percent of the $23.0 trillion in US retirement assets.

This number includes employer-sponsored retirement plans (both defined benefit and defined contribution plans with private sector and public employees), as well as Individual Retirement Accounts (IRS) and annuities.

In 2012, it was estimated that approximately fifty-two million American workers were active 401(k) retirement plan participants. At that time, there were roughly 515,000 total 401(k) plans in force.





Clearly, when you look at the charts above, the accounts tell the sad tale of the problem that exists today. When you look at the amount invested into these accounts since only 2000 they have more than doubled going from 1.7 trillion to 3.5 trillion in assets. When you look at the average account balances going back further to 1996 through 2011, they have gone from 37,000 to 58,000. So I think you get the picture it is not working.

CHAPTER 3

"Beware of little expenses. A small leak will sink a great ship."

Benjamin Franklin

Fees, Fees, Fees

WHY DOES IT SEEM I AM NEVER MAKING MONEY IN MY ACCOUNT?

One of the problems you hear from 401(k) owners is that it seems they are never making money. That may have to do with costs that are really not providing a benefit to you. They are just an expense.

High Costs and Fees

In many ways, 401(k) plans may even be considered as large "skimming" operations where brokers and mutual funds work together with employers. Here, in return for a group of employees' investment dollars, the fund companies and brokers can essentially cash in on a wide array of commissions and administrative fees, in addition to a nice sum of "revenue sharing" payments from the mutual fund companies.

So, what exactly are some of the fees that are included in a typical 401(k) plan? Here are some of the expenses that you may find:

Investment Fees

The net investment cost is the portion of the total investment cost that goes to the plan's investment manager. Plan participants have some amount of control over this particular fee, as they can choose "cheaper" mutual funds to invest in.

Unfortunately, those less expensive funds may not be the best performing in terms of actual investment return. In most cases, this encompasses the largest component of 401(k) plan fees and expenses.

Record Keeping Expenses

Record keeping expenses will generally cover the fees that are charged for the maintenance of paperwork and plan documents, as well as other

types of administrative duties. Typically, annual fees can range from an average of $5 per plan participant in larger 401(k) plans to approximately $70 per person in smaller plans.

Revenue Sharing Fees

Revenue sharing fees are paid by mutual funds to 401(k) plan providers who perform the recordkeeping function for the plan. They are charged against the mutual funds, and in turn, they come directly out of the participants' accounts. They are usually just built right into the expenses that you pay for the mutual funds in your 401(k) plan.

These fees may also be referred to as 12b-1 fees, sub-transfer agency fees, or simply shareholder servicing payments. In any case, they will typically eat away at your portfolio's return, year after year, reducing the amount of money you will ultimately have at the time of your retirement.

Individual Service Fees

In addition to the overall administrative costs, you may find that there are individual service fees that are charged for any optional features offered with your 401(k) plan.

For example, an individual fee could be charged separately to the account of a plan participant who chooses to take advantage of a particular plan feature such as taking out a loan.

Other Fees and Expenses

In addition to the fees for the plan's administration and operation, there will be other fees charged in connection with the actual investing. For example, you will also have sales charges—otherwise known as commissions or sales loads.

These are transaction costs charged for buying and selling stock shares, mutual funds, and other types of investments within the 401(k) plan itself. These charges will typically vary based on the individual investment.

You may also run into additional management fees or investment advisory fees. These ongoing fees are charged for the management of the assets in the investment fund. These are usually stated as a percentage of the overall amount of assets that are invested in the fund.

How Much Are 401(k) Fees Costing You?

On average, fees and expenses within a 401(k) retirement plan can range between one and two percent, depending on the size of the plan, how many employees are covered, and the employees' asset allocation choices. This is according to LIMRA.

But, while that may not initially sound like a lot, it can really add up over time. Let's take a closer look at just how much money you could be losing to 401(k) fees and expenses alone.

Let's say you are currently paying two percent in overall 401(k) plan fees and you are getting an average return, before these fees are charged, of eight percent on your plan's investments. We can also say that you started with an account balance of $100,000.

If you are currently 50 years old, you plan to retire at age 65, and you are making an annual contribution of $17,500 (which is the maximum allowable contribution amount for 2014) plus the additional catch-up contribution amount of $5,500, for a total of $23,000, here is what you could be paying out over time in 401(k) plan fees:

Enter your estimates		
Assumed Investment Return (Before Fees)	8	%
Current Total Fees	2	%
Lower Fee Option	0	%
Current Account Balance	100000	
Annual Contribution	23000	
Current Age	50	
Retirement Age	65	

In this case, over you working career, high fees may cost you:

$166,712.41

CHAPTER 4

"You must be the change you wish to see in the world"
MahatmaGandhi

I have no choices

BELOW IS A LIST OF SOME OF THE PROBLEMS FACING EMPLOYEES WITH 401(K) PLANS:

Lack of Investment Choices

In addition to the fees that are charged in a 401(k) plan, there are other drawbacks to investing in 401(k)s as well. One of these is the lack of investment choices that participants have.

Typically, employees are limited only to the investment options that the employer provides for them. These can be especially limited if you are a participant in a small retirement plan.

With this in mind, you should really conduct a thorough assessment of how comprehensive your 401(k) plan is and research all of the funds that are offered in the plan prior to choosing what you will place your allocations into.

No Protection of Principal

Another issue with 401(k) plans is that these vehicles offer no protection of principal. While they oftentimes tout the fact that employees are allowed the freedom and flexibility to choose their own investments, what is really going on in many cases is that employees are walking down a slope of potential disaster with investment loss.

These losses can essentially have a long-term effect on your retirement—especially if you are close to that time in your life and don't have much time to make up for those losses before your intended retirement date.

Being Your Own Money Manager

One of the ways that 401(k) plan managers like to tout the benefits of their plans is by stating to participants that they have the "advantage" of being able to choose their own investments.

Yet, in most cases, when plan participants receive the information on their plan's investment options, it is very confusing. This is because most 401(k) plan participants are not trained as investment experts.

Asking participants to choose their own investment options is, in many ways, like asking a patient to choose his or her own health diagnosis with absolutely no medical training or stepping up to bat against Cy Young winner Justin Verlander never having played baseball past high school! Who do you think stands a better chance of winning?

No Focus on Income

Yet another issue with 401(k) plans is that these vehicles really only focus on rate and return, and have no real focus on how pensions should ultimately be designed—with a focus on income.

When you think about it, though, shouldn't a retirement plan be focused on income? After all, you need income in retirement because income is what you will be using to pay your living expenses. You need

income month in and month out, and guaranteed income that you will want to rely on throughout the remainder of your life. That is something that a 401(k) plan just simply cannot provide. So in many cases people try to figure out how to get the highest return and take more and more risk creating a roller coaster ride effect on their returns.

CHAPTER 5

How Do I Create Income?

401(K)S AND INCOME

In the past, companies typically provided their retirees with a "pension and a gold watch" upon retirement. In many cases, the income that was received from these pensions, coupled with income from Social Security,

was more than enough to provide for the retiree's ongoing retirement income needs.

GOING FROM DEFINED BENEFITS TO DEFINED CONTRIBUTIONS

Many companies started doing away with defined benefit pension plans and replacing them with defined contribution plans such as 401(k)s. While this may seem like just a simple difference in plan type for some, it actually represents a major shift in the way people can retire—and for some, it could even mean the difference between retiring and NOT retiring at all.

This is because with the defined benefit pension plans of the past, it was up to the employer to provide the retiring employee with a set amount of income—typically for the remainder of his or her life—usually based upon years of service and income while employed.

If there was a downturn in the market and/or a loss in the investment portfolio, it was not up to the employee but rather the employer to make up for the shortfall.

Now, however, with defined contribution 401(k) plans, things are quite different. The responsibility has completely shifted from employer to employee in terms of both return on investment as well as whether or not there will be enough income to sustain a nice lifestyle in retirement.

In fact, in many ways, the sad outcome of this change is suddenly everything went to a focus on rates of return rather than a focus on income.

This is because employees are so focused on building a large account balance, they have completely lost focus of the fact that these 401(k) accounts are there to provide long-term retirement income. A big part of that should entail not just getting a good return but also protecting your principal.

With that in mind, though, my question is this—how can we help people create a pension when there is absolutely zero focus on income? After all, shouldn't retirement be about relying on an ongoing cash flow so that you can finally enjoy life? Well, in order to do so, retirees need INCOME.

You see, retirees don't live on rates of return. They live on monthly income! You can't pay your mortgage, your utility bills, or your grocery bill with rates of return—you pay for them with income!

So, when I think about all of the other problems that are inherently wrong with 401(k) plans as a pension replacement, this is an important one—they simply do not have a focus on income. And because of that, in many ways, 401(k) plans really shouldn't be considered as a "pension replacement" at all.

COMBINING INCOME AND YOUR 401(K)— WILL IT WORK?

In helping 401(k) plan participants overcome the fear of outliving their assets, the United States Treasury Department and the IRS (Internal Revenue Service) ruled in July 2014 that it was ok to invest in longevity annuities inside of their retirement accounts without the need to worry about taking required minimum distributions after they reach age 70½.

In addition, these retirement plan investors can invest in longevity annuities that are either adjusted for inflation or not. This means that an annuity could be adjusted for some rate of inflation such as two or three percent increases over time.

Also, the funds that invest in these annuities may either invest via a lump sum or may be placed into these vehicles in increments through a salary deferral.

However, while at first this may have sounded like good news, the reality of the situation is the ruling came with some pretty stringent parameters. For example:

> *401(k) plan participants and IRA account holders are only allowed to invest up to twenty-five percent of their account balance, or—if less—$125,000 in qualifying longevity annuity contracts (QLACs) without having to worry about non-compliance with the age 70½ minimum distribution requirement.*

So, while the government may be starting to realize that consumers need a way to address the issue of income in their retirement plans, I truly believe the restrictions placed on these plans don't even begin to put a Band-Aid on the overall problem facing retirees and pre-retirees.

Because of that, it is absolutely essential that investors take the creation of retirement income into their hands, as this is something no longer being done by most employers through defined benefit pension plans.

The good news is there are other options available to individual investors in the marketplace—some even referred to as personal pensions. These plans can be set up and customized to an investor's specific and individual income needs.

WHAT YOU THINK ABOUT, YOU REALLY CAN BRING ABOUT

As I stated previously, when you constantly look at returns, your focus goes toward risk. You try to grow your portfolio as much as possible—and

then what happens? The market corrects itself, just as it does approximately every five to seven years.

Unfortunately, this does not typically fare well for those who are nearing retirement—especially for those who are not just attempting to achieve a nice rate of return, but who are also wanting to protect their principal. This is because the closer you get to retirement, the less time you will have to make up any losses you sustain in a downward-moving market or investment.

SHIFT YOUR FOCUS, SHIFT YOUR RESULTS

It has been said that if you focus on something hard enough, you might just get it—and I tend to believe that, even for intangible things like investing. You see, here is an interesting concept. The law of attraction tends to work in mysterious ways—but it oftentimes really does work! And, when you focus on something, you tend to bring more of it into your life.

For example, have you ever noticed that when you are thinking about getting a new car, you will suddenly start to notice all of those same types of cars on the road? It's almost as if overnight, that particular make and model of car starts popping up everywhere!

It can be like that in the financial world, too. For instance, when you focus on income, suddenly your mind shifts toward a goal that makes more sense to what most people are accustomed to seeing—and winning—the game of retirement.

THE BOTTOM LINE ON CREATING RETIREMENT INCOME

Throughout the years, there have been numerous changes in the landscape of employer-sponsored retirement plans—the biggest of which involves the shift from offering defined benefit pension plans to defined contribution 401(k) plans.

As more and more employers do away with pensions, it will be up to the individual employee to take hold of setting up his or her future retirement income plan. The good news is—there are options available in the marketplace for doing so.

As individuals save and invest for retirement, it is essential to keep in mind that the overall goal should be much more about retirement income as the result than about rate of return—as retirement living expenses can only be paid with Income not stock losses.

CHAPTER 6

"Progress is impossible without change, and those who cannot change their minds cannot change anything."

George Bernard Shaw

Social Insecurity Benefits

SSI THE RETIREMENT ANSWER?

I look at the current 401(k) plan crisis we are now facing—and then I look at the Social Security system. Then I get really worried for the future of people who are saving for retirement.

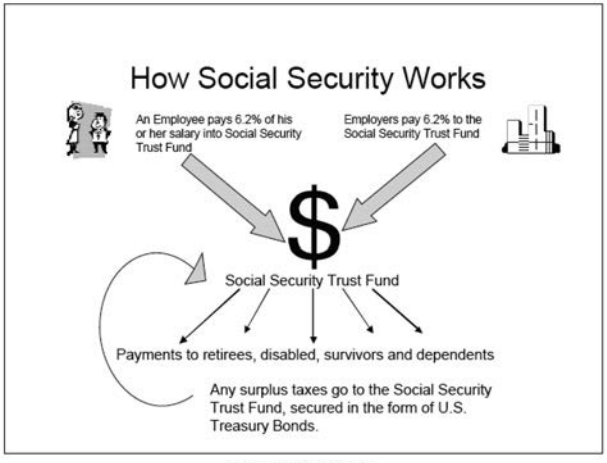
Think about it. When you really get down to it, the way we are planning for retirement these days in many ways makes no sense at all—at least, not if you actually want to have any money to spend in retirement! Consider these factors:

- We have no pensions, yet life expectancy today is longer than ever before, so retirement income should actually be lasting longer, too.
- We are told to be "do it yourself" investors in our 401(k) plans—which, for many, is the largest determining factor for retirement, yet most 401(k) investors have no formal investment training whatsoever.
- We are also given a limited amount of funds to choose from in our 401(k) plans—not by our own choice, but rather by our employers. This gives us even less of a chance of producing good investment returns, as our choices are very small in terms of investment options.
- We are told not to worry about losses in our 401(k)s and that "you will make it back in the long run."
- In addition, we are playing this investing game with guys who make a living doing it every day and are expected to make our decisions for our future. Now tell me, does that really sound like a good retirement plan to you?

Like I said earlier, it makes me feel like the guy going to the batter's box against the best pitcher in the MLB, when I only play on a weekend softball team.

SECURING YOUR RETIREMENT INCOME WITH SOCIAL SECURITY?

Let's dive into the next area of the retirement crisis—Social Security income. One of the supposed "saving graces" that we all have is Social Security income. We are told that income from this program will be available to us when we retire and that we will be able to receive it, month in and month out, until the day we die—and, that we are also likely to get a "raise" each year in terms of a Cost of Living Adjustment. This means that each year, not only will we be receiving income from Social Security, but the amount of income we receive will increase.



Source: ProCon.org

HOW IS SOCIAL SECURITY IS FUNDED?

Social Security is funded through payroll taxes that are paid by working individuals and are collected by the United States government. When these taxes are collected, they are placed into the Social Security Trust Fund.

The majority of individuals who work and earn an income are required to pay taxes into this system. These taxes are, in most cases, deducted directly from a worker's paycheck and forwarded to the IRS. For those who work for an employer, a certain amount of tax will also be collected by the IRS from the employer.

If an individual is self-employed, he or she is required to pay these taxes directly to the IRS. These workers will need to pay not just the portion of the tax that would be due from them as an individual worker but also the amount of tax that is due from the employer portion as well.

In the year 2014, the employer and the employee are each required to pay 6.2 percent on earnings, up to $117,000 for Social Security taxes. In addition, also for 2014, the employee and the employer are each responsible for paying an additional 1.45 percent on all earnings for Medicare.

BUT JUST HOW SECURE IS SOCIAL SECURITY?

Because more people are living longer these days, Social Security has been facing an increased amount of financial pressure over the past several years. This pressure was felt as far back as the 1980s, and at that time, some fairly substantial changes were put into the works in order to help keep the trust fund more stable going forward.

Therefore, the 1983 Social Security Amendments included a provision for raising the full retirement age, starting with people who were born in 1938 or later. (Source: www.ssa.gov). Congress cited improvements in the health of those who are older, as well as increases in average life expectancy, as being the primary reasons for increasing the normal retirement age.

Whereas prior to that time, full retirement age for everyone was age 65, today, full retirement age is based on the year of a person's birth. In order to determine your full retirement age for Social Security retirement income benefits, you can refer to the following chart:

Social Security Full Retirement Age

Year of Birth	Minimum Retirement Age for Full Benefits
1937 or Before	65
1938	65 + 2 months
1939	65 + 4 months
1940	65 + 6 months

1941	65 + 8 months
1942	65 + 10 months
1943 to 1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 or After	67

Source: SSA Publication 05-10024, Aug. 2011

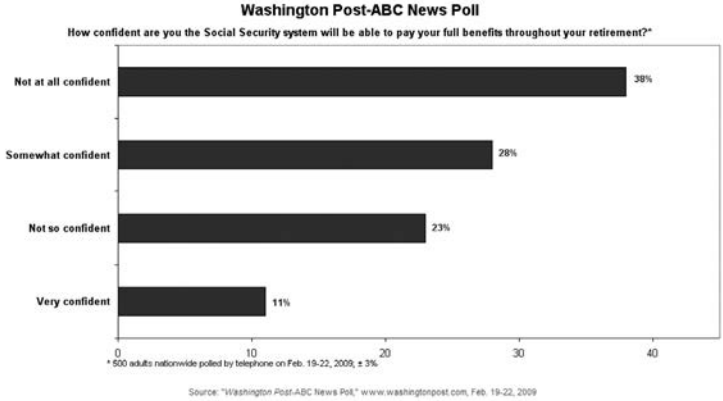
Fast forward to today. The Social Security financial coffers are once again feeling the pressure of the vast number of retiring Baby Boomers moving through the system—as an estimated ten thousand people in the US are retiring each and every day now.

Currently, according to AARP, estimates have indicated that the Social Security program will be able to pay full benefits to its recipients for the next twenty years. However, after that, it is anticipated that benefits will only be paid out at approximately seventy-five percent going forward.

Unfortunately, there has also sprung a lack of confidence in the Social Security system as well as from the American public. In fact, even over the past decade—if not longer—confidence in Social Security's ability to pay, and continue to keep paying benefits, has decreased.

According to a 2009 Washington Post-ABC News Poll measuring how confident people are that Social Security will be able to pay full benefits throughout their retirement, thirty-eight percent stated that they were Not At All Confident, and twenty-eight percent stated that they were only Somewhat Confident.

In fact, of the five hundred people nationwide who were polled for the survey, only eleven percent of the total stated that they were Very Confident. That doesn't sound very promising!



JUST HOW BAD IS IT FOR THE SOCIAL SECURITY SYSTEM?

An interesting—and somewhat alarming—article from *CNS News website by Ryan Kierman titled "Social Security Faces $9.6 T in Unfunded Liabilities—$83,894 Per Household," made me really stop and think for a moment. A couple of points came to mind after reading that interesting piece, though.

*(Source: http://cnsnews.com/news/article/social-security-faces-96t-unfunded-liabilities-83894-household)

First, if the Social Security program is under-funded by $9.6 Trillion dollars, it does not take a math major to tell us that is a lot of dollars, and there are only a few ways to fix this problem.

Let's take a closer look at some of the proposed solutions to Social Security's financial woes:

Increase the Payroll Tax Rate

One of the proposed solutions could be to raise taxes on the current workforce. Now, I don't know about you, but I think that we are already taxed to the hilt? And, as the workforce begins to shrink, it could mean that the amount of tax that each and every person would have to pay could be even more.

As it is, both employees and employers already pay a 6.2 percent tax into the Social Security program—and this is for a benefit that the individual worker may or may not ever see in the future. For self-employed workers it is even worse because these individuals must pay both of the tax amounts.

Think about this for a moment in terms of actual dollars and cents. If the payroll tax increase went from 6.2 percent up to 7.2 percent, that simple one percent difference could still mean an additional tax to workers of several hundred dollars per year—or more. And, this taxable increase would essentially increase the tax on everyone—regardless of the amount of his or her income.

This would leave less income for individuals and families to put toward living expenses and less to put toward saving for retirement—a proposal that may have a great deal of negative consequences.

Raise the Full Retirement Age—Again

Another proposed option to fix this broken system could be to raise the full retirement age—again. As you may recall, the age that people were able to receive the full amount of their Social Security retirement benefits was sixty-five for many years.

Then, several years ago, this age was increased, based on the year you were born. Today, depending on when you were born, your "full retirement age" could be anywhere from age sixty-five to age sixty-seven. This means that for some people, there will be a full two years' difference before they can begin receiving the full amount of their Social Security retirement benefits. That just doesn't seem very fair, now does it?

This new proposal cites raising the full retirement age up to age sixty-eight. (Source: AARP) Here, beginning in the year 2023, the age would increase by two months each year until it reached 68 in 2028. This proposal is estimated to fill approximately eighteen percent of the Social Security funding "gap."

In addition to the age sixty-eight full retirement age proposal, there is another proposal that cites potentially raising the full retirement age all the way up to age seventy. In this case, beginning in the year 2023, the age would also increase by two months each year, until it eventually reached age 70 in the year 2040. This significantly increases filling in the funding gap over the age sixty-eight proposal, as it is estimated to fill forty-four percent of this gap. (Source: AARP).

In either case, however, raising the full retirement age just pushes benefits back further and further for those who are paying into the system—and for some, this could even mean never seeing any benefits from Social Security at all.

Recalculate the Cost of Living Adjustment

Recalculating the Cost of Living Adjustment, or COLA, that is associated with Social Security retirement income benefits is another potential option for keeping the Social Security trust fund solvent.

Throughout the many years that Social Security has paid out retirement income benefits, these benefits have generally tried to keep pace with inflation. They have done so via something called a Cost of Living Adjustment.

Ever since the mid-1970s, the Social Security program has based these COLA adjustment amounts on the Consumer Price Index (CPI). The CPI measures the changes each year in the prices of consumer goods and services.

Over time, the CPI has typically been in the neighborhood of two to three percent. This means that retirees who are receiving Social Security retirement benefits have generally received yearly "raises" on their benefits of two to three percent as well. These benefit increases have occurred in most years (other than recessions, as in the recent recession).

Certainly, providing increased benefits to millions of recipients costs the Social Security program a great deal of money. Given this, one of the potential options to help close up Social Security's funding "gap" is to recalculate these increases. In doing so, the program would actually use an alternative price index when it calculates the cost of living adjustment such the elder index or chained consumer price index.

But, because Americans are living so much longer these days, another proposal that the Social Security system has come forward with is the possibility of using something called "longevity indexing" when determining retirement benefits.

The logic behind this proposal is that if, as projected, Americans continue living longer from one generation to the next—on average—people will essentially receive benefits for a longer period of time. This certainly can contribute to the Social Security funding gap.

How the longevity indexing would work is that it would automatically modify Social Security to pay smaller monthly benefit amounts as people's life spans continue to increase.

Privatizing the Social Security Program

One of the potential scenarios that has continued to pop up time and time again is privatizing the Social Security program. This option would essentially move Social Security benefits into private accounts and allow workers to control their own retirement money via personal investment accounts.

This is not unlike the 401(k) retirement accounts that workers have today. And the situation is not at all unlike the changeover we have seen throughout the years where large companies that previously offered defined benefit pension plans left these behind in lieu of defined contribution plans.

The supporters of these private Social Security accounts contend that retirees would have the freedom to invest their money into the stock market as they wish—theoretically being able to earn higher returns than they would be able to earn with government-invested funds.

These proponents of Social Security privatization also contend that personal accounts would be fundamental to the reform of Social Security. Why? They state this type of private investment would not only provide for a higher rate of return, but it would also impart a sense of ownership and control over one's retirement money.

The opponents, however, believe—as do many who have watched the recent ups and downs of the stock market over the past several years—that investing money into personal accounts is not a good idea at all.

Among other things, those who are against Social Security privatization state that future returns in equity investments are likely to be below the historical rates of return. In addition, it is also highly likely that both

the risk and the administrative costs of the investments would outweigh the potential benefits.

Case in point, how well has this worked for those who had their money in the stock market during the recession of 2008 and 2009?

Let me ask you a question. What if all of the money you had put into the Social Security system, via your payroll taxes, had also been invested in the stock market back in 2008 and 2009? It makes me nervous to think about it! This is especially unnerving for those who are quickly approaching retirement.

According to ProCon.org, even though the majority of both consumers and politicians agree that Social Security reform is necessary, "There is still a major debate that rages over whether a plan for private accounts for individuals is the right answer to what appears to be the inevitable insolvency of Social Security retirement funds."

So, when it comes to a discussion about the privatization of Social Security, I would have to say this particular option would be a long shot. Honestly, this option is very scary to me—and I am a capitalist!

THE BOTTOM LINE ON SOCIAL SECURITY BENEFITS AND YOUR RETIREMENT

Even with all of the many different potential options for keeping Social Security solvent, the truth is that nobody really knows what exactly is going to happen. But I can tell you this—none of the scenarios really seem to bode well for current benefit payment system.

Regardless of what happens with the future of the Social Security program, it is absolutely essential that you take and keep control over your own retirement security. This includes having a way to ensure that you will receive an ongoing stream of lifetime income that cannot be lost—regardless of what occurs in the market and the economy as a whole.

As the future of the Social Security program continues to grow more and more uncertain, those who are approaching retirement need to understand that there are solutions available to them.

CHAPTER 7

Current Economic overview

If the above situations are not bad enough, as of this writing in 2014, the US is also hovering at around $17.8 trillion dollars in debt. Let me repeat that—$17.8 Trillion—with a T—dollars. Now if that is not alarming enough for you, we also have entitlement programs that continue to grow with no budget in place to cover them. Then to make matters even better, we just put in place the new affordable health care plan that is estimated to cost taxpayers up to five percent more in taxes.

So I ask you, who do you think is going to pay this huge tab? Santa Claus? I don't think so! Even he is mad about it! The truth is that we the people, the taxpayers, will have to pay it, which essentially means that the taxes you pay will continue to go up.

Let's look at this typical scenario for a minute. If you're putting your money into a tax-deferred retirement plan like a 401(k) or an IRA account, but taxes are expected to rise, when it's time to withdraw the money, won't you have to pay more money in taxes? How do you plan and budget for the unknown? Why in heck does that make sense? Oh wait, I know, because you can defer taxes and make money on your money. So let's follow that logic. You put all this money into the stock market through your 401(k) and for example you are three years away from retirement and you find out the government has increased taxes to cover the growing budget. Then at two years away from retirement, the market, on this news of higher taxes, has another twenty to forty percent "correction."

So you end up with less money and you now also have to pay more money in income taxes in retirement than you would have paid in your earlier working years. Who came up with this system? Could this happen? Think about it?

You have to admit, hoping that taxes are going to move down in your retirement is being silly based upon the above environment I just described to you. Also having all your money at risk really leaves your retirement planning up in the air as well. It's kind of like throwing darts at a dartboard and hoping you hit the income tax rate you will be paying in retirement as well as the rate of return bulls eye you're hoping for in retirement.

I know it might sound crazy, but that is the future many are building toward. The scenario above is only describing one area of retirement planning left open to risk. There are many others as well, but I think you get the point. So in order to truly help yourself financially, NOW is the

time to think through your options as they relate to retirement income planning.

PROTECTING TOMORROW'S DOLLARS TODAY

I think one of the scariest things about our retirement planning today is there is very little education available for people about protecting funds slated for retirement income and the effects of taxes on your retirement income. Most people don't spend much time thinking about the fact that they are responsible for creating their own pensions if they really want to have enough income to retire and remain able to have the same lifestyle they had while working.

The fact is that most people are going to have to protect their assets and their income—just as the companies previously did for them with their corporate pension plans. That risk will now transfer to you. That is why I believe in the world of retirement income planning, taking losses should not be acceptable.

You simply just cannot sit back and rely on your 401(k), IRA, stocks, or government sources such as Social Security for any type of guaranteed retirement income whatsoever in the future.

When you do this, you are leaving your principal at risk and your tax planning up to the government. I don't think that is a good formula for peaceful sleeping.

WHAT IS MY STORY?

I was born and raised in Michigan, and I have seen first-hand the future issues that are facing America—primarily through the automotive industry's bankruptcies and the pain that many people have gone through during those extremely dark times here in Detroit.

In fact, as I write this, I am currently seeing the very same thing happening with the city of Detroit's bankruptcy, leaving many great hard working retired people in Detroit up in the air, and not knowing if they even have a retirement pension to rely on anymore after years of hard and dedicated work.

While you may be wondering why I'm dwelling on the problems, it is really for one main reason—if you don't first understand the huge magnitude of the financial problems and retirement income planning issues we face, it will be difficult to truly grasp the incredible power of the solution I am sharing with you here. I also believe that Michigan and Detroit are glimpses of what can happen in the future to other parts of America if we don't learn from our mistakes.

LOOKING FORWARD—THERE IS HOPE

The truth is you don't have to have your money at risk in the stock market. You don't have to spend sleepless nights worrying about how much money you will lose when the market has its next "correction" and how it will affect your retirement plans.

You also don't need to rely on your employer in order to have a safe, secure, and financially rewarding retirement. In fact, by following the steps I will teach you in this book, you will see that there are other excellent options available to you.

You will be able to create a plan where you have much more control over how, when, and where you can retire. A plan where taxes do not matter, and believe it or not, a plan that provides for very solid growth, and lastly a plan that does not keep you up at night worrying about every little movement the stock market makes.

Interested? Then turn the page to find out what we have hopefully learned from all this mess. Let's continue on our journey.

CHAPTER 8

"My favorite things in life don't cost any money. It's really clear that the most precious resource we all have is time."

Steve Jobs

Did We Learn Anything?

Over the past several years, we have had heard our share of bad financial news in the media. Recently the stock market has been on an uptrend, but I ask you—why are so many people still struggling with uncertainty? Many have feelings of inadequate financial security for the future. I believe from speaking to many people that the last crash did wake a lot people as it did me. They have a general concern about what they were told was the normal way to save for retirement. There is a feeling by those who are perceptive that we came so close to a massive economic collapse, and we are not even close to completely healed yet. What does the future hold for their retirement income planning when all of their money at risk. Could it happen again? And could it be worse? That is what is on the minds of many people, and it should be. The fact is that every five to seven years for the last one hundred years, the market has had a correction that translated to lost money.

A QUICK REVIEW OF THE GREAT RECESSION

Let's take a moment and go back to look at 2008 as the US economy was literally falling apart. The recent economic recession—or as it was also called, the "Great Recession"—essentially started in the summer 2007. By the summer of 2008, the central banks needed to step in with liquidity lending to the banking market.

In a nutshell, this led to the stock market starting to crash and free fall along with the housing markets across the country. In turn, banks from coast to coast were closing left and right.

Even some of the biggest and seemingly most financially stable Wall Street powerhouses were on the brink of closing their doors—and some, known on Wall Street for over a century, essentially disappeared into thin air, taking down billions of investors' funds with them.

One of the biggest causes of the financial crisis was the failure of Lehman Brothers in the fall of 2008—although it was just one of many firms

that had invested heavily in risky securities that lost most, or all, of their value when the housing bubble burst.

Some of the big financial company casualties that occurred during that time included:

- Lehman Brothers, one of the oldest and largest banks in New York, filed for bankruptcy in September 2008. The collapse of this company with its nearly $670 billion in assets had a worldwide effect.
- Merrill Lynch was sold to Bank of America for $50 billion, which was approximately one-half of its value only just a few months prior.

- Fortis Bank, the twentieth largest business in the world, was forced to become partially nationalized by three governments. The firm had previously borrowed heavily for a takeover of a rival bank, yet could no longer pay its debts.

The housing crisis stemmed in large part from two key criteria. The first was low interest rates following the US recession of 2000 - 2001. The second was a large growth in savings that was coming from developing nations. This was due primarily from ongoing trade imbalances leading to a large demand for higher yielding investments. This also created the financial virus that started in 2006 in the Midwest, and by mid-2007, the mortgage world had completely turned upside down. Eventually by mid-2008, the virus that worked its way into the rest of the financial system to the brink of a complete economic collapse.

DEMAND FOR HIGHER YIELDING INVESTMENTS:

This demand for mortgage securities generated massive profits to the big Wall Street brokerage firms and passed the risk on to the individual investors. In order to feed this demand, many financial institutions lowered their credit standards and continued to issue these investments (while all along knowing at some point the house of cards was surely bound to fall).

One of the biggest culprits was a product called the "no doc" mortgage. Thisprogram allowed a borrower to obtain a home loan without the need to "document" pertinent information such as income, job history, and in some cases credit.

This "easy money" began to entice borrowers who never would have otherwise qualified for a mortgage to start buying up property like there was no tomorrow!

Minimum wage earners were soon "qualifying" for half-million dollar homes. People were refinancing their mortgages to pay off thousands of

dollars in credit card debt—only to run up the balances on their cards again!

And what made it even worse—you could get a one hundred percent financing, no-doc mortgage. This meant you could not only purchase a home you couldn't afford, but you could do it with no down payment AND pay off some of your other debts in the process. What a great deal!

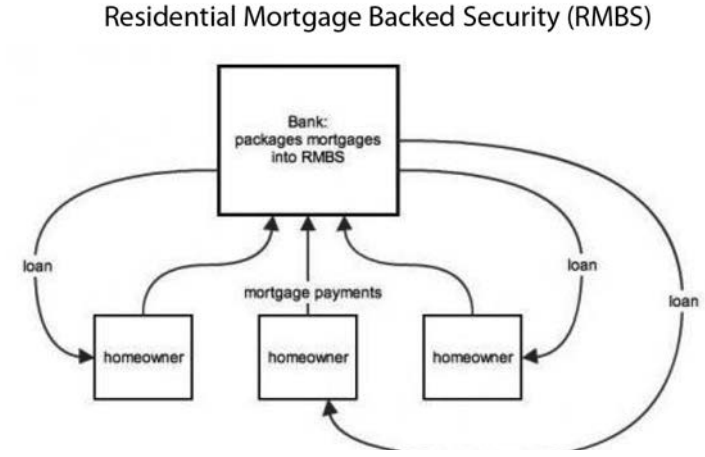
On top of that, not only did the bank or lender not bother to verify employment history, they also didn't check into the borrower's credit or past payment history. The borrowers only needed to sign their names.

Yet, while many borrowers were happily being handed the keys to the home of their dreams, the nightmare was only about to begin. What many of those new homeowners didn't realize was they wouldn't be able to make the payments on those homes for very long.

ADDING FUEL TO THE FIRE

As if that wasn't bad enough, the mortgage-backed securities that individual investors were purchasing, which backed by these mortgages, were also designed to fail.

Many hardworking Americans who were looking for higher yielding investments to bump up their retirement savings had been sold on the idea of investing in these "pass through" securities that were based on pools of mortgages.



Unfortunately, the high risks that lenders were taking with no doc mortgages, like a row of dominoes, were transferred directly to the end investor—who turned out to be the ultimate loser in the transaction.

LOOKING BACK FOR A SOLUTION

While at the time it appeared to be quite chaotic, we can look back now and easily see where many of the problems stemmed. They started with all of the casino-style business practices that were used by many of the large banks and mortgage banks. They nearly took our country from an economic recession into another great depression.

The no doc mortgage, along with a whole host of other crazy mortgages, were statically very bad loans for banks and financial institutions to hold. So I look back now, scratch my head, and I ask myself who actually built this Ponzi scheme that we were all told to believe in?

It's been more than five years, and now we're left with an insane amount of debt and a government that is trying to put even more entitlement programs in place like Obamacare. Yet as a nation, we can't even pay the bills we already have!

So I ask again, have we really learned anything at all?

Because as I look at most people, I see that most are still drinking the stock market Kool-Aid as their "solution" for retirement income savings—without any kind of protections put in place.

HOW MUCH DOES IT REALLY TAKE TO RECOUP A LOSS IN YOUR RETIREMENT INCOME ACCOUNT?

When talking about investments, most people don't fully realize the true effects of loss on their retirement income over time. Once that money is lost, the years it takes to make it back are lost forever.

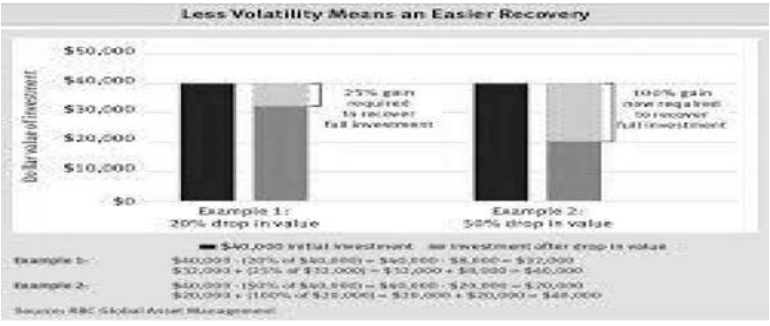
Instead, people are told they are invested for the long term or that the market will recover and they should just simply wait it out. The fact is you will never get that lost time back when you lose money, and really there is no guarantee that the market will recover. Most importantly, many investors don't have time to wait for a market recovery.

The simple truth is that nobody likes to lose money—no matter what age you are or how close you are to retirement.

Let me ask you a question. Do you know how long it takes to recoup an investment loss? For instance, suppose you have a stock that falls fifty percent in value. How much does that stock have to gain before you're back to where you started?

Many people would instinctively say fifty percent. But that's not right.

If the stock's price started at $10 and loses fifty percent, then it goes to $5. From there, if it gains fifty percent, it would only go up to $7.50. So, in order to get back to the original $10 the stock would actually need to gain one hundred percent—twice as much as it had originally lost!



And here's something even scarier—the more you lose, the more gain you will need just to get back to even. This means more TIME needed, which is something you can never buy back.

You are also going to need more retirement money as time goes on, due in large part to the effects of inflation. You see, the REAL effects of inflation, then, are that it takes a heck of a lot more to buy something tomorrow than it does today.

To put that into perspective, it would take roughly $5.24 today to purchase the same thing that only $1.00 could buy you in 1971. And, what we call $1.00 today would have only been eighteen cents in 1971. That's quite a difference!

So in all, it essentially could take you four or five times more to purchase the same things you're buying today by the time you are somewhere in retirement . Let me ask you—how will you do that?

So the next time your broker tells you, "Remember you are in it for the long run. Don't worry about market loss you just took." I want you to remember that when you lose money, it is gone forever. You can never get that time back—it is irreplaceable.

If you are like a lot of people I meet, the ups and downs of the stock market are a big concern to you—and they should be. In my opinion, this

is a risky place to keep the assets that you have targeted for your retirement income.

But not to worry—I will be sharing with you a strategy that provides you the potential of up to double-digit rates and does not risk your principal in the markets. It will also help you to sleep much better at night!

CHAPTER 9

"We keep moving forward opening new doors, and doing new things , because we're curious and curiosity keeps leading us down new paths"

Walt Disney

The Dream Retirement Income Strategy

Now that you have a clearer understanding of some of the financial concerns facing you in retirement income planning, I want to discuss a exciting solution with you.

What I am going to show you is a concept that is well worth exploring because it offers many incredible options for building retirement income in addition to many other benefits. I ask that you keep an open mind as well. If you are like me, when I saw it the first time, I was in disbelief trying to figure out the catch. Then after studying it, I became mad that I never knew about before. Now I have set out to tell as many people as I can about it. I only ask that you keep your mind open so you can learn.

A GLIMPSE INTO THE SOLUTION

I am going to present you with something that is not only safe and secure but can also provide you with a nice return, downside protection, tax-deferred growth, tax-free retirement income, and even long-term estate planning benefits.

Our strategy is actually built on the Index Universal Life Insurance (IUL) platform. Now, you may ask, what is the difference between this and the old fashioned traditional whole life insurance? The answer is—a whole heck of a lot, as you will soon see here!

A LOOK BACK AT THE IUL BEGINNINGS

In the whole scope of things, "universal life" hasn't really been around for all that long. The product actually evolved back in the late 1970s, during a time of high inflation and correspondingly high rates of interest.

What did this mean for savings and investments? Well, at that time, people got out of stocks and mutual funds and moved into high interest bonds and even into savings accounts and money markets.

Insurance companies began to recognize the potential for profit in this high-interest environment—especially as the phrase "buy term and invest the difference" became more popular.

With this in mind, they developed a product that essentially took the pure death benefit protection of term life insurance and coupled it with an investment component. Universal life insurance was born.

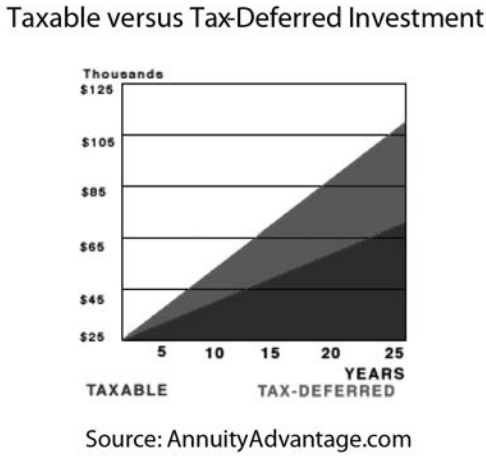
The IUL has gone through a number of changes, until finally arriving at its current version in 1995.Today's IUL provides a perfect blend of protection and potential for investment growth, as well as a nice variety of different income options. I have not found a better mix of strategies in long-term retirement income planning out there.

WHAT MAKES IUL THE BETTER LONG-TERM RETIREMENT PLANNING CHOICE?

While IUL does provide some of the same protections that other permanent life insurance products do, it also offers much more flexibility, as well as many additional advantages.

These benefits include:

- **Tax-free death benefit.** One of the biggest benefits of life insurance is that the death benefit is free from federal income taxation to survivors. This allows them use of the full benefit for the payoff of debt, replacement of income, or any other need that they see fit.
- **Principal is protected from market loss.** Because we are using the power of indexing, something that we cover in detail in a later chapter, you will be working with a floor of zero and a maximum cap that is usually between twelve and fifteen percent. I will explain how it works later, but what it means is that while you can participate in nice growth rates, you cannot lose principal in the event of a market downturn.
- **High percentage of cash accumulation.** Unlike a whole life policy that has a high percentage of insurance Vs. cash ,the IUL has the minimum amount of insurance you take so you can maximize your cash. Also because of the crediting of interest based on the performance of an underlying index, newer types of IUL can obtain additional growth, allowing the cash in the policy to accumulate even more.
- **Money grows tax-deferred.** Because the funds inside of IUL are allowed to grow on a tax-deferred basis, they can accumulate even faster than if they were taxed each year.
- **Money can be received Tax-Free in retirement.** By taking tax-free loans or withdrawals, you can receive tax-free income in retirement from an IUL insurance policy. That means you do not have to record it as income to the IRS—and that is a huge benefit to this plan. This also means that you can create a predictable stream of income at retirement tax-free. We will discuss this more in a later chapter.



- **Annual resetting of gain.** IUL also offers an annual reset feature. Do not underestimate the power or resetting. It is huge, and by resetting, your cash value gains are "locked in" every year and can never be taken away due to future market downturns. This will protect your funds from the market's ups and downs going forward, allowing you to sleep at night.
- **Growth potential.** The great thing about IUL is that you benchmark off of an index. (I will explain this in detail in a later chapter.) By doing this, you get interest that is credited to your account based upon the performance of the index (i.e. if your benchmark was the S&P 500 and it had an increase of eight percent for the year, you would get interest credited to your account of eight percent—just without the downside risk of loss of principal.)
- **No minimum age requirement.** Although most qualified retirement plans require participants to be a certain age in order to

participate, there are no minimum age requirements with IUL. Therefore, you can begin saving early. There are also no minimum age requirements for withdrawals, so it gives nice flexibility as well.

- **Simple return figures at year end.** Because funds go into an IUL plan after tax, the annual tax reporting for these plans are much simpler than for IRAs and other types of qualified plans.
- **Receive your money at any age.** Once your account is fully funded for future retirement savings, IUL allows its account holders to receive funds from the cash account at any age—without hitting them with a ten percent "early withdrawal" penalty like you'll find in IRAs and 401(k) plans.
- **No mandatory RMD (Required Minimum Distribution).** Unlike money that is inside a qualified retirement plan (such as a 401(k) or traditional IRA account), you are not required to withdraw funds at any particular age with IUL. This means the funds inside of an IUL plan can remain in the account for as long as you wish, and can continue to grow and accumulate tax-deferred.
- **Money is protected from lawsuits and creditors (in some states).** Life insurance cash values are also protected from lawsuits in some states. Likewise, in many states, the cash value in life insurance is also protected from creditors by statute—including bankruptcy—to an unlimited dollar amount. Check with your state laws regarding this.
- **No probate hold ups.** Because life insurance proceeds pass directly to a named beneficiary, these funds are not held up in the costly—and time consuming—process of probate.

There are numerous advantages to using the IUL as a retirement income solution. So, let's now take a more detailed look at these strategies and how they can work for you in retirement planning.

Tax-Free Retirement Lifestyle

One of the most beautiful things about IUL is the fact that you are allowed to receive a tax-free income from it. Therefore, unlike most other types of retirement accounts, you will not be subject to giving a portion of your income over to Uncle Sam during your golden years.
In this chapter, we will explore in more detail how this works by using a strategy that is referred to as arbitrage.

WHAT EXACTLY IS ARBITRAGE AND HOW DOES IT WORK?

Arbitrage—it sounds like a pretty fancy name, doesn't it? Technically, arbitrage is defined as being the simultaneous purchase and sale of an asset for the purpose of profiting from a difference in price.

In the case of IUL, though, what it means is the difference between what you are paying in interest on a policy loan and what your policy is paying you in interest credits on the cash value component of the policy.

While this may sound somewhat complicated, it is actually a simple concept that can allow you to take tax-free income from your policy by taking advantage of one interest rate over another.

HOW POLICY LOANS WORK IN THE ARBITRAGE PROCESS

In many ways, it's all about the policy loan. You see, insurance companies offer different policy loan options, and you get to choose the option that you want to use.

For example:

- **Fixed Loan** - Typically, there is between a two and three percent spread between the loan interest that is being charged and the loan interest that is being credited to the policy's cash value.
- **Variable Loan** - The loan interest may be fixed, but the loan balance is credited with the indexed earnings as if those values were still a part of the insurance policy. Here, a positive arbitrage can be created when the credited earnings outperform the loan interest that is being charged.

The timing of when you make your withdrawals will also be important, as this can have an effect on the earnings that are credited for that period. Typically, only guaranteed interest is credited for partial periods—in other words, prior to loans or withdrawals.

It is important to note that policy fees and withdrawals are usually allocated pro-rata across all the different policy investment options.

TAKING INCOME FROM YOUR IUL POLICY

You, like most people, are likely looking for a way to generate more asset base and income for your retirement. One way to accomplish this very successfully is through your IUL policy.

One of the really great features about IUL policies is that the loans are not required to be paid back. This is because the insurance company will actually be paid back from the death benefit proceeds of the policy.

Essentially, the income distributions from an IUL policy are taken as loans from your policy. The money that is inside of an IUL policy is technically parked as collateral, and it continues to gain when the underlying market returns are greater than the loan interest. This is where the arbitrage concept comes in.

There are very few people—including many financial professionals—who have heard of the concept of fully funding an IUL policy for the purpose of receiving tax-free income for retirement. Those who have generally don't understand how all of the amazing options work on an IUL.

WALKING THROUGH THE "BORROWING TO PAY PREMIUMS" PROCESS

The way that borrowing to pay premiums works is to take a loan from your current IUL policy. But rather than using the borrowed funds for something else, you would actually add those borrowed funds right back into the policy premium that you are paying. You would then repeat this process for the number of desired years you wish.

Let's look at a hypothetical scenario. An individual who is fifty years old has $40,000 available each year for the next ten years to fund his IUL policy for retirement planning. For the next ten years, he funds the policy, and after ten years it fully funded.

At age sixty-five, for example, he then decides that he wants his tax-free income for the rest of his life to start. He wants to set it up to receive his tax-free income through age ninety or death.

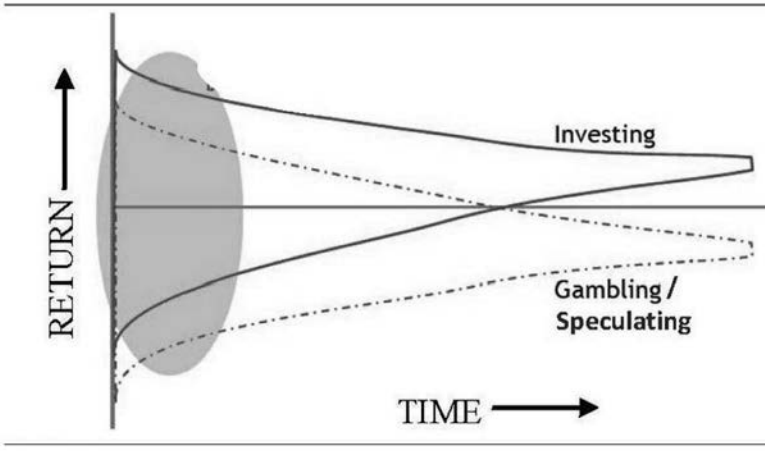
Therefore, the principal is taken from his accumulated cash value of the policy, and his interest is covered by arbitrage. He then will enjoy a tax-free income throughout the rest of his life.

The above is only one of many examples that this person could have done with his IUL. One of the beautiful things about an IUL is that it provides a lot of flexibility with regard to how you set up your retirement.

One reason why arbitrage works is because in the past, the S&P 500 Index has consistently performed better than rates that have been tied with insurance policy loans.

In most cases, this has been in the range of roughly two percent. That is why arbitrage is an extremely powerful tax-free income strategy, and you can profit from your interest.

Statistically, arbitrage can be a highly complex process that involves speculators knowing exactly when to get in and when to get out of an investment in order to make their profit.



Source: Investingcaffeine.com

However, with IUL, it is very easy. Another example of how arbitrage can work is, let's say a policyholder borrows $25,000 from his policy to buy a car. He incurs an interest rate on the borrowed funds, yet he puts these funds back into the policy and earns a return of two percent more on those funds—doesn't that sound better than borrowing it from the bank? He wins not the bank! I use this example only to show you how

flexible the plan can be. You don't have to be worried about age and penalties once the plan is fully funded.

THE BOTTOM LINE

Overall, a properly structured IUL policy can truly be the best retirement plan in the marketplace today, I believe. Why? Here are just a few of the key reasons:

- It offers tax-deferred growth of cash value
- It has the opportunity to earn market-like returns
- It has downside market protection of your principal
- It offers an annual reset feature, locking in your previous year's gains
- It has flexibility on how you use it for your retirement money
- You can earn income on the money you've borrowed from the policy via a loan
- The plan provides a tax-free death benefit in case the unthinkable occurs

- Flexibility of pulling your money out when you want it once fully funded.

Really, it's hard to find any other retirement plan that can even compete with all of the features that are offered with IUL.

CHAPTER 10

The SUPER Power of Indexing

One of the main reasons you may have picked up this book is because, like many others, you are sick and tired of the ups and downs of the stock market. You may just want a plan that can perform at a good rate of return but not get hammered every five years or so and make you feel like you are starting all over again.

In this chapter, we will explore why I consider IUL to be one of the best long-term retirement strategies out there because of the use of a strategy called Indexing. We will see how it prevents the ups and downs in the market that you may have been experiencing. The above point cannot be over stated. This is where the modern day IUL has literally changed the game of retirement planning.

HOW INDEX UNIVERSAL LIFE INSURANCE (IUL) WORKS

IUL is based upon traditional universal life insurance. Because of this, these plans offer policyholders a very low cost of insurance coverage (COI). This gives them a lot more cash value along with tax-deferred growth of their funds within the cash value component of the policy.

This is where the modern day IUL has really changed the game of retirement planning by minimizing the cost of insurance and taking advantage of all the tax advantages. By reducing the COI, the IUL becomes a very powerful retirement planning tool.

With IUL policies, there can be a minimum guaranteed fixed interest rate as well as an indexed account option such as the S&P 500. Given this, most of the equity IUL plans today will guarantee that policyholders' cash will not fall below zero if the index takes a fall in value.

The reverse is also true in that these policies will usually have a "cap rate" on how much the cash value in the plan can grow. Usually, this somewhere between twelve and sixteen percent. This is true even if the underlying index performs very well within a given period of time.

What is a Cap Rate?

IUL policies will set a cap rate. This means that the interest that is earned on the cash value in the policy will earn a maximum rate per year (or some other set period of time).

This means if the underlying index that is being tracked by the policy is the S&P 500, and that index returns twelve percent for a given time period—and the annual cap on your IUL policy is twelve percent—the most you will earn on your cash value component for that year will be twelve percent.

Now, while some people may not like the fact that their gains are capped at a certain maximum amount, there is some critical news here—the caps are the powerful tradeoff for the "floors" that are also set in an IUL policy. Let's read on to learn how floors work.

What is a Floor?

One of the greatest features about the IUL is the floor. This feature can help to guard against market-based losses in your cash value account. The floor is the minimum amount of annual interest rate that your policy will be guaranteed in a given year.

This means the cash value in your account is guaranteed not to obtain a return below the amount of the floor. In other words, if the floor on your policy is zero percent, the absolute worst that your cash can earn in a given year is zero percent—regardless of what occurs in the underlying stock market Index.

What are Resets?

In addition to caps and floors, your IUL policy will also have a reset feature. This means that the gain in your cash value is locked in each policy year—and that amount can never be taken away or decrease, no matter what occurs in the stock market in the future.

This essentially will compound your returns at anywhere between zero and fifteen percent per year. So the worst you can do is break even. Not bad in the volatile economic and market environment we live in.

If you're like many of the people I have spoken with, you will start thinking back to those times where you lost tons of money in the market. Usually, I will hear them say, "Boy, I wish I had this concept when this happened." I hear it all the time because it is the most frustrating part of retirement planning—and the most dangerous.

How Can Spreads Work with Insurance Companies?

Some insurance companies buy investments called derivatives for IULs. These may be "spread options" that deliver the return of the underlying index if it falls within two specified rates.

For example, the spread will deliver the price return if the index falls within a spread of zero and twelve percent. If the index returns more than twelve percent, the contract pays the twelve percent maximum.

The growth cap is set at twelve percent in this example. If it produces a negative return, the contract will expire worthless, with a return of zero. These particular options are tailored to correspond to specific IUL accounts that are purchased.

Different Benchmarks

With IUL, you can typically choose from a variety of different underlying options, or benchmark indexes, upon which to base your interest crediting.

These generally include:

- S&P 500
- NASDAQ 100
- EURO STOXX 50
- Russell 2000
- Down Jones Industrial Average
- Barclays Capital US

Depending on how the underlying index performs, your cash account will be credited with interest accordingly—based on the interest rate cap and floor that are associated with your policy.

Interest Rate Returns without the Risk

Another of the great features offered by IUL is the fact that you get market-like returns without having to be directly invested in the actual market itself.

Depending on the way your interest is credited, your cash value will increase based upon the performance of an underlying index. This, for example, may be the S&P 500 or the NASDAQ 100.

IUL is the "Best of All Worlds"

Overall, IUL can really be thought of as being the best of all worlds. Why? There are several reasons for this. Let me explain:

- First, with index universal life insurance, you can typically select from one or more different index allocation options. The

performance of these indexes are tracked and then credited to your policy's cash value component, based on the crediting method that has been selected.

- When the market performs well, you are able to receive a positive result in your account—automatically—based on the indexed interest that is credited to your policy (subject to the policy's interest rate cap).
- Any interest you have received will be locked in each year—and, once it has been locked in, it will never be lost, no matter what happens in the market in the future.
- If the market performs negatively in a given year, however, while your account may not receive any interest or growth, your cash value also won't decrease, as the value is locked in from the previous year. This is because you aren't actually participating in the market, nor are you directly investing in any stock, mutual fund, or bond.

IUL POLICY CONSIDERATIONS

There are many great features associated with IUL policies. Yet there are some questions you will need to ask yourself prior to moving forward. For example, be sure that you know and understand the following:

- What is the guaranteed minimum interest rate, or floor?
- What is the maximum interest rate, or cap?
- What is the spread (if applicable?)
- Which index does the policy track?

Ready to move on? Next we will discuss just exactly how you can grow your profits tax-free, without having to pay Uncle Sam each and every year a portion of your investment growth.

CHAPTER 11

"The only difference between death and taxes is that death doesn't get worse every time Congress meets."

Will Rogers

The Perfect One-Two Punch

One of the things oftentimes overlooked when planning for retirement is growing your money tax-free. Many of you may have seen this in your 401(k)s and noticed how deferring taxes now works to protect you from

paying tax now. You then pay an unknown tax amount later when you withdraw the funds in retirement.

But, as we have already discussed, many people don't think about the possibility that tax rates will be higher when you retire than they are today. Many people firmly believe—myself included—that this may very well be the case.

The good news is that if taxes are higher in the future, IUL will allow you to take your money out tax-free in retirement. So you won't have to worry about higher taxes at that time—or at any time, for that matter.

Using a tax-free strategy can actually be extremely powerful for a variety of reasons. So, it's important to explore this concept further.

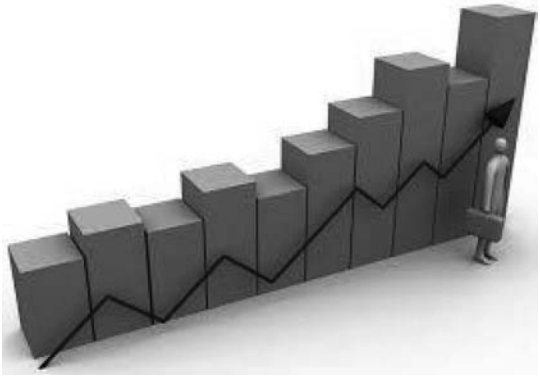
THE MANY BENEFITS OF TAX-FREE INVESTING

We often hear the phrase "tax-free" when discussing various types of investments. But what does it truly mean when an account is tax-free?

It means there is no tax due on the income earned in the account—either at the time that it is earned or when the funds are withdrawn and distributed.

It is important to make a distinction between an account that is truly tax-free and one that is tax-deferred—because there is definitely a difference. When an account is tax-deferred, it means the earnings in the account are allowed to grow without being taxed. However, at the time the funds are withdrawn from the account, the gains will be taxed.

This is how your 401(k) plan and traditional IRA accounts work. Typically, with these types of accounts, you are allowed to "defer" the deposits you place inside of the accounts. This means that you are not taxed on the deposits as income.



In addition, the growth on the funds inside the accounts will be allowed to grow without being taxed on the gain. But, after years and years of growth, once you are ready to retire and start to take money out of the account, you will then be taxed on it.

Should your income tax rate at that time be thirty percent, forty percent, or who knows—even fifty percent—that is the rate you will pay Uncle Sam on your retirement income. Unfortunately, you will have that much less to spend in retirement once you allocate the amount that you will forego in taxes.

ROTH IRA

You might be thinking, *well, I thought Roth IRAs were tax-free*. Well, that is true. But, we need to take a close look at the major issues facing this type of retirement account.

With a Roth IRA (Individual Retirement Account), the money deposited into the Roth IRA goes in after it has been taxed. Then, once your

funds have been placed inside the Roth IRA, they are allowed to grow on a tax-free basis. So far, so good.

Likewise, once you begin to withdraw your funds at retirement, they can come out tax-free as well. Still not so bad. But, let's now look at some of the drawbacks to owning a Roth IRA vs. IUL:

- First, you have absolutely no principal protection on your investment that goes into stocks. You see, with, IUL you are not actually participating in the stock market itself. But if it has gains, you will still be credited the full amount of the gain, up to the cap in the index you have chosen.
- If you take money out of a Roth IRA when you are under the age of 59½, you will be penalized by the IRS (Internal Revenue Service).This penalty is referred to as an "early withdrawal" penalty, and the amount will be ten percent of the amount of funds that you withdraw. Therefore, in many ways, you are stuck with keeping your funds inside your Roth IRA until you are at least 59½ years old.
- No Tax-Free estate death benefit options. Therefore, if you pass away, your heirs won't receive any type of federal income tax-free death benefit either from the Roth IRA account.
- No Arbitrage options to give you the opportunity to profit off your own money you loan to yourself.
- One of the biggest problems with the Roth IRA is that you are limited with regard to how much you can deposit into the account each year. In 2014, for example, an individual can only deposit a maximum of $5,500 if they are age forty-nine and under. If you are age fifty or older, you may deposit and additional $1,000 per year into a Roth IRA account. Therefore, if you really wanted to create any kind of solid retirement income as you get older, you are capped at what you contribute into a Roth IRA,

whereas with an IUL you can continue to increase contributions as your income and surplus income go up.

The above are just a few of the examples of how IUL gives you many more options for investing for your retirement.

ADDITIONAL BENEFITS OF TAX-FREE GROWTH

When considering tax-free investment growth, there are additional advantages to consider. Here are just a few:

- **Compounds with gains.** One of the biggest advantages to tax-free growth is it allows your gains to literally compound over time. Because you don't have to reduce your gains due to taxation, your funds can continue to build and grow faster. This only works well if you can pull it out tax-free.
- **Costs less to save.** Because you pay no tax—and because your savings can build on themselves—it actually costs you less to save. This means you can put more of your money toward paying off bills—or put even more toward savings so that you can have more of the things in life that you really want when you retire.
- **Reach your investment goals sooner**. Because your funds compound and grow faster, you to reach your financial goals sooner. Over time, this means you may actually be able to cut years off of your retirement goals.

Let's look next at how living the IUL lifestyle can not only give you peace of mind about your retirement planning, but how it can also help you get and enjoy the beaches and golf courses of the world sooner. Turn the page and let's continue your discovery process.

CHAPTER 12

"Formal education will make you a living; self-education will make you a fortune."

Jim Rohn

Tax-Free Lifestyle

One of the many amazing things about using index universal life insurance (IUL) to fund your retirement plan—and yes, I do get excited about it, so please bear with me—is you can literally set yourself up for a tax-free income lifestyle.

Earlier in the book, we talked a little about arbitrage and how that strategy works to lend you money in retirement. However, one of more exciting things about using an IUL plan is that when using the arbitrage

lending strategy, you are also creating a tax-free lifestyle by lending to your own money to yourself and usually at a profit!

This, I believe, is one of the biggest reasons this retirement planning strategy has been growing so much in popularity over the last few years. But it is amazing to me how many people are not aware of this strategy today. Yet the difference it can make in retirement is life changing for some. Let's explore this concept more.

WHY TAX-FREE?

People have finally begun to realize the chances of Uncle Sam increasing taxes in the future are pretty high. Because of this, they want to eliminate the stress of worrying about how they will access their money in retirement. Essentially, they want the control of living without a big unknown.

Once you have built up your nest egg, the next big thing is turning the money you've worked so hard all those years to accumulate into an income stream—while not having to pay so much in taxes that you go broke in retirement!

In this chapter, we will take a closer look at the difference between taxable and non-taxable retirement income—and the tremendous difference taxes can make in determining when you will be able to retire and how well you can live with your retirement dollars.

WHICH IS BETTER-$1,000 OR $650?

Certainly, anyone with basic math skills knows that you can purchase much more with $1,000 than you can with $650. But, what if that was the difference in your income month after month, or even week after week?

The difference in how well you will live out your retirement years can be huge! That is the difference between taxable and tax-free—and it is a lot.

You might not have ever looked at this simple thought process before. But the difference between getting back $1,000 of every $1,000 tax-free with profits is—at least the last time I checked—a whole lot better than getting back only $650 of every $1,000 dollars after taxes.

Yes, I am assuming a thirty-five percent tax rate. But could it be higher by the time you retire? Maybe. Hopefully, you get the picture. For example, if you are currently investing your retirement funds in a 401(k) plan where the growth on your funds is tax-deferred, you are going to have to pay taxes on the portion of your gains, as well as on the portion of your deposits that went into the plan on a pre-tax basis. Now, that is what I call a double whammy! (Side note: you also have no principal protection in a 401(k).)

Let's say that you're planning to retire in 2014, and you're going to use the money that you have in your 401(k) plan as your primary source of retirement income.

So, let's be really gracious and say that by the time you retire, you're in the twenty-eight percent income tax bracket. You're going to pull $10,000 per month out of the money that you've invested in your 401(k) for thirty years as retirement income in order to pay your living expenses.

Because you had deferred all of your 401(k) contributions on a before-tax basis, and all of the gains have been growing on a tax-deferred basis, those funds have been taxed yet.

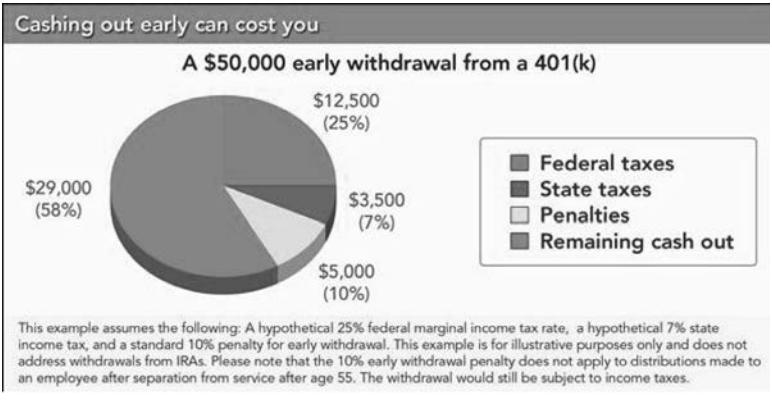
That means you will essentially owe Uncle Sam income tax on each and every dollar that comes out. Therefore, of the $10,000 that you will be pulling out, here is what you will actually have left over to spend for your living expenses, vacations, golf outings, and other activities that you are hoping to enjoy in retirement:

$10,000 pulled each month from 401(k) money X 28% tax =
$2,800 paid in tax (each month)
$10,000 - $2,800 tax =
$7,200 net to spend

So, after Uncle Sam gets his share—which, by the way is over $33,000 each year in taxes that you will pay him—you will have just $7,200 of your $10,000 to spend.

Twenty-eight percent of what you're pulling out of your plan you will have to spend for the rest of your life—after all those years of saving! And, that's if they don't raise taxes. If the income tax rates go up, the amount that you pay could be even more.

Even worse, here's is an example of what cashing out your 401(k) plan will cost you if you happen to be younger than age 59½. So much for retiring early!



Source: Fidelity Investments

NO TAXES CAN MEAN ALL THE DIFFERENCE IN THE WORLD

When you pay no tax on your income, it really can make all the difference in the world. Just imagine how much more you could have or do if you

were able to spend the entire $10,000 per month in our income example above.

Think about that for just a minute. In our example, if you had been able to save just the $2,800 per month in tax alone, it would have meant a difference of $33,000 per year!

With this in mind, it is easy to see how paying no taxes on your retirement income can mean the difference between both little and big things, such as:

- What restaurants you can eat at
- Going on vacation or not
- What type of home you will live in

VS.

HOW TO RETIRE BETTER—WITHOUT HAVING TO SAVE MORE

The beauty of using a tax-free retirement income strategy with IUL is that being able to live a better retirement lifestyle doesn't necessarily mean

you need to save a lot more money—it just simply means that you need to use a different strategy to get you there.

You see, sometimes you just have to take a different route on your journey—and when you do, you can afford much nicer accommodations, too!

IUL really is the last true flexible tax-free retirement income option that gives you the potential for very good returns without putting your principal at risk. This is because with IUL, your principal is protected from downside risk from any negative market returns.

How? First, because the policy provides you with a "floor" below which the cash value will not fall. It means that your principal will not lose value. Therefore, if you have a zero percent floor, your principal won't fall below zero percent—meaning that the absolute worst your funds can do in a given year is break even. That's not too bad given that the market has had some very bad years!

At the same time, your returns are also able to earn a nice upside because they are based on the growth of an underlying index such as the S&P 500. So, even though you are able to participate in market returns, your funds are not actually in the market—which provides you with a very nice balance.

EXAMPLE OF PROTECTING LOSSES ON YOUR MONEY:

Let's say that in Year 1, you deposit $6,000 into your IUL policy. Your policy has a twelve percent annual "cap." The market has a very good year and it makes twelve percent, so you would earn twelve percent interest for the year, giving you a total of $6,720 to begin Year 2.

In Year 2, the market has a very poor performance, with a twelve percent loss. Because your policy has a "floor" of zero percent, you do not lose anything. Your principal is protected. Therefore, you maintain your principal balance of $6,720 to begin Year 3.

In Year 3, the market has a very good year—twelve percent again. Because you were able to start the year with your principal balance of $6,720, this is the amount that will be built upon in terms of gains to $7,530, allowing your principal to grow even further.

Side note: If this was a mutual fund, 401(k), or stock and you lost twelve percent in Year 2, it would take a twenty-four percent gain just to get you back to even. And do not forget the years that it robbed you of potential new gains. Those are lost forever. Time is a gift we cannot replace. We will explore this more in the next chapter

Year	Value	Annual Return
Year 1	$6,000	12%
Year 2	$6,720	–12%
Year 3	$6,720	12%
Year 4	$7,530	

Now that we see how IUL policies can provide the engine to riches, let's keep moving forward to get a better idea of how these IUL policies can also protect you from additional money-robbing hurdles like inflation.

CHAPTER 13

"A good decision is based on knowledge and not on numbers."

Plato

Jumping the Three Hurdles to Saving for Retirement

There are many times when we go through our retirement planning life without really stopping to think about the effects of things such as inflation, taxes, and loss of principal. Yet, these things can have a substantial effect on our ultimate retirement planning success or failure.

In this chapter, we are going to look at three of the biggest hurdles to our retirement income. By not catching these early, there is a good chance they could get away with robbing you of the retirement lifestyle you truly deserve.

ONE - INFLATION

One of the biggest robbers of retirement income is inflation. Many of us don't realize the effects of inflation on our buying power. It can greatly affect our overall retirement lifestyle. Very few people realize the effects of inflation on the market loss—which is really scary.

What do I mean by this? Well, let's go back to the last market crash and look at the losses many of us took. Most people, after the five years since the last crash, had made their gains back—some with even a little bit of return.

But, what they don't realize is they will never be able to get back those five years. They are gone—and along with that, they are also fighting inflation on their dollars.

So, let's say inflation is three percent. Now, multiply that by five years, and that is an additional fifteen percent in lost purchasing power they have. This is just a simple look. If the inflation rates were compounded year after year for five years, it would look even worse. But you get the point.

Here are some examples of common items and the amount that their prices have risen over time. It does make you stop and think. How much more could the prices continue to go up over the next ten, twenty, thirty, or more years in the future?

Item	**1965**	**2009**
Gallon of Milk	$0.95	$2.99
1st Class Postage Stamp	$0.05	$0.44
Movie Ticket	$1.00	$11.00
1 Gallon of Regular Gas	$0.31	$2.47
1 Dozen Eggs	$0.53	$1.79
Ave. Price of a Home	$21,500	$258,000
Minimum Wage	$1.25 / hr	$7.25 / hr

It is essential to account for inflation when determining your retirement income needs. This is because inflation affects retirement income by increasing the future cost of goods and services, essentially reducing

your overall purchasing power. Even a fairly low rate of inflation could have a substantial impact on your purchasing power.

Here's a quick thought. The increase in the price of goods and services will typically be a factor in the ability of a retiree to maintain their desired standard of living over the long term. Therefore, for a person who retires at age sixty-five, it will mean that his or her expenses will most likely nearly double by the time they reach age eighty-nine!

TWO - LOSS OF PRINCIPAL = LOSS OF TIME

We've already discussed the effect of loss of principal as it relates to inflation. However, we also need to discuss how tough it is to get your principal back in general.

As the title of this section reads—loss of principal equals loss of time. The first can be replaced. The second cannot. Once you lose your principal, that time is lost forever.

If you lost money in a market downturn, that money is gone. Period. So, until it comes back, that money has literally disappeared. It is therefore unable to grow or be converted into a retirement income stream for you. Most importantly of all, the time it lost for you in retirement growth of your dollars is gone forever.

In fact, when you lose money, it will take a great deal of effort on the part of the market to get it back for you. As we pointed out earlier in the book, if you lose fifty percent of your principal, it will actually take twice as much—or a one hundred percent gain—in order to earn it back. But the biggest point you must consider is the time it will take to get back is eroding your time you have to save.

The biggest point I would like you to take away from loss of principal is—once you lose principal, you've lost something that can't be replaced. TIME.

THREE - TAXES

Taxes will also have a big effect on your retirement income. But they will affect other areas of your retirement life as well. For example, you will have to pay tax on the goods and service you purchase as well as property tax (in most states) on your home and auto.

The overall effects of these taxes—especially as they continue to go up over time—will also have an effect on your disposable income. This, in turn, will affect your retirement planning as well.

THE BOTTOM LINE

While many people may be very good savers, the important thing to remember is there are other things that must also be kept in mind when saving for retirement.

There are numerous dangers lurking out there that will deplete the money you save as well as the retirement income that you need to take out for living expenses.

But knowing how to work around these dangers can make all the difference in the world in terms of both growing your retirement savings and maximizing the amount of income you can live on.

I believe that by using IUL you have the greatest chance to combat the above three hurdles that every retired person will face. It will give you the protection, growth, and taxes advantages that are important as you plan for a secure retirement.

In Summary

I hope you have found this book inspiring. My goal was to show you what a fantastic option the IUL can be for your retirement planning. I have not found a retirement planning income concept that is more complete.

So now what will you do next? I hope you won't stand still. As the old saying goes, the definition of insanity is doing the same thing and expecting different results.

Having hope for the future is a powerful thing. If you are at a point of darkness with your financial planning, I hope I have given you a glimmer of light.

Unfortunately, there is so much back and forth mudslinging and mixed signals that happen in the retirement planning sector that many times it is hard to see the trees through the forest as a consumer.

I hope I have cleared away a lot of the forest and provided you with some good clarity on IULs.

Back to what is next. In the end, that is up to you. But I do hope you explore your options and talk to a professional who is an expert on IULs about your options. That is up to you, as change always is. It is your financial destiny, and I truly hope it is a bright one.

FOR MY RETIRED FRIENDS:

You may be thinking, well, what can I do? I am finished saving. Is there anything for me like this? There is good news for you. All hope is not lost. Continue reading and you will see an exciting new concept that uses many of the same principles discussed here. However, it is geared for those who are retired and finished saving.

CHAPTER 14

Indexing For Seniors, How Does It Work?

Is There Something for Me?

While we have discussed a great deal about retirement savings strategies, there may be some who fear it is too late because they are already retired. But do not fear if you are currently retired, are no longer saving, and just trying to maximize your dollars. Something here will make you very happy. It is called a fixed index annuity.

This is not your ordinary annuity. Rather it is a high-powered index annuity that can give you some of the same advantages as the IUL as it relates to growth and tax-deferred status.

Let's explore in this chapter how all the features works with a fixed index annuity.

AN ANNUITY UNDERSTANDING

Before diving into strategy, though, it is important to first have a good understanding of what an annuity is and how it works. In its most basic sense, an annuity is simply an agreement between an individual and an insurance company to make a series of income payments for a predetermined amount of time.

These tax-deferred investments are similar to life insurance policies, except instead of insuring someone against dying too soon, they actually protect against someone living too long and running out of retirement income. Therefore, annuities actually help to protect against one of the biggest fears that today's retirees have—that of running out of income in retirement.

THE BENEFITS OF AN ANNUITY

Owning an annuity can provide you with many benefits. These can include the following:

- **Tax-deferred growth** - First, annuities allow your funds to grow on a tax-deferred basis. Therefore, all of the funds that are inside of your annuity account are able to compound and grow without being hindered by taxation. This will allow these funds to essentially compound over time and grow exponentially.
- **No contribution limit** - In addition, unlike a 401(k) plan or IRA account, an annuity has no maximum annual contribution limits. This means you are allowed to deposit as much as you would like to an annuity without any limitations, thus really giving your retirement funds a boost.
- **Guaranteed income** - Certainly, one of the most awesome features about annuities is their guaranteed income. These financial vehicles can literally guarantee that you will receive an income, month in and month out, for the rest of your life—regardless how long that may be. What other financial product out there can guarantee that?

TWO TYPES OF ANNUITIES:

Immediate – These annuities let you convert a large sum of money into a stream of income. The most common selection when using immediate annuities is creating the income for life.

Deferred – The income payments are deferred for some period of time while the premium deposited grows in value. Then upon maturity, it is either taken as a lifetime income or as a lump sum.

WHY CHOOSE A FIXED INDEX ANNUITY?

These new hybrid fixed index annuities can give you the best of both worlds. They can give you the ability to take lifetime income payments quickly or the ability to let it grow and then take lifetime income payments. Just as with life insurance policies, there are several different types

of annuities. Also similar with life insurance, annuities offer an index option that provides many of the same features and benefits you can get with the IUL concept.

For example, a fixed index annuity is considered a "hybrid" type of annuity that will pay its owner a variable rate on the funds that are inside the annuity account. This rate is tied to an underlying index such as the S&P 500 but usually with a minimum fixed rate guarantee.

Because of their structure, fixed index annuities can offer investors an option that provides them with less risk than being invested in the stock market, yet still with the opportunity to obtain better returns.

In other words, this type of annuity offers the opportunity to participate in some of the market's upside when the market is performing well, but also protects you from downside losses. Does this sound somewhat familiar?

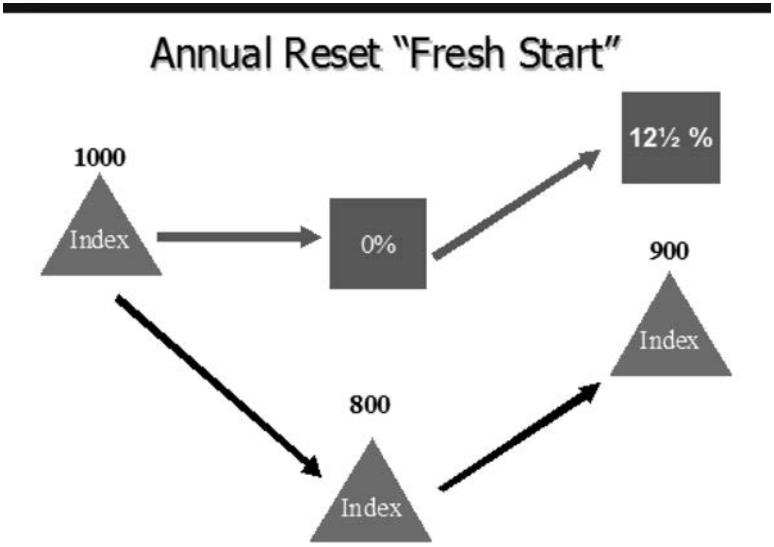
These annuities can also provide you with an income stream for life. In addition, you still have control over your money—and you can get to it if you have an emergency and need liquidity.

FEATURES OF A FIXED INDEX ANNUITY

Fixed index annuities have some common features—many of which can be beneficial to those who hold these products. These features include the following:

- **The Index:** Similar to IUL policies, fixed index annuities are also tied to an underlying index such as the S&P 500 or the NASDAQ 100. Yet, while your funds are tied to the performance of the underlying index, you are not investing directly in the market itself. The nice thing here is that you are also guaranteed a minimum rate of return, so if the market performs poorly, your principal is still protected.
- **Participation Rate:** The participation rate will determine the impact of the performance of the underlying index on the value of your annuity. This rate can change each year, depending on the terms of the annuity contract. As an example, if your participation rate is eighty-five percent, this means that you will be able to participate in eighty-five percent of the market's gains.
- Therefore, in this case, if the market went up by ten percent in a given year, your funds would rise by 8.5 percent (assuming for this example that it was an uncapped strategy). My personal recommendation is that you look only for annuities that offer a one hundred percent participation rate.
- **Index Term**: The index term is the time period over which the index-linked interest will be calculated. This can also include the length of time that withdrawals and surrenders are subject to fees. Usually this is one or two years.
- **Guaranteed Income for Life:** This, as already mentioned, is the most powerful tool that the annuity can provide. The income for life feature gives you the peace of mind in knowing that you have an income stream for life.

- **Legacy Benefits –** This recently has become a popular option offered by some carriers. It gives you the best of both worlds. You get the principal protection you desire, guaranteed income for life that annuities provide, and now you can also get the higher of your principal value or initial premium back at death for your heirs. Talk about peace of mind.



- **Cap Rate:** There are some fixed index annuities that contain cap rates that restrict the level of interest payments once a certain rate has been achieved.

  For example, if your annuity has a cap rate of six percent, but the underlying index achieved a return for that year of seven

percent, your return for the year would be six percent. However, the nice part about this is these annuities also compensate for this by protecting your principal with a floor. This allows you a great deal of downside market protection.

- **Floor:** The floor is the minimum guaranteed rate that is paid to the annuity holder each year. This means that no matter what the underlying index does in a given year, the annuity holder will still receive the amount of the floor.

  For example, if you have a floor of zero percent, and the underlying index that your annuity tracks had a return of negative fifteen percent in a given year, your account would receive zero percent. Therefore, your account would not lose a penny.
- **Reset Value:** The reset value is the comparison on the index's year-end value to the start of the next year. This calculation determines the interest that you are credited based on the performance of the index and the contract terms. They are usually reset every one to two years depending on the carrier.

HOW YOUR FIXED INDEX ANNUITY INTEREST IS CALCULATED

When you own a fixed index annuity, there are several ways the interest in your account can be credited. You are typically able to choose this upon setting up your annuity.

These crediting methods include the following:

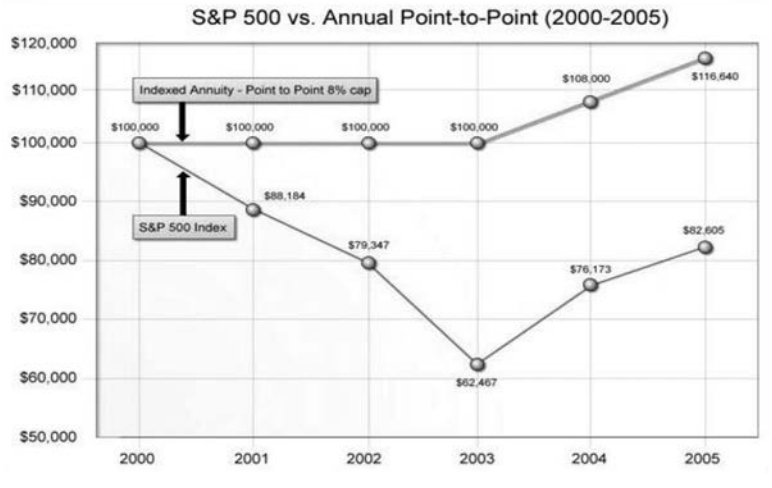
Point to Point

If your interest crediting terms are based on point-to-point comparison, then your rate will be determined by two distinct dates and the value of the index on those dates. This is typically tied to the contract date.

For instance, if you initiated a fixed index annuity on March 12, then the point-to-point period may be the price on March 12 and March 11 of the following year. In some cases, you may also be able to apply this on a month-to-month basis.

Monthly Sum Crediting

This is a type of point-to-point crediting method where the index from the previous month is compared to the current month. At the end of the year, each month's calculation is combined to reach the annual interest credit. The month-to-month dates are determined by the date that your contract was issued.



Monthly Average Crediting

The monthly average crediting is also a type of point-to-point method where the index value from the previous month is compared to the current month. It works in a similar fashion to the monthly sum crediting, except that at the end of the year, each month's calculation is combined and then it is divided by twelve in order to reach the annual interest credit.

Just like with the monthly sum crediting method, the month-to-month dates will be determined by the date your fixed index annuity contract was issued.

ADDITIONAL ATTRACTIVE BENEFITS

There are additional benefits to owning a fixed index annuity as well. Interested? We'll go into more detail in the following chapter.

CHAPTER 15

Great Options for Retirement Income

In further reviewing the fixed index annuity, this financial vehicle can provide a wide array of benefits for seniors including:

- Lifetime income
- Tax-deferred growth
- Ability to transfer funds in from life insurance or other annuities
- Protection of principal
- Additional income rider options

In this chapter, let's take a closer look at some of these additional features that can help you literally customize your retirement income plan.

ANNUITY INCOME OPTIONS

Annuitization. That's a big word, but it can mean the difference between a comfortable retirement and years of struggles. Essentially what it refers to is the conversion of your annuity account value into an income stream over a set period of time.

Although there are a number of different options you can choose from when deciding on how you want to take income from your annuity—including the receipt of an income payment for a set number of years—the absolute best feature that an annuity can offer you is the ability to choose a guaranteed lifetime income.

This means that no matter how long you live, you can receive an income from your annuity for the remainder of your life—regardless how long that may be.

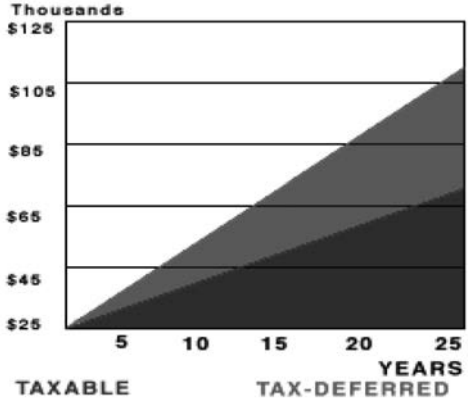
TAX-DEFERRED STATUS

One of the other great features of an annuity is that while your funds are still accumulating inside of the account, they are able to grow on a tax-deferred basis. This means that no matter how much the underlying index

may increase—in turn, causing your funds to grow in value—you will not be required to pay tax on that growth until the time of withdrawal.

This allows your funds to essentially compound—gains on top of gains, year after year—while protecting your principal until you are ready to retire and take the money out of the account. Over time, this can allow your funds to increase substantially.

Taxable versus Tax-Deferred Growth over Time



As you can see from the chart above, throughout the period of twenty-five years, the power of tax-deferred growth can have a tremendous effect on just how much more your savings can grow—even based on all of the same factors.

For example: If you deposited the very same amount of money, and you earned the very same interest rate, and you kept your funds invested for the very same period of time—the simple difference between just

having your funds grow tax-deferred could be significant as you can see from above chart. Since you are already in retirement, that extra value and income it provides over time can make a difference.

1035 EXCHANGES

A fixed index annuity is also eligible to receive funds via a 1035 exchange. This means that you can move funds either from a life insurance policy, or from another annuity, into a fixed index annuity account.

This can provide you with a great opportunity to transfer funding from such vehicles as an IRA over to a fixed index annuity without tax consequences and get continue your tax-deferred growth feature and principal protection that you may be missing with your current IRA.

It is important to note that you should meet with a financial advisor prior to doing so in order to determine the proper procedure.

OPTIONAL RIDERS

As with life insurance, annuities can also come with optional riders. These riders can provide you with even more benefits, and they can also allow you to further customize the plan in order to better fit your exact needs and goals.

Legacy Riders

One important rider that we mentioned earlier was the legacy. You can add this to your fixed index annuity. This rider can help protect your principal in the case that you have spent into your funds. It will pass on the full principal to your heirs.

Income Riders

Income riders can also be added to your fixed index annuity. These can provide more income guarantees. Usually they are between six to eight percent interest per year.

For example, the guaranteed income rider can be added to a fixed index annuity. Here, interest is paid at a variable rate with no principal fluctuations. Having this rider actually works by adding a guaranteed element to the income portion of your investment.

It creates a separate account from your investment and is actually a different account from which to base your income. It is important to note that this is not a cash account, but rather only an account on which to base your income from in the future.

Therefore, both of the accounts will start out equally—your income account and your regular account. Your regular account is just your normal annuity, and it will grow and earn interest as usual.

The income account works by first creating a set rate of interest. The value is then known at any given year based on the amount of your original investment.

The payout of income comes when you begin to withdraw funds from your original investment in the annuity. The income will then be determined by the amount of value in the income account. If you follow the guarantee for life rules, your income will be guaranteed for life. That set return in your income account can really help provide a predictable stream of income in the future, much like a pension

ANNUITIES BOTTOM LINE

There are numerous advantages to investing in a fixed index annuity. These include:

- Opportunity for growth based on the performance of the underlying index. While not investing directly in the market, protection of principal and a minimum rate guarantee.
- Tax-deferred earnings on growth of your funds inside of the annuity account.
- No maximum limit on contributions that are made into the account.

- Funds can bypass probate and go directly to beneficiaries while the annuity still has value.
- In most states, annuity funds are protected from creditors.
- Lifetime retirement income—guaranteed!

Thank you

I would like to thank my wife Amy and children Stephanie, Laura, and Christina for always understanding the amount of commitment it takes when running a business. You are my daily inspiration. To my father and mother who always instilled in me that you can accomplish anything you put your mind to. I have lived my life with that in my mind and heart through good and bad times.

A book is a team effort, and I wanted to also thank the wonderful team of people who helped me with this project by bringing my writing and thoughts to life so the story could be told.

To you the reader, thank you for reading my book and sharing some time with me. I hope that it makes a difference in your life for you and your family.

Best of success,
Michael Cosentino

I would like to learn more, please refer me to a Professional

Name: _____

Address: _____

Phone: _____

Email: _____

Best time to contact you: _____

After reading this book what is your biggest concern as it relates to your retirement savings

Please circle which ones below apply:

Principal protection *Tax free income*

Accumulation of Interest *Tax free Legacy Benefits*

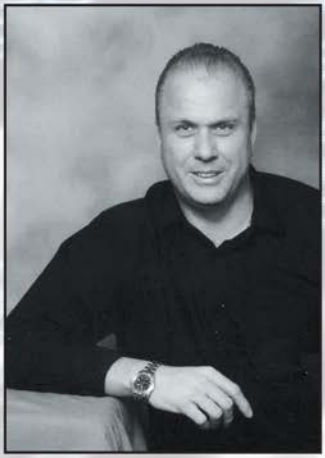
Other _____

After filling out the above information ,please fax this document to

248-499-1010

and we will refer you to an IUL expert within 48-72 hours.

Michael Cosentino currently holds the position of C.E.O. for American Liberty Financial. Michael received his B.S. from Eastern Michigan University and his Masters from Walsh College, M.S.F. in Finance.



Michael is passionate about helping people design their own personal Pension Plan, as he calls it.

Gone are the days of cushy corporate pensions and with the social security system challenged and underfunded, the long-term view for retirement income planning has gotten very challenging for many Americans. Unfortunately there are a lot of misconceptions out there on retirement income planning, and a lot of people are taking on much more risk than they need to, with improper education and a lack of guidance. Unfornately 401ks have become the only source for retirement saving for many Americans.

Michael dispels the lies about 401k's and opens your eyes to the risk that Americans take by relying only on a 401k plan for their only retirement plan. Michael hopes that through his writings, books, and the work he does with clients, he may shed some light on strategies that people can use to make a big difference in their retirement income planning. By making some important changes, people can create a more hopeful future for themselves and their families in their retirement years.

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