REAL FINANCIAL - A NICER WAY BY TIMO | CLIENT ANALYSIS

Wealth Allocation Analysis: $380,000 Portfolio Decision

A comparative strategic study between a Fixed Indexed Annuity (FIA) and a 5-Pay Non-MEC Indexed Universal Life (IUL) structure for tax-free retirement cash flow.

Client Profile & Objectives

Analyzing optimal income generation, tax efficiency, and legacy preserving strategies for a single $380,000 lump-sum allocation.

Client Objectives & Key Goals

Primary Objective: $2,500/Mo Income

The client is deploying $380,000 to produce a consistent monthly income stream of $2,500 ($30,000 annually) to support retirement lifestyle expenses with complete stability.

Legacy Priority: Tax Efficiency

Because her children already own their primary home, the client does not require excessive death benefit liquidity. Her main objective is maximizing spendable net income during life while leaving remaining capital tax-free.

Option 1: Fixed Indexed Annuity

Guaranteed Income with Tax Catch

An FIA with an Income Doubler rider provides structured income guarantees, but distributions are governed by IRS **LIFO (Last-In, First-Out) rules**.

Every dollar of growth is taxed as **ordinary income**. To receive $2,500 net per month, the client must draw nearly $40,000 annually to account for tax withholding.

Option 2: 5-Pay Non-MEC IUL

100% Tax-Free Cash Flow

By placing the $380k into a Premium Deposit Account (PDA), the carrier transfers ~$76k/year into an IUL over 5 years. This preserves **Non-MEC status** under IRS Sec. 7702.

The client extracts $2,500/month as **tax-free policy loans**. Zero 1099 income tax forms are generated, preserving full liquidity.

Side-by-Side Strategy Comparison

Feature / Dimension	Fixed Indexed Annuity (FIA)	5-Pay Non-MEC IUL (PDA)
Funding Mechanism	$380,000 Single Premium Day 1	$380k via Premium Deposit Account ($76k/yr x 5)
$30k/Yr Income Tax Status	Taxable (Ordinary Income Tax Rate)	100% Tax-Free (IRS Sec. 7702 Loans)
Gross Withdrawal Required	~$40,000/yr (assuming 25% tax)	$30,000/yr exact (zero tax reduction)
Social Security Tax Trigger	Yes (Increases MAGI calculation)	**No Impact** (Loan proceeds not reported)
Beneficiary Death Benefit	Taxable gain portion passed to heirs	100% Tax-Free Net Death Benefit

Gross Income Needed for $30k Net

Note: The FIA requires drawing an extra $10,000/year out of the asset base solely to pay income taxes (assuming a 25% combined bracket).

How 5-Pay IUL Strategy Works

1. PDA Deposit

The client transfers the full $380,000 into the carrier's Premium Deposit Account, earning guaranteed holding interest.

2. 5-Year Allocation

The carrier automatically transfers ~$76,000 annually into the Max-Funded IUL, successfully passing the IRS 7–Pay Test.

3. Tax-Free Income

Starting Year 6 (or as designed), the client draws $2,500/month as index-linked policy loans without triggering taxes.

20-Year Cash Value Trajectory

Tax-Free Income Advantage

100%

Income Tax Free

Zero Loan Repayment Obligation

Under IRS Section 7702, policy loans taken against an IUL cash value are non-taxable distributions. The client never has to write a check out of pocket to repay policy loans.

Upon passing, the total accumulated loan balance is automatically settled tax-free directly from the gross death benefit, with remaining tax-free cash passing to her children.

Estate & Legacy Benefits

- **Protected Social Security Benefits:** Because IUL loan distributions generate no 1099 income, they do not increase Modified Adjusted Gross Income (MAGI), preventing accidental taxation on Social Security.
- **Income-Tax-Free Heirs Benefit:** FIA contract gains pass to beneficiaries as taxable income. In contrast, the remaining IUL death benefit passes completely tax-free to her children.
- **Index Lock & Floor Protection:** Cash values benefit from market index upside caps while enjoying a 0% floor guarantee against market downturns.

Summary & Next Steps

The 5-Pay Non-MEC IUL delivers $2,500/month net into her bank account while saving ~$10,000/year in taxes compared to the FIA.

Prepared by Real Financial - A Nicer Way by Timo | Client Financial Strategy

Image Sources

https://img.freepik.com/foto-premium/senior-woman-and-happy-with-portrait-on-sofa-for-relax-comfortable-or-peaceful-in-retirement-female-person-home-and-break-in-living-room-for-wellness-security-or-mortgage-freedom-with-insurance_590464-523496.jpg

Source: idn.freepik.com

https://plus.unsplash.com/premium_photo-1733306586152-3d613f322f3e?fm=jpg&q=60&w=3000&auto=format&fit=crop&ixlib=rb-4.1.0&ixid=M3wxMjA3fDB8MHxwaG90by1wYWdlfHx8fGVufDB8fHx8fA%3D%3D

Source: unsplash.com