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Your Guide to

Life Insurance in Retirement Planning

Longer retirements, rising taxes, and an uncertain economy have investors searching for tax-efficient savings options to help diversify their income streams when they retire. The problem? Options are limited.

But did you know that life insurance can help? 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.

Risks to your retirement income

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

Consider the following risks to your retirement income:

Higher taxes

Ideally, you want balance, or diversification, in your retirement portfolio to avoid being weighed down in taxable and tax-deferred assets. That's why the location of your assets — tax-advantaged income, tax-deferred income or taxable income — is a vital consideration for managing tax risk.

Here's a quick breakdown of how each tax scenario works with common retirement savings accounts.

401(k), 403(b), IRAs, pension, SEP/SIMPL, qualified retirement plan	Cash, checking, CDs, non-qualified brokerage	Certain life insurance policies, municipal bonds, Roth 401(k)s, Roth IRAs
Tax-deferred income	**Taxable income**	**Tax-advantaged income**
Accounts funded with pre-tax dollars. Earnings and contributions are free from taxation until you withdraw from the account.	Accounts funded with dollars after you've paid taxes. You receive an annual 1099 for any interest or dividends earned to report as taxable income.	Accounts funded with dollars after you've paid taxes. Some or all the income and capital gains produced may be withdrawn tax-free, depending on a variety of factors.

Diversifying your money across these different assets can help make the most of your hard-earned savings. And, life insurance is one of the few tax-advantaged accounts that does not have a fixed contribution limit and offers you tax-deferred growth that can be withdrawn tax-free.*

* Assumes the policy is not a Modified Endowment Contract. Loans can impact policy values and death benefits and may result in taxable income upon lapse, maturity or surrender of the policy. Loan interest charges may be applicable.

Volatile markets

Financial markets rise and fall and recovering from a loss may take longer than you expect, 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 for the market to fully recover. Not only that, but those who suffered a 57% correction would have needed a 132% gain to break even.[1]

But, whole life and indexed universal life insurance policies can protect against this downside risk.

People are living longer

It's true. Did you know there's a 50% chance that at least one partner in a 65-year-old couple will live to age 92?[2] That means retirements are longer and retirees' traditional sources of income may not be enough, but life insurance can provide a tax-advantaged way to save for retirement.

Why consider a LIRP strategy?

Life insurance in retirement planning (LIRP) is a strategy for the long-term accumulation of assets that can 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.

LIRP shares many of the tax-advantaged attributes of a Roth IRA.* For many pre-retirees, a Roth IRA may seem like the obvious choice for retirement savings, but keep in mind key limitations before participating:

- Contributions will be limited if your annual income is equal to or greater than $125,000 (for single filers) or $198,000 (for married filers)
- Contribution maximums: $6,000/year, or $7,000/year if over 50 years old
- You will be unable to contribute if your annual income is equal to or greater than $140,000 (for single filers) or $208,000 (for married filers)
- You must still be working/ earning income

* Roth IRA numbers are current as of 2021. For more information, visit: irs.gov/retirement-plans/plan-participant-employee/retirement-topicsira-contribution-limits.

For investors who don't meet the above requirements, life insurance may be another choice to provide tax-deferred retirement savings.

Which may be right for you?

LIRP strategy	Roth IRA
May be ideal if you:	May be ideal if you:
• Make too much to qualify for a Roth IRA	• Have earnings that do not exceed Roth IRA limits
• Want to contribute more each year than a Roth IRA allows	• Do not plan on exceeding Roth IRA contribution limits
• Have concerns about future tax changes	• Are not interested in making a life insurance purchase
• Maxed out your company sponsored 401(k) and retirement plans	

Enhance your retirement income with life insurance

Your retirement income strategy should address income tax, market volatility and longevity risks. And that's where LIRP can help.

This strategy delivers benefits like cash value to complement your retirement income, tax diversification so that you can make the most of your savings, and may provide you with supplemental coverage opportunities — like options for long-term care or chronic illness coverage. And, if you die prior to 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 is a compelling solution and can be a valuable addition to your financial plan.

Did you know that life insurance gives you the flexibility to access your money when you need it?

In fact, there is no IRS penalty to access funds prior to age 59½ and no IRS requirements to begin withdrawing funds.

Charting a clear path forward

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


Navigate your future.

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.

Work with your financial professional to **determine a clear path that's right for you.**

[1] Based on statistical data and actual performance of the S&P during and after the Financial Crisis of 2008.

[2] The Annuity 2012 Mortality Tables. ©2017 Morningstar®.

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