

# **Life Insurance Strategies to Benefit your Retirement Planning**



Retirement planning isn't just about saving for tomorrow—it's about creating a well-rounded plan that helps you grow your investments while keeping your hard-earned assets safe. A comprehensive approach considers several factors, including investment strategies, risk management, tax implications, and estate planning, to maximize the probability of achieving financial goals.

Life Insurance can be a big part of that solution. Permanent policies with cash value potential can be a flexible tool in your financial plan, building tax-advantaged, supplemental income to help fund your retirement while protecting against certain retirement risks.

By considering and covering all the bases, you and your advisor can build a strong financial foundation that adjusts to life's ups and downs in the aim for you to enjoy the retirement you've always wanted.



## Retirement Considerations and Life Insurance

Your retirement income will likely come from various sources: Social Security benefits, IRA distributions, pensions, personal savings, annuities, and investments. However, as life expectancy grows and retirements become longer, more and more retirees are finding that the traditional retirement savings methods may not be enough.

SOURCE: <https://www.investopedia.com/articles/personal-finance/081315/3-reasons-your-401k-not-enough-retirement.asp>



### 1. Taxes

Many Americans will owe some form of tax in retirement from income sources. These sources include Social Security benefits, pensions, individual retirement accounts, 401(k)s, and other accounts where capital gains and dividends are taxed, equating to 15, 20, or even 30 years of future tax liabilities during post-working years. Ultimately, these tax liabilities can work against retirees in several ways, including tax increases, reduced tax deductions, and placement in a higher-than-anticipated tax bracket.



## A Possible Solution: Tax Diversification

To help counteract this, individuals can strategically allocate taxable assets among multiple accounts with varying taxation (tax-now, tax-later, and tax-free vehicles). This process is also known as tax diversification.

### Tax-Now Vehicles

Tax-now strategies include accounts where income on any annual earnings, including capital gains and dividends, are taxed.

- ✓ Savings
- ✓ Checking Accounts
- ✓ Certificates of Deposit
- ✓ Stocks
- ✓ Corporate Bonds
- ✓ Mutual Funds

### Tax-Later Vehicles

Tax-later strategies can be considered a “traditional approach” that allows the account owner to defer taxes today but then requires them to pay taxes on the entire amount withdrawn in the future.

- ✓ Traditional IRA
- ✓ SEP IRA
- ✓ Simple IRA
- ✓ 4019k)
- ✓ 403(b)
- ✓ Pensions
- ✓ Qualified Annuities
- ✓ Savings Bonds

### Tax-Free Vehicles

Lastly are the tax-free diversification strategies. These strategies can help the account owner accumulate tax-deferred, income-tax-free, and penalty-free earnings.

- ✓ Permanent Life Insurance with Death Benefit and Cash Accumulation
- ✓ Roth IRAs
- ✓ Municipal Bonds
- ✓ 529 Plans



## Roth IRA Conversion to Diversify Taxes in Retirement

One strategy that pre-retirees may consider utilizing is a Roth conversion. In this strategy, the account owner transitions assets from a tax-deferred individual retirement account such as an IRA or 401(k) to an after-tax Roth IRA account. The key to this strategy is that the account owner pays taxes at the current tax rate on the total conversion amount versus paying taxes on the distribution of the tax-deferred account when tax rates are unknown. Although a Roth IRA may seem like the obvious choice for many retirees, it is essential to understand the limitations of Roth IRAs, which may not provide enough tax diversification independently. A potential strategy would be to consider Roth IRAs as part of a larger retirement planning and tax diversification strategy alongside permanent life insurance.



## 2. Market Risk

Financial markets rise and fall, and recovering from a loss may take longer than expected, especially if the loss happens right before or in the early stages of taking withdrawals.

For example, in the 17 months of the Financial Crisis of 2008 (October 2007 – March 2009), the market declined by 57%, and it took 49 months to recover fully. Additionally, those who suffered a 57% correction needed a 132% gain to break even.<sup>1</sup>

Permanent life insurance accumulates cash value over time, offering a stable, low-volatility asset. Unlike stocks, its growth is not directly tied to market fluctuations, helping to offset downturn risks. Some policies, such as whole life and indexed universal life insurance, provide market-linked growth with a protective floor, ensuring downside protection.

<sup>1</sup> Based on statistical data and actual performance of the S&P during and after the Financial Crisis of 2008.





### 3. Longevity

Life expectancy is rising, and with a 50% chance of at least one partner in a 65-year-old couple reaching age 92, retirement could last decades, and traditional income sources may be insufficient. Life insurance can provide tax-advantaged retirement savings advantages to help mitigate the risk of longevity. Permanent insurance products accumulate cash value that grows over time. This additional savings, or cash value, can be accessed, often in a tax-free way, to an additional retirement income stream.

SOURCE: <https://retirementresearcher.com/long-can-retirees-expect-live-hit-65/#:~:text=To%20put%20this%20in%20perspective,of%20you%20will%20reach%2090>



## Leveraging Life Insurance in Retirement Planning

Using Life insurance for retirement planning is a strategy for the long-term accumulation of assets that can help provide supplemental income in retirement. When you purchase a properly structured life insurance policy, any earnings will grow tax-deferred, and you can access the policy value with tax-free withdrawals (up to your cost basis) and policy loans.

### Here's how it works

#### 1. Permanent Life Insurance as a Wealth-Building Tool

- Unlike term life insurance, permanent life insurance (e.g., whole, universal, variable, and indexed universal) includes a cash value component that grows over time.
- This cash value grows tax-deferred, meaning you don't pay taxes on the growth unless you withdraw it.

#### 2. Borrowing Against Cash Value for Retirement Income

- You can take tax-free loans against the policy's cash value to supplement your retirement income.
- Unlike traditional retirement accounts (401(k), IRA), withdrawals from life insurance policies can be structured so that they don't increase your taxable income.

#### 3. Tax-Free Death Benefit for Legacy Planning

- If you don't use the cash value, your beneficiaries receive a tax-free death benefit, creating a legacy for your family.
- Even if you take out loans, your beneficiaries will still receive the remaining balance after loan repayment.



## Benefits of Permanent Life Insurance For Retirement Planning

### **Diversification & Tax-Free Growth**

Since life insurance cash value grows tax-deferred and withdrawals can be structured as tax-free loans, it adds tax diversification to your retirement portfolio helps avoid higher taxes in retirement when required distributions from traditional accounts might push you into a higher tax bracket.

### **Access to Long-term Care and Living Benefits**

Some policies offer product features that allow you to tap into the death benefits early for long-term care or even terminal illness.

### **Reducing Market Risk Exposure**

Whole life or indexed universal life (IUL) can help offer stable growth with less market volatility than other investment options. Some even offer downside protection, shielding you from a downturn in the market.



## Your retirement income strategy should address income tax, market volatility, and longevity risks.

This strategy helps deliver benefits like cash value to complement your retirement income and tax diversification so you can make the most of your savings. It may provide you with supplemental coverage opportunities — like options for long-term care or chronic illness coverage. And, if you pass before retirement, your beneficiary will receive a tax-free death benefit, which can offset future retirement contributions.

Plus, with additional benefits like more flexibility and the ability to diversify your portfolio, life insurance can be a compelling solution and can be a valuable addition to your financial plan.



### Is It Right for You?

Using life insurance for retirement is best suited for:

- ✓ High-income earners looking to maximize tax-free income.
- ✓ Individuals who have maxed out 401(k) and IRA contributions.
- ✓ Those seeking stable, long-term tax-advantaged growth.
- ✓ People who want a legacy component alongside retirement income.

Pinpointing ways to maximize your retirement income strategy can be difficult, especially if you've maxed out other tax-advantaged options. However, life insurance in retirement planning can be a flexible tool that helps build tax-advantaged supplemental income to fund your retirement.

Your financial professional can guide you through cash value life insurance options, offer product recommendations based on your retirement goals, and help you every step of the way.

Guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company. Policy loans and withdrawals will reduce available cash values and death benefits, and may cause the policy to lapse or affect any guarantees against lapse. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject ordinary income tax. Withdrawals are generally income tax-free, unless the withdrawal amount exceeds the amount of premium paid. Diversification does not ensure a profit or protect against loss. This analysis is not a comprehensive financial or retirement plan. Pursuant to IRS Circular 230, it is not intended to provide specific legal or tax advice and cannot be used to avoid penalties or to promote, market, or recommend any tax plan or arrangement. You are encouraged to consult your personal tax advisor or attorney.