



Planning For Retirement With Cash Value Insurance

For most successful people, a financially secure retirement is a key goal. Unfortunately, relatively few options accumulate sufficient retirement funds in a tax-efficient way.

Traditional retirement accounts such as 401(k)s and IRAs offer the benefits of tax-deductible or pre-tax contributions and tax-deferred growth, but they also have annual contribution maximums. These limits may restrict affluent individuals from fully achieving their financial objectives.

How Can Life Insurance Help?

Cash value life insurance can be a valuable means of saving additional funds for retirement. Premiums paid into permanent life insurance contracts can generate a cash value that grows tax-deferred. At retirement, tax-favored loans and withdrawals can be used to access the cash value, creating the cashflow to supplement other retirement income.

In addition, life insurance policies feature a death benefit that in most cases will be received income-tax-free by heirs. Certain exceptions may apply, and you should seek the advice of your professional advisor.

Forms of Cash Value Life Insurance

Cash value life insurance varieties include:

- Whole life insurance
- Current assumption universal life insurance

- Equity-indexed universal life insurance
- Variable universal life insurance

Some of these policies involve market risk, including the loss of principal. A properly licensed and qualified insurance professional can help determine the appropriate form of insurance to fit specific needs.

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Other Considerations

- A significant advantage of cash value life insurance over most traditional qualified plans is that loans and withdrawals from insurance policies are optional and may be taken at any time. Most qualified retirement plans require minimum distributions after age 73 and subject distributions to early withdrawal penalties if taken prior to age 59½.*

* The RMD age will increase to age 75 for individuals who turn 74 after December 31, 2032.

- Depending on the policy performance, the cash value available for loans and withdrawals may be worth more or less than the original premiums contributed.
- An insurance policy may lose some of its tax advantages if it becomes classified as a modified endowment contract (MEC). When a distribution of cash value is made from an MEC, taxation may occur. If the loan or withdrawal is taken prior to age 59½, a federal tax penalty of 10% may also apply.
- Surrender charges usually apply to cash value life insurance policies in the early policy years.
- Withdrawals and loans must be properly structured, as they will reduce the policy death benefit and may cause the policy to lapse. If a life insurance policy lapses with an outstanding loan, adverse income tax consequences may occur.
- In most cases, premiums are not tax deductible.



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