

# LIFE INSURANCE AS A RETIREMENT PLANNING TOOL

The primary reason to buy life insurance is the death benefit it provides for heirs. However, a life insurance policy that suits all or part of someone’s current death benefit needs can also be used to accumulate cash value on a tax deferred basis that can supplement retirement income needs on an income tax free basis if appropriately designed using withdrawals and loans. By adding a long term care or critical care rider, acceleration of the death benefit can provide some additional benefits.

The benefits of building life insurance into a retirement strategy:

- The income-tax free death benefit financially benefits the family or other heirs if something unexpected happens prior to retirement and even has some protection beyond retirement
- Tax-deferred accumulation allows policy cash values to grow faster than they might in a taxable account
- The policy owner can have access to policy cash values through tax free loans and withdrawals provided the policy is not a Modified Endowment Contract<sup>1</sup>
- If an optional Long Term Care or Critical Care rider is added to the policy at issue, additional benefits can be payable, if needed<sup>2</sup>

When looking at investment options, a frequent concern is the taxation of those vehicles, both today and during retirement. Cash value life insurance offers the needed protection of a tax free death benefit, no income-based premium limits, immediate tax deferral of cash value accumulation and tax-favored access to cash values through loans and withdrawals.

Let’s look at how life insurance can fill the gaps in a retirement portfolio.

Features	Life Insurance	Taxable Investments	401K/ Traditional IRA	Roth IRA	Municipal Bond
<b>Tax-Deferred Growth</b>	X		X	X	
<b>Tax-Advantaged Distributions</b>	X			X	X
<b>No Contribution Limits</b>	X	X			X
<b>No Additional Tax For Early Withdrawals</b>	X	X			X
<b>Will Not Increase Tax Expenses, Social Security Taxation, or Medicare Premiums</b>	X			X	
<b>Income Tax Free Death Benefit<sup>3</sup></b>	X				

1 Policy will not become a Modified Endowment Contract (MEC) if premiums do not exceed IRS limits. Non-MEC contracts can take tax free withdrawals/ loans. Loans and withdrawals will reduce death benefit payable.  
 2 The Long Term Care or Critical Care Benefit accelerates the death benefit and is payable to reimburse qualified benefits..  
 3 Life insurance death benefits are typically excluded from income taxes. There may be exceptions such as when a life insurance policy is transferred for a valuable consideration..

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*Continued*

## Advantages

- If insured dies prior to retirement, income tax free death benefit is payable to the heirs
- Even while withdrawals and loans are made for retirement purposes, a reduced amount of death benefit will still be available
- Cash values grow inside the policy on a tax deferred basis
- When properly designed, retirement income amounts are received income tax free through loans and withdrawals. The 3.8% Supplemental Medicare Tax will not apply to these amounts
- No IRS contribution limits, income limits, distribution requirements or penalties
- Depending on the state of residence, the cash values in the policy may be protected from the creditors of the Insured

## Other Considerations

- Cessation of premium payments and withdrawals and loans may result in the policy expiring with unfavorable tax results if the actual results are less favorable than that assumed. It is important to regularly monitor policy values with the insurance carrier regularly especially after premiums cease and/or withdrawals and loans begin. Some life insurance carriers offer “overloan protection” which may prevent the policy from expiring due to loans.
- When the insured is owner of the contract, the death benefit will be includible in the estate of the insured for Federal Estate Tax purposes. If it is anticipated that the insured’s estate will be subject to Federal Estate Taxes, consideration may be given to having an irrevocable trust be the policy owner and beneficiary with the trust containing a provision allowing the spouse or another person access to trust assets.
- The optional Long Term Care rider is designed to accelerate the death benefit of the policy to reimburse qualified expenses as a result of the insured receiving qualified long term care services. Withdrawals and loans from the policy will reduce the amount available under this benefit.

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