Life Insurance - Can a Business Owner Build Their Own Roth IRA?

So I was recently sitting down with a friend in a very enviable problem: **he was making too much money**. His situation was a bit unique, his partner had made a few questionable life choices and was in a position where he needed to take his distributions from their consulting business, an S Corporation, to pay a very stiff alimony and child support payments.

When we were working on some new life insurance for the buy-sell for business the discussion came up around my friend's tax issue and how much money he was having to take from the business. His quote to me was, "I wish I could something like a Roth IRA, but I am just making too much money now!". Below is a case study of what he could do, based on a hypothetical case.

> George, Tom, Abe and Teddy are the owners of Presidential Consulting, LLC, a media and PR firm based in DC. Each of them earns about $250,000 from the business annually over the course of the last decade, with some ebb and flow. After a management retreat Presidential went through a strategic reorganization where they shed some lower revenue accounts so that they could better focus on core competencies and more profitable accounts to set themselves up for a sale in the next decade. After the second year profitability is way up, staff and overhead are greatly reduced and the owners are looking at the possibility of taking large distributions of profit.
>
> All 4 owners are over 50 and have maxed out their 401(k) and their catch-up contributions. After making a $50K profit sharing contribution to the 401(k) as well each of them is expecting to have a pre-tax income of $350,000. The business has been the means that each of them has planned to use for retirement, but now they are having discussions about whether that will be enough.
>
> This discussion came up when the owners were talking about new life insurance for the buy/sell agreement that they recently rewrote. Their Insurance Agent and CPA brought up an interesting idea, why not use the life insurance they needed to buy for the buy/sell as a tool for their retirement as well?
>
> By using a Section 162 Bonus each owner could own a life policy that would have a cash value which they could later use for retirement; these policies would be owned personally by each respective insured, however they would assign some of the death benefit to the LLC for the purpose of the business transition. Because of the tax treatment of life insurance the individually owned policies could act very similarly to a Roth IRA: when George, Tom, Abe and Teddy pulled out their basis there would be no tax because they used post-tax dollars to fund the plan and earnings could be taken out via loan from the policy which they would also pay no taxes on when they received it (you don't pay taxes on a loan to yourself).
>
> The CPA recommended a "double bonus" where the business bonuses an amount greater than the premium in order to cover the taxes on the bonus going into the policy as premium. The Agent sought out a carrier that would offer Corporate Owned Life Insurance in this case so that there would be no surrender charges on the cash value in the policies and so that the underwriting process could be simplified for George, Tom, Abe and Teddy. In the end the 4 owners were able to create their own version of a Roth IRA and found a way to supplement their retirements. Furthermore, George's wife Martha just received a large inheritance which settled some of the retirement issue for them so he is speaking with his attorney about moving the mechanics of using the life policy as part of his estate plan down the line.

In the scenario above all 4 owners set up a 162 Bonus, but in the case of my friend who is making too much money, he is considering doing this for just himself with the distributions he is taking from the business. Any way around it: Permanent Life Insurance, especially Corporate Owned or Corporate Sponsored with reduced or no surrender fees is a great tool for business owners to supplement their retirements and plan for their eventual Estate issues when used properly.