

Information from Financial Services and CFS* to help keep your financial life in balance

Consumer Sense

DON'T LET TAXES ERODE YOUR LEGACY!

Many of our members use tax-deferred investments such as IRA's or fixed annuities to supplement their retirement income. These investments are popular because of their potential tax advantages. Tax deferred accounts typically allow investment earnings that would ordinarily be taxed on an annual basis to accumulate free of taxation until funds are withdrawn from the account, generally to provide income at retirement.*

But what happens if you want to pass that accumulated asset to your family? While these are excellent vehicles when you want to accumulate wealth, they can be inefficient if you want to pass the assets to your heirs. They could be subject to both income and estate taxes at your death. The combined tax impact could erode the value of your tax-deferred investment depending on the overall value of your estate and the status of estate tax regulations. Goals and plans

change over time, so if your current goal is to pass your existing IRA or fixed annuity to your heirs and YOU DO NOT PLAN ON USING THE ASSET FOR INCOME, Capital Transfer could be an effective planning tool for you!

Capital Transfer is designed to maximize the value of your tax-deferred investments when passed to your heirs. This planning concept repositions the tax-deferred asset to avoid both the income and estate taxes due at death. It is very important that you evaluate your current financial situation to determine if *Capital Transfer* will meet your planning needs.

The Capital Transfer concept uses the value of your tax-deferred investment to purchase a life insurance policy. If properly structured, the life insurance death benefit can be free of income and estate taxes for your heirs. Life insurance death benefits are generally income tax-free to the

beneficiary and may also be estate tax free if the insurance is purchased outside your estate.

Reaching out to Your Credit Union's Financial Professional

Talk to your financial professional about the different types of tax-deferred investments. Additionally, he or she may be able to answer any questions you have regarding a wide range of financial topics. Contact your credit union!

Capital Transfer is not right for everyone, but could be suitable for your specific situation and result in a larger inheritance for your heirs. Please consider your investment goals, time horizon and applicable risks before investing and consider working with an investment professional that deals with several companies and knows life insurance policies.

**In addition to taxes at the time of withdrawal, a 10% penalty on the earnings may be imposed on tax deferred accounts if withdrawn prior to age 59 ½.*

Have You Read...

Life Insurance Demystified: *Questions and Answers on Life Insurance: The Life Insurance Toolkit* by Anthony Steuer. An easy-to-use life-insurance guidebook. Chartered Life Underwriter (CLU) Steuer notes that life insurance is "one of the least exciting topics to think about," and here he offers a painless reference book to that gray world.

Interested in Learning More?

We specialize in helping people maintain a healthy financial balance and discover smart money strategies. Call us to set an appointment to review your investment objectives, and to discuss any questions you might have. We look forward to speaking with you!

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Do you have a topic you'd like to see covered in future *In Balance* newsletters? Email your questions and comments to us at: investmentctr@fmfcu.org

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