

## *Protected Equity Plan*

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# Protected Equity Plan

This concept is suitable for insureds up through age 60 who desire to accumulate wealth through a principal protected and tax advantaged vehicle for the generation of future income.

The Protected Equity Plan (PEP) uses an Indexed Universal Life Insurance Policy with the following unique features:

- Equity returns through choice of Equity Index Accounts with guaranteed annual floor of 1%
- Availability of fixed interest accounts
- Cash value grows on a tax deferred basis
- Tax free distributions (via loans) as long as the policy remains in force
- Investment can be protected from the claims of creditors\*
- Residual death benefit to family can be transfer tax free\*

*The Protected Equity Plan (PEP) is a principal protected and tax advantaged income generation vehicle with significant death benefits as well.*

\* Requires the use of an irrevocable trust such as a Spousal Lifetime Access Trust; Asset Protection Trust; or an Irrevocable Insurance Trust.

**Susan, Female Age 41 – Preferred, Non-Smoker California Resident**
**Protected Equity Plan**

<b>Values No Distributions</b>				
<b>Year (EOY)</b>	<b>Contributions</b>	<b>Cash Surrender Values Guaranteed No Loans/Withdrawals</b>	<b>Cash Surrender Values (6.35%) No Loans/Withdrawals</b>	<b>Death Benefit Non-Guaranteed (6.35%) No Loans/Withdrawals</b>
1	276,327	276,327	276,327	11,500,000
2	276,327	552,655	552,655	11,500,000
3	276,327	828,982	828,982	11,500,000
4	276,327	1,105,309	1,105,309	11,500,000
5	276,327	1,381,636	1,381,636	11,500,000
6	276,327	1,657,964	1,657,964	11,739,553
7	276,327	1,934,291	1,934,291	12,118,890
8	276,327	2,210,618	2,210,618	12,521,537
9	276,327	2,486,946	2,486,946	12,953,604
10	276,327	2,763,272	2,953,604	13,133,485
11			3,133,485	13,738,198
15			3,963,063	13,738,198
20			5,301,362	13,738,198
25			7,100,162	13,738,198
30			9,537,518	13,738,198
35			12,872,864	13,738,198
40			17,459,124	18,332,080
45			23,612,537	24,793,164
50			31,737,493	33,324,368
55			40,278,377	40,681,161
Age 100			54,796,908	54,796,908

<b>Values With Distributions</b>				
<b>Year (EOY)</b>	<b>Lifetime Tax Free (Annual) Distributions</b>	<b>Cumulative Distributions</b>	<b>Cash Surrender Values (6.35%) Net Loans</b>	<b>Death Benefit Non-Guaranteed (6.35%)</b>
1			276,327	11,500,000
2			552,655	11,500,000
3			828,982	11,500,000
4			1,105,309	11,500,000
5			1,381,636	11,500,000
6			1,657,964	11,739,553
7			1,934,291	12,118,890
8			2,210,618	12,521,537
9			2,486,946	12,953,604
10			2,953,604	13,133,485
11	245,373	245,373	2,888,113	12,888,113
15	245,373	1,226,865	2,640,476	10,412,734
20	245,373	2,453,730	2,308,885	8,720,070
25	245,373	3,680,595	1,988,257	6,559,753
30	245,373	4,907,460	1,739,303	3,802,581
35	245,373	6,134,325	1,669,196	2,315,690
40	245,373	7,361,190	1,858,632	2,749,155
45	245,373	8,588,055	2,262,161	3,608,302
50	245,373	9,814,920	3,376,786	4,995,595
55	245,373	11,041,785	5,361,861	5,361,861
Age 100	245,373	12,268,650	8,268,469	8,268,469

\*Lifetime distributions total \$12,268,650 (\$245,373 year 11 through year 60), distributions are tax free (via loans against the cash value)

\*\*Death benefits are reduced to lower mortality costs in order to maximize lifetime distributions

**Projected tax free life time distributions total \$12,268,650 (\$245,373 per year from year 11 through age 100)**

## Comparison of Indexed UL (6.35% with 1% Guaranteed Return) & Investment Account (pre-tax 10.50%)

**Assumptions:**

Susan, Female Age 41 – Preferred, Non-Smoker

Annual Deposit of \$276,327 for 10 years

Indexed Universal Life Policy with a projected return of 6.35%

Investment Account (pre-tax 10.50%)

### Indexed UL 6.35% Projected Return (1% Guaranteed)

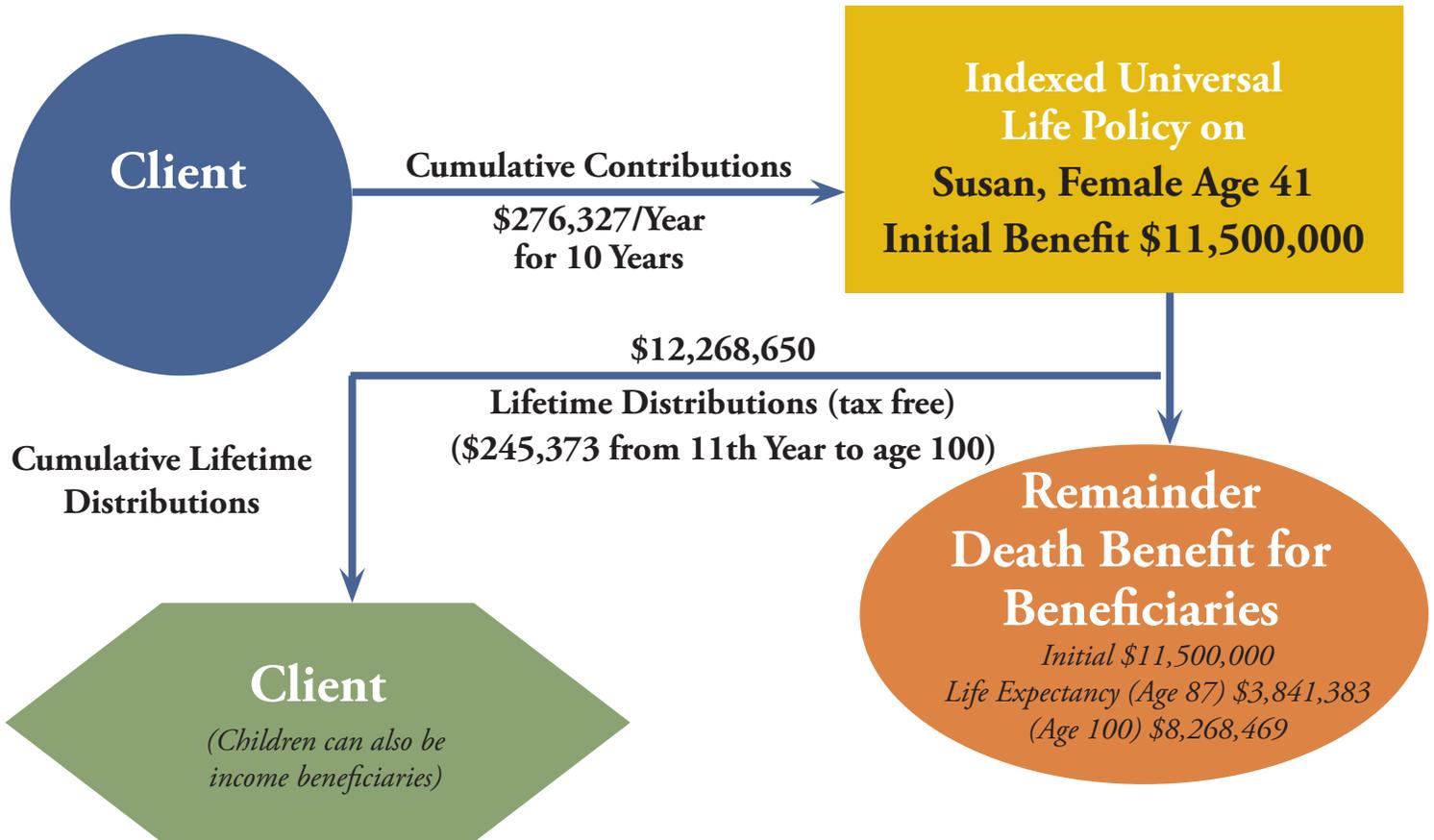
		Advantages	Disadvantages
*Guaranteed Surrender Value Year 1	276,327	Cash value guarantee 10 years	Mortality costs
Guaranteed Surrender Value Year 1-10	2,763,273	Downside Protection	Upside is capped at 12%
***Annual Tax Free Income Starting 11th Yr.	245,373	Tax Deferred Growth	Loan fees
Cumulative Tax Free Income through age 100	12,268,650	Tax free distributions via loan	
Initial Death Benefit	11,500,000	Death benefit for family	
Death Benefit at Life Expectancy (Age 87)	26,319,468		
Death Benefit at Age 100	54,796,908		

### Investment Account (pre-tax 10.50%)

		Advantages	Disadvantages
Projected Value Year 1	293,852	No Limitation on upside	No protection on downside
Projected Value Year 10	3,935,975		Income subject to income taxation
****Annual After Tax Income Starting 11th Year	245,373		
Cumulative After Tax Income To Age 99	12,023,277		No insurance benefit for family
Initial Death Benefit	0		
Account Value at Life Expectancy (age 87)	2,378,549		
Account Value at Age 100	0		

\*Withdrawals and policy reductions are not allowed during the guaranteed period. Loans are permitted but are against the natural account value. The full guaranteed amount can be accessed only through cash surrender. \*\*Current cap is 12% with 100% participation rate; the carrier can adjust caps on an annual basis. \*\*\*Loans taken against the indexed account are at a fixed rate of 5.3% until age 100 and then 3% thereafter. The indexed crediting rate is paid on the money even though it is borrowed. A crediting rate of 6.35% would result in a positive spread of 1.35% whereas a crediting rate of 4% would result in a negative loan spread of 1%.\*\*\*\* The tax rate 39.6 (federal & state) is assumed on the Investment Account.

## Transaction Diagram



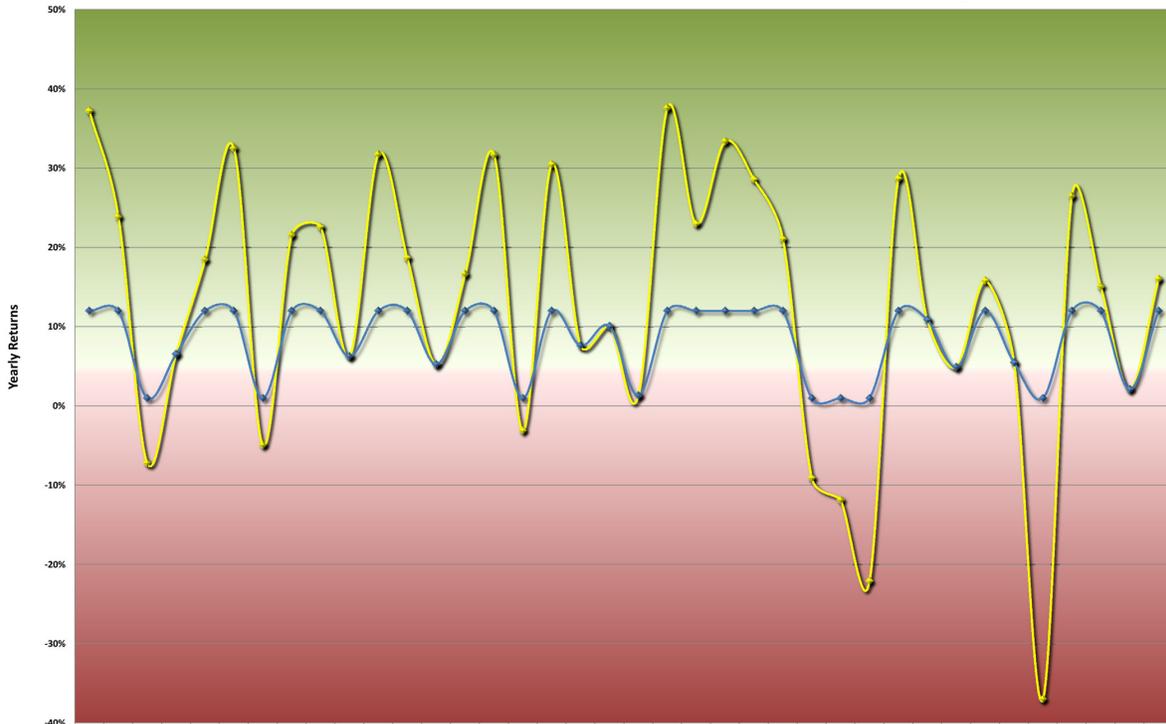
**Table of Benefits to Family (Indexed Universal Life @ 6.35% And Investment (pre-tax 10.50%))**

Year	Account Value With Distributions	Death Benefit PEP With Distributions
5	1,667,819	11,500,000
10	3,935,974	12,953,604
15	3,871,753	10,412,734
20	3,784,415	8,720,070
25	3,665,641	6,559,753
(Age 87 Life Expectancy)	2,378,549	3,841,383
95	1,275,500	5,217,542
100	0	8,268,469

\*The death benefit is reduced in the 12th year to enhance tax free cash distributions; the client has control of deciding the balance between the amount of the death benefit reduction and the cash distributions.

## Protected Equity: Down Side Protection

S & P 500 Index Historical Returns vs Index UL with Guaranteed 1% Minimum and 12% Cap 1975 - 2012



	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
S&P 500	37.20	23.84	-7.18	6.56%	18.44	32.50	-4.92	21.55	22.56	6.27%	31.73	18.67	5.25%	16.61	31.69	-3.11	30.47	7.62%	10.08	1.32%	37.58	22.96	33.36	28.58	21.04	-9.11	-11.8	-22.1	28.68	10.88	4.91%	15.79	5.49%	-37.0	26.46	15.06	2.11%	16.00
Index UL	12.00	12.00	1.00%	6.56%	12.00	12.00	1.00%	12.00	12.00	6.27%	12.00	12.00	5.25%	12.00	12.00	1.00%	12.00	7.62%	10.08	1.32%	12.00	12.00	12.00	12.00	12.00	1.00%	1.00%	1.00%	12.00	10.88	4.91%	12.00	5.49%	1.00%	12.00	12.00	2.11%	12.00

	3 Years	5 Years	7 Years	10 Years	15 Years	} 1975 - 2012 Average: 8.41%
Index UL Best Case Scenario	12.00% 1995-1997 1996-1998 1997-1999	12.00% 1995-1999	10.22% 1993-1999	9.65% 1980-1989 1982-1991	9.68% 1985-1999	
Index UL Worst Case Scenario	1.00% 2000-2002	5.18% 2000-2004	6.11% 1999-2005 2000-2006	6.13% 1999-2008 2000-2009	7.37% 1994-2008 1995-2009	



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