



# TAX-ADVANTAGED RETIREMENT INCOME

Life is full of challenges. You've been maxing out your employer-sponsored retirement plans and working with an investment advisor to reach your retirement goals. But once you factor in income taxes, it just doesn't feel like you'll have enough retirement income. At the same time, you also need to financially protect your family's future while providing for them now.

A cash-value-oriented life insurance policy can offer you an efficient vehicle to address several of life's most important challenges: It protects your family now, provides a tax-advantaged means of saving for retirement and can provide supplemental income without increasing taxable income.

## THE NEED TO PROTECT

**Premature Death:** Have you considered what would happen to your family if you died prematurely? How would they replace the lost income? Would your family be able to pay their expenses? Provide for college and the future? The death benefit<sup>1</sup> provided by life insurance can give you peace of mind that your family's financial needs will be met, even if you aren't there to provide for them.

## THE NEED TO SAVE

**Retirement Income:** Employer-sponsored retirement plans aren't available to everyone. And even if your employer offers a retirement plan, the contribution limitations imposed by the Internal Revenue Service may not be sufficient to provide for your retirement needs. The old adage that you'll have fewer expenses after retirement isn't proving true; most retirees don't want to cut back their standard of living. And all of the monies inside your employer-sponsored plan and your individual retirement accounts are subject to income taxation when you need to access the plan's funds.

Life insurance is funded with after-tax premium dollars, but the policy's cash value grows income tax deferred. Additionally, cash values can be accessed income tax free through a series of tax-free withdrawals to basis and policy loans.<sup>2</sup> By balancing income sources among your employer-sponsored retirement plans, taxable investments and income-tax-free life insurance cash values, you could maximize your retirement income while still minimizing income taxes. Any death benefit remaining in the policy will also be received free of income taxes.

## HOW IT WORKS



Policy values accumulate inside the life insurance policy on a tax-deferred basis.<sup>3</sup> At retirement, those policy values are available to supplement retirement income through a series of planned withdrawals and policy loans.<sup>4</sup> The policy loans and withdrawals may reduce the policy's death benefit, and at death, any remaining death benefit is used first to repay the outstanding policy loans, and the balance will be paid to the policy's beneficiaries.

## CASE STUDY

Consider Eddie, age 45 (Preferred nonsmoker), a doctor with a successful practice. Eddie is concerned that he'll have insufficient retirement income, and he worries about what will happen to his family if he dies prematurely. He has \$50,000 per year to invest over the next 10 years and is trying to figure out how to both protect his family's future and build up extra retirement funds. Eddie was considering putting the \$50,000 in an investment account each year, but now he's wondering if purchasing a life insurance contract might be a better idea, given the tax advantages of life insurance.



Take a look:

<b>Age</b>	45	<b>Federal Income Tax Rate</b>	37.00%
<b>Gender</b>	Male	<b>State Income Tax Rate</b>	5.00%
<b>Underwriting</b>	Preferred Nonsmoker	<b>Net Investment Income Tax</b>	3.80%
<b>Insurance Product</b>	Indexed IUL	<b>Annual Premium</b>	\$50,000
<b>Indexed Account</b>	S&P 500 (1 Year Pt-to-Pt)	<b>Insurance Crediting Rate</b>	6.00%
<b>Initial Death Benefit</b>	\$1,086,033		

<b>Annual Income</b>	\$114,818	<b>IRR on Life Insurance at Life Expectancy (Age 87)</b>	6.59%
<b>Initial Income Age</b>	65		
<b>Final Income Age</b>	84		
<b>Income Duration (Years)</b>	20	<b>Pretax Rate of Return Needed to Match Life Insurance Withdrawals</b>	12.15%
<b>Total Income</b>	\$2,296,360		

Year	Age (EOY)	POLICY VALUES			INTERNAL RATES OF RETURN		
		Net Outlay	Net Cash Surrender Value (EOY)	Net Death Benefit (EOY)	IRR Cash Value (EOY)	IRR Death Benefit (EOY)	Pretax Equivalent IRR Death Benefit* (EOY)
1	46	50,000	14,791	1,086,033	-70.42%	2072.07%	3823.00%
5	50	50,000	216,926	1,275,201	-4.69%	60.34%	111.33%
10	55	50,000	577,680	1,010,094	2.61%	12.48%	23.02%
15	60	0	834,617	1,118,386	4.91%	7.73%	14.27%
20	65	0	1,211,081	1,477,519	5.78%	7.11%	13.11%
25	70	(114,818)	1,065,242	1,247,633	6.24%	6.77%	12.49%
30	75	(114,818)	863,351	972,178	6.46%	6.67%	12.30%
35	80	(114,818)	551,420	648,016	6.55%	6.67%	12.31%
40	85	(114,818)	64,601	175,370	6.56%	6.66%	12.28%
<b>42</b>	<b>87</b>	<b>0</b>	<b>0</b>	<b>112,433</b>	<b>6.49%</b>	<b>6.59%</b>	<b>12.15%</b>
45	90	0	0	120,194	6.49%	6.58%	12.13%
50	95	0	0	26,868	6.49%	6.51%	12.01%
55	100	0	0	30,029	6.49%	6.51%	12.00%

\*Pretax Equivalent IRR Death Benefit = (IRR Death Benefit) / (1 - 45.8%)

## THE BOTTOM LINE

Life insurance can provide supplemental income in a tax-favored way (without the same limitations that are placed on retirement plans), and can protect your family's future with a tax-free death benefit.

PartnersFinancial is a membership platform of NFP Insurance Services, Inc., a subsidiary of NFP Corp. (NFP). Members of PartnersFinancial may or may not be affiliated with NFP. NFP and its subsidiaries and affiliates do not provide legal or tax advice. Compliance, regulatory and related content is for general informational purposes and is not guaranteed to be accurate or complete. You should consult an attorney or tax professional regarding the application or potential implications of laws, regulations or policies to your specific circumstances