

Using Life Insurance as a Retirement Tool



Unlock Potential: Using Life Insurance as a Tool in Your Retirement Strategy

Most of the time, when we think about life insurance, we see it as something we leave behind for the ones we love the most—a safety net for our loved ones when we can no longer provide for them. While the death benefit it offers is certainly the primary reason to purchase it, some types of life insurance products can offer much more in the wider world of your retirement strategy. Life insurance can be a versatile and powerful tool when integrated into retirement planning. In this piece, we'll explore how integrating life insurance into your retirement strategy may also provide additional income, tax advantages, and confidence as you forge ahead into retirement.



Types of Life Insurance

According to recent data from LIMRA, 42% of American adults say that they either need life insurance or more of it, which amounts to roughly 102 million adults who are under-insured.¹ The three top reasons for not owning more life insurance (or any) is that consumers feel it's too expensive, they have other financial obligations, or they don't know what type to buy or how much of it to get. Let's address the last concern by taking a look at the main types of life insurance and the protections they can offer.

42%

**OF AMERICAN ADULTS SAY
THAT THEY EITHER NEED LIFE
INSURANCE OR MORE OF IT**

The top three reasons for not owning more life insurance:

- 1. IT'S TOO EXPENSIVE**
- 2. OTHER FINANCIAL OBLIGATIONS**
- 3. DON'T KNOW WHICH/HOW MUCH TO GET.**

¹ LIMRA 2024 Insurance Barometer, accessed June 14, 2024 <https://www.limra.com/siteassets/research/research-abstracts-shared/2024/securing-the-future/2024-insurance-barometer---securing-the-future-infographic.pdf>

Term Life Insurance

Term life insurance provides coverage for a specified period, typically ranging from 10 to 30 years. You can choose the term length and coverage amount that best suits your needs. Premiums are often determined by factors such as age, health, gender, and lifestyle. The average cost of a term life insurance policy is roughly \$20 per month, based on a 10-year, \$500,000 term life policy for a healthy, 40-year-old male buyer.² Unlike other types of life insurance, term policies do not build cash value, meaning their primary purpose is to offer financial protection during the term of the policy.

Whole Life Insurance

Whole life insurance offers lifelong coverage, and a portion of your premiums go towards a cash value feature that grows on a tax-deferred basis. This accumulated cash value can be borrowed against, providing financial flexibility, especially in retirement. Whole life insurance not only provides a death benefit for your beneficiaries but also acts as a financial resource you can potentially tap into during your retirement years. Any loan amount outstanding at your death is deducted from the death benefits payable to your beneficiaries. A significant factor in determining cost is age with the average maximum age for approval ranging from about 70-85 years old, however, in guaranteed issue whole life insurance, there's often a minimum age requirement of about 50 years old.³

Universal Life Insurance


Universal life insurance is another form of permanent coverage that allows for adjustable premiums and includes a cash value component. After the policy costs are deducted, which include the cost of insurance, administrative fees and possibly state premium taxes, the remaining premium is allocated to the policy's cash value and are credited interest declared each year by the issuing company. While this offers potential for cash value growth, the growth is typically modest. It's important to evaluate your financial situation carefully and pay attention to the guaranteed minimum interest rate outlined in your policy. Like whole life insurance, universal life also allows you to access your policy's available cash values in the form of a loan or policy withdrawal.⁴

² Forbes "Life Insurance Statistics, Data And Industry Trends 2024," January 3, 2024 <https://www.forbes.com/advisor/life-insurance/life-insurance-statistics/>

³ Bankrate "Life insurance facts and statistics 2024" May 24, 2024 <https://www.bankrate.com/insurance/life-insurance/life-insurance-statistics/#life-insurance-claims-statistics>

⁴ Policy loans and withdrawals will reduce policy values and death benefits and could cause the policy to lapse or require additional premiums to keep it in force. This assumes the policy is not a Modified Endowment Contract (MEC).

Advantages of Life Insurance Beyond a Death Benefit




Integrating life insurance into your retirement planning requires careful consideration and professional advice, but it can fill significant gaps in your strategy. Studies show conclusively that the more people know about life insurance, the more likely they are to get coverage and have the right coverage.⁵ As you plan for retirement, think beyond traditional retirement accounts and explore how life insurance can contribute to a secure and comfortable retirement.

⁵Forbes "Life Insurance Statistics, Data And Industry Trends 2024," January 3, 2024 <https://www.forbes.com/advisor/life-insurance/life-insurance-statistics/>


Supplemental Income

Retirees often live on fixed incomes derived from Social Security, bank products, cash savings, and annuities. The cash value accumulated in a life insurance policy can serve as an additional income source, providing a level of financial relief in emergencies or extra funds for discretionary use during retirement. In 2024, it's estimated that nearly 90 million families in the United States count on life insurance for financial and retirement security.⁶



Tax Advantages

One significant benefit of cash value life insurance is the tax-deferred growth of your cash value. You can access this cash value without incurring taxes, provided the withdrawal does not exceed the total premiums paid. This contrasts with traditional retirement accounts like 401(k)s and IRAs, where distributions are generally subject to income tax and a potential 10% IRS penalty before age 59½.



Cash Flexibility

Life insurance policies offer various options for utilizing the cash value. You can use it to pay future premiums, increase the death benefit (assuming you're healthy and can qualify for additional coverage), or even supplement your retirement income. This flexibility can be particularly advantageous as it helps you to adapt your financial strategy as your needs change over time.

The Role of Long-Term Disability Insurance

Incorporating disability income insurance into your retirement strategy can help bolster your financial independence. This type of insurance provides you with a level of income due to a disability that prevents you from working, ensuring that you have a reliable income stream even if you face health challenges. The amount of income it will replace, for how long you need to be disabled before the coverage kicks in will vary by the policy you purchase. Generally, the more income the policy will replace due to disability, the higher the premium payments will be. As with life insurance, you also need to qualify both medically and usually financially to purchase disability income insurance.

Keep in mind that for 44% of Americans, losing the primary breadwinner in the household (either to death or a long-term disability) would mean significant financial trouble within six months (28% of families would feel substantial pressure after only one month without their breadwinner's earnings).⁷ Think of it another way: statistically speaking, it's estimated that one out of every four of today's 20-year-olds will become disabled before reaching retirement age.⁸ Considering disability income insurance isn't a matter of being prepared for the highly unlikely, it's a matter of being prepared for the all-too possible.

When considering disability income insurance, assess your income, expenses, and retirement savings to determine the appropriate coverage level. When thinking about coverage levels remember that households with at least one disabled adult require 28% more income to keep their standard of living.⁹ Consulting a financial professional can help navigate the complexities of this insurance and ensure it aligns with your overall retirement plan.

44%

LOSING THE PRIMARY BREADWINNER IN THE HOUSEHOLD WOULD MEAN SIGNIFICANT FINANCIAL TROUBLE WITHIN SIX MONTHS

28%

OF FAMILIES WOULD FEEL SUBSTANTIAL PRESSURE AFTER ONLY ONE MONTH WITHOUT THEIR BREADWINNER'S EARNINGS

⁷ Forbes "Life Insurance Statistics, Data And Industry Trends 2024," January 3, 2024 <https://www.forbes.com/advisor/life-insurance/life-insurance-statistics/>

^{8,9} LIMRA "Disability Insurance Awareness Month: Protecting Your Paycheck and Your Future," May 2, 2024 <https://www.limra.com/en/newsroom/industry-trends/2024/disability-insurance-awareness-month-protecting-your-paycheck-and-your-future/>

Integrating Life Insurance into Retirement

In today's rapidly evolving financial landscape, strategic retirement planning has become more crucial than ever. Among the array of tools available to help protect one's financial future, life insurance often stands out as a common pillar of protection and stability. Beyond its traditional role as a safeguard for loved ones, life insurance can offer potentially significant advantages in retirement planning.

Life insurance can also serve as a valuable asset in tax strategies, offering opportunities for tax-deferred growth, with the death benefit able to potentially help to cover estate taxes. Let us help you on your journey to a confident retirement. Give us a call to set an appointment and let's talk about whether it makes sense for you integrate life insurance into your financial and retirement strategy.

USING LIFE INSURANCE AS RETIREMENT TOOL

Life insurance product guarantees rely on the financial strength and claims-paying ability of the issuing insurer. Life insurance policies are not FDIC Insured. Index universal life products are not an investment in the "market" or in the applicable index. Their interest potential is limited by the issuing company via caps, spreads and participation rates.

Most life insurance policies are subject to medical underwriting, and in some cases, financial underwriting, and the costs of a life insurance policy, including premiums and cost of insurance charges, is dependent on your age and health at the time of application. Life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender charges. If properly structured, proceeds from life insurance are generally income tax free. Life insurance agents do not provide tax or legal advice.

For most policies, withdrawals are free from federal income tax to the extent of the investment in the contract, and policy loans are also tax-free so long as the policy does not terminate before the death of the insured. However, if the policy is a Modified Endowment Contract (MEC), a withdrawal or policy loan may be taxable upon receipt. Further, unpaid loan interest on a MEC may be taxable. A MEC policy is one in which the life insurance limits exceed certain high levels of premium, or the cumulative premium payments exceed certain amounts specified under the Internal Revenue Code. For policies that are MECs, distributions during the life of the insured, including loans, are first treated as taxable to the extent of income in the contract, and an additional 10% federal income tax may apply for withdrawals made prior to age 59½.

Life insurance riders may be available for an additional annual fee; riders may not be available in all states.