

ISOP[®] Strategy for Ages 55 and Up

William L. MacDonald
Chairman, President, & CEO
Retirement Capital Group, Inc

Distribution Buckets



Individuals plan for retirement by filling their investment buckets during their working years. Regular Income, Capital Gains, and Non-Taxable buckets should be relatively equal. However, for those highly compensated individuals above the age of 55, the Non-Taxable bucket may be relatively empty because they are limited as to their participation in ROTH IRA's, large amounts of available non-invested cash is not recommended and the ISOP[®] was unavailable until now.

Let's see if the ISOP[®] can help...

Example

Let's take a 58-year-old who, at 65, has targeted the need for \$200,000 of after-tax annual income. Let's assume ordinary income tax bracket of 40% and a capital gains tax bracket of 20%. We'll also assume a rate of return on investments of 8.5% net of expenses.

Current balances and projected contributions for Ordinary Income taxed funds project this bucket's balance to be 2,700,000 at age 65. (\$145,000 annual distributions to age 90).

Or...

Current balances and projected contributions for Capital Gains taxed funds project this bucket's balance to be 2,000,000 at age 65. (\$145,000 annual distributions to age 90).

Dilemma...

How best to meet the shortfall of targeted income needs for retirement years.

Can the ISOP[®] help?

Example

Yes. What if this 58 year old was to take \$200,000 after-tax annually from either of these buckets for as long as it lasts, contribute to the ISOP[®], and take the remaining \$200,000 after-tax annually for the remaining years to age 90. Assuming the ISOP[®] modeled 3.5% spread, let's see how this projects out.

The projected balance of \$2,700,000 of Ordinary Income taxed funds projects out to 12 years of \$200,000 annual distributions.

Or...

The projected balance of \$2,000,000 of Capital Gains taxed funds projects out to 12 years of \$200,000 annual distributions.

Under the assumptions stated, this 58-year-old can make contributions to the ISOP[®] in the amount of \$80,000 after-tax dollars to age 65 (7 years) providing a projected \$200,000 of after-tax annual distributions to be taken from age 77 to age 90. By maintaining the current strategy in either the Ordinary Income taxed investment or Capital Gains taxed investment, this 58-year-old has created a pool of funds to draw from while the ISOP[®] is at work. This not only is an efficient vehicle for providing for the projected shortfall, but projected distributions beyond age 77 are non-taxable providing for tax rate change protection.