

Who is Looking Out for the Business Owner?

By Bryan Drewes

Small business owners are screwed. Yes, I said it. Small businesses are the backbone of this country. Nonetheless, they are burdened with more regulation and taxation than their big business counterparts. If the owner beats the odds and does create a business that produces substantial profits and attempts to take that money out of the company for future needs, who is there waiting to get a healthy cut? Yes, you guessed it, the IRS.

The IRS has thrown the successful small business owner a few bones, IRAs and few medium sized qualified plans. All these plans have the same flaws; limited contributions and taxable withdrawals. Many of them also require the business owner to include employees to programs which adds expense and administrative headaches. The Roth IRA, at least, puts the tax advantage where you want it, during your retirement years, but if you make too much money you can't have one. If you can have one, the contribution limits are very small. If you have a successful business and you want to put away large sums of money without extra expenses and headaches, you could not. That is, until now.

There is a proven strategy for successful business owners and professionals. In fact, this approach has recently been endorsed and marketed by the California Medical Association (CMA) as the premier strategy for retirement planning for physicians in the state of California. The idea is simple, yet shockingly effective. (Up to three hundred percent more income during retirement for the same dollar spent, compared to traditional approaches.)

Finance your retirement. Buy a fully funded retirement vehicle. Think of this similarly as buying a house; you have two ways to buy; save money monthly until you have enough to pay cash or get a mortgage. The problem with saving up the money is that by the time you save enough to buy the house at today's price, it might cost two or three times more. You're chasing an appreciating asset! The mortgage allows you to lock-in the price today and you simply have to make payments against the cost today, plus interest. The government assists by allowing you to deduct the interest on your taxes.



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Funding your retirement has the same problems and the same choices. Retiring is expensive. Retiring 15 years from now will be more expensive. You are chasing a growing liability. Retirement financing allows you to lock in the cost of retirement today by borrowing a large sum of money and having it begin compounding today instead of funding it with small monthly contributions. Simply redirect your monthly contributions to make the interest payments on the loan. That large sum of money will continue to grow to fill the future need. You simply make the payments to the bank. The exciting part is this is a commercial loan to your business which affords the ability to write off the interest as a deductible expense while the money goes into a retirement vehicle in your name.

Here is how it works: the bank lends the business \$100,000 to \$25,000,000 as an interest-only loan for up to 20 years with no personal guarantee. The business owner then borrows the money from the company and places it into a bank approved indexed insurance vehicle. The insurance provides three benefits; stock market returns with a guarantee against market losses, tax deferred growth

and tax free distributions including the growth if you choose that option. The borrowed money is the collateral. In some cases, the owner is required to pay a little interest on the loan (Applicable Federal Rate (AFR)) back to his own company.

As an example: you are in a position where you could afford to transfer \$70,000 per year from your business to satisfy your future needs, but don't want to pay income taxes on the transfer. Here is how it is done, your business borrows \$1 million (current interest rates are below 7% but let's call it 7% for simplicity). Your business will spend \$70,000 on the loan interest. The \$1 million is placed in an insured contract in your personal name that has historically returned in the 7-9% range. So, assuming the return is going to be in the 7% range that is a \$70,000 increase in your retirement vehicle. Your business spent \$70,000 and your retirement account grew by \$70,000! Isn't that the same result as transferring \$70,000 out of your business into your personal account? It's even better because if your business deducts the \$70,000 spent on interest, the net cost was more like \$45,500. So your business spent \$45,500 to put \$70,000 in your personal retirement account. Want to move \$140,000 out of your business? Borrow \$2 million. \$210,000? Borrow \$3 million, and so on. This program allows unlimited transfers from your business to your personal account.

Due to the tax efficiency of this approach and the power of leveraging a large sum of money into your account right away, a traditional qualified account would need to return almost twice as much to have the same income at retirement. Twice the return means you have to take a lot more risk with your money. Our approach is significantly safer.

The point is: You just contributed a large sum to your retirement as a deductible expense, now the money is in an insurance contract where it will grow tax deferred, and you can distribute the money tax free as long as you follow a few simple rules. Pre-tax contribution, tax deferred growth AND income tax free distributions! The exit is to simply return the lent money to the bank (keeping all the growth) or pay it off with other assets. So, when did you pay income taxes? You didn't.

WHO IS LOOKING OUT FOR THE BUSINESS OWNER? WE ARE!

Please see our ad on page 5.