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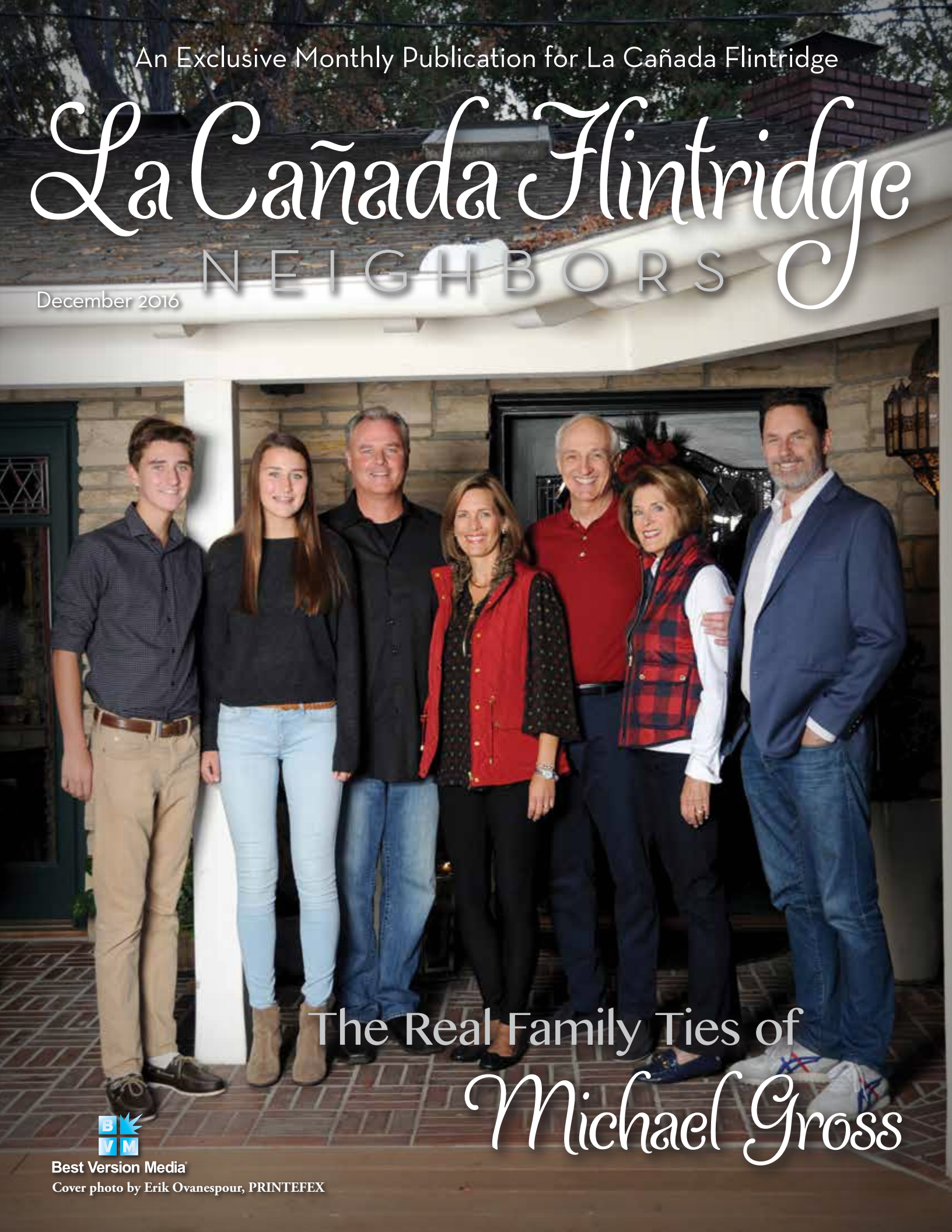

The Real Family Ties of Michael Gross

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Re-gifting to Yourself This Holiday Season?

By Brad Creger – President & CEO, BFF Financial, Inc.

Let's examine the holiday practice of re-gifting. It starts out by receiving a gift (that one doesn't really like) and instead of being impolite, we thank the person with the intention of "re-gifting" it to someone else at a later date. In my house, the red wine of choice is Pinot Noir. When we receive a Cabernet or Merlot as a gift, these tend to stay around longer than a Pinot. Later, when Sheri and I have a dinner party to attend, we will often "re-gift" one of these bottles that we have yet to enjoy.

Do we feel guilty? Nope. We just consider it good "liquid asset" management. What other liquid asset gifting strategies can you benefit from?

When gifting liquid assets, you can always use your cash—but is that the best idea? If you're giving money to your kids or grandkids, it might be but it's usually not a good idea if you are giving to a charity. So what liquid assets should be gifted to charity instead? You should give appreciated securities. By gifting appreciated securities, you can give the same amount but you also avoid paying a tax in the future.

Remember, when you sell appreciated securities, you will be subject to taxes but when a charity sells appreciated securities, they do not pay any taxes. So by preserving your cash and instead gifting appreciated securities, you are not only benefiting the charity and getting a charitable deduction but you are also avoiding future taxes. It's a win-win strategy!

Another good idea on maximizing your liquid assets is actually a "re-gifting to yourself" strategy that also provides income tax benefits. For those of you with old cash-value life insurance policies that you no longer need (for death benefit), instead of surrendering the policy for the cash value, you may want to consider converting these old policies into a supplemental retirement income policy (SRIP).

So how does one convert an old life policy into a SRIP and what is the benefit of doing so? First, the benefits. This strategy will allow you to access the policy cash values to provide yourself with a tax-free retirement income. Even better, the money coming from a life insurance policy will not trigger taxes on your Social Security income.

So how do you convert a policy? There are two ways. First, you can keep your existing policy and reduce the face amount (or death benefit) to the legal bare minimum. This allows the policy costs for "insurance" to be minimized. From there, you can access the policy cash values for income through withdrawals and then policy loans. Is this the best way to do this? It depends.

Another conversion option is to do a "1035 exchange" (or tax-free transfer) into a new life insurance policy specifically designed for delivering retirement income. If you're not on your death bed (i.e. really sick) and you can delay the income from the policy for about five or more years, then you might want to evaluate using a newly issued life policy.

What type of policy should be used and the new policy design details are too much to cover in this article. If you have an old life insurance policy that you no longer need, you should discuss this strategy with someone who has experience with using life insurance to provide a supplemental retirement income. Happy Holidays!

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