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What's A LIRP And Why You Should Own One

By Ike Ikokwu

LIRP is a very powerful yet fairly basic financial planning tool that has been used to solve myriads of financial planning goals for decades. It's kind of like baking soda. Every household in America has one yet uses it a little differently. Just do a search online and you'll find anywhere from 51 to 75 documented uses of baking soda. While there aren't quite that many uses of the LIRP, it's nice to know a LIRP has multiple uses. Some of the **many uses** of a LIRP include:

- Creating a self- completing retirement plan.
- Providing supplemental retirement income for corporate executives and every day employees.
- Avoiding the threat of higher income taxes in the future..."The Real Fiscal Cliff".
- **Addressing estate tax issues** at death and paying off debts.
- Guaranteeing what you want to happen financially in life will happen, whether or not you are here to see it happen.
- Becoming your own bank and making more efficient purchasing decisions.
- Providing access to funds that may be earmarked for retirement purposes.
- Having multiple investments uses on the same investment dollar.
- **Paying for college education** without being disqualified from financial aid.
- **Addressing long term care needs** later in life.
- **Creating a tax-free income stream** at retirement.

If you're like most people that are saving for their future, you've probably accumulated the vast majority of your wealth in two of the three investments buckets available to you....the taxable and tax deferred buckets. The problem though is the impact that higher taxes will have on diminishing all that wealth you've accumulated. With our national debt spiraling out of control, the federal government spending 76% of the federal budget on Medicare, Medicaid, Social Security and interest on our national debt, and with large numbers of the 78 million baby boomers exiting the work force, our tax rates are set to sky rocket. As a matter of fact, David Walker, the former federal comptroller general, has calculated that taxes would have to double immediately in order to sustain our debt load. <http://www.cnn.com/2009/POLITICS/04/15/walker.tax.debt/>

If you agree that income tax rates will be higher in the future, then you really want the majority of your assets in the third investment bucket....**the tax free bucket**. As you search the financial landscape for what types of financial instruments would be a good fit for your tax free bucket, you'll find the LIRP to be a worthy candidate. Many Americans are in fact turning to tax-free accumulation and distribution tools like the LIRP as a way of avoiding the impact of rising taxes. So let's get a 30,000 foot view of what a LIRP is.

A LIRP is an accumulation and distribution tool that shares many of the same tax-free attributes as the ROTH IRA...but without many of the restrictions. When designed properly, a LIRP offers **many desirable features** some of which include:

- **No Income Limitations:** While the IRS imposes income limitations on who can put money into a ROTH IRA, the LIRP has no such income limitation.
- **No Contribution Limits:** Those lucky enough to be able to put money into a ROTH IRA can put a total of \$5,500 into one in 2013. If you are above the age of 50, you can put \$6,500 into your ROTH IRA. With the LIRP, you can put \$2,000 a year into it or \$200,000 a year. The only real limitations per se are what your cash flow will allow.
- **No 1099's issued:** A way to confirm you've got money sitting in the taxable bucket is by virtue of the 1099 you receive each year to report and pay tax on the growth of that investment. With the LIRP, your money grows tax-free and you don't get any 1099's at year end.
- **Multiple growth strategies:** There are essentially three ways to grow your money in a LIRP. First, you can select a fixed interest option which historically has paid anywhere from 3% to 5% annually. Second, you could rely on the performance of the stock market through direct investments in mutual funds. While the opportunity for growth can be significant with this approach, the opportunity for loss can be just as significant as evidenced by the market collapse of 2008. The third approach is an Indexing Strategy. With this strategy, growth is linked to the performance of an external index, like the S&P 500 Index, with a floor of zero. That means if the index has positive performance, you participate in some of that performance. However, when the index is down, you get credited with 0% growth that year. Historical back-tested returns with this strategy have averaged between 7% to 9% which provides a safe but productive way to accumulate tax-free dollars for retirement.
- **Tax-Free Retirement Income:** Withdrawals of your basis in a LIRP or loans against the accumulated value in a LIRP is always tax free under current law.
- **Long Term Care Coverage:** You have access to account values within the LIRP to defray the costs of long term care.
- **No legislative risk:**

If history serves as a model, should the government make changes to the LIRP, existing LIRP owners would be grandfathered and continue to enjoy benefits of the LIRP prior to any future changes.

So what does the acronym **LIRP stand for**? It stands for a **Life Insurance Retirement Plan**. Sounds like a bit of an oxymoron. However, all of the above features and uses of a LIRP can accrue to your benefit with a properly designed LIRP. By properly designed, I'm referring to a "Maximum Premium, Minimum Face, Maximum Accumulation" (MPMFMA) Cash Value Life Insurance Policy.

A MPMFMA Cash Value Life Insurance Policy is one where it's policy design is done in compliance with existing tax laws. This allows you to put in the maximum amount of premium into the policy to purchase the absolute minimum amount of life insurance face value or death benefit, which in turns allows you to benefit from maximum accumulation of the cash value in that policy. Designed this way, a MPMFMA Cash Value Life Insurance Policy allows you to enjoy all of the above features and uses of the LIRP at a cost that is very consistent with other places you currently have your money parked. The expenses within the LIRP can cost as little as 1% of the annual account balance over the life of the program. And, that's less than the average annual expenses in the typical 401k per USA Today.

http://usatoday30.usatoday.com/money/perfi/retirement/2009-08-24-401k-retirement-savings-fees_N.htm

The LIRP, when designed properly, can be as flexible to your financial planning goals as baking soda can be to the average household. While this article does not address all of the uses and features of the LIRP, enough has been covered to at least whet your appetite for the LIRP. And, if you were ever looking for a turbo charged ROTH IRA without the limitations, the LIRP may just be the answer.

Now that you know what a LIRP is, **there should be little reason not to own one**. Owning a LIRP can help you win the money game and enjoy a totally income tax-free retirement!

Best Selling Author and Financial Strategist Ike Ikokwu gets it. He's walked through the same fire that most of us are walking through right now - the disappearing nest egg, the investment returns that never happen, and the house with the white picket fence that's worth less now than it was when we bought it. Through experience, education, and a lot of hard work, Ikokwu has survived the American Dream turned financial nightmare. He has discovered that most of us are following 9 specific financial myths he calls the "Mom and Dad Plan," and these inadvisable, yet staple, beliefs have us on a collision course with financial disaster. For access to his best-selling book and other financial products to help you avoid the collision course with financial disaster, visit him on the web at www.ikeikokwu.com