Life Insurance Can Be Another Source of Retirement Income

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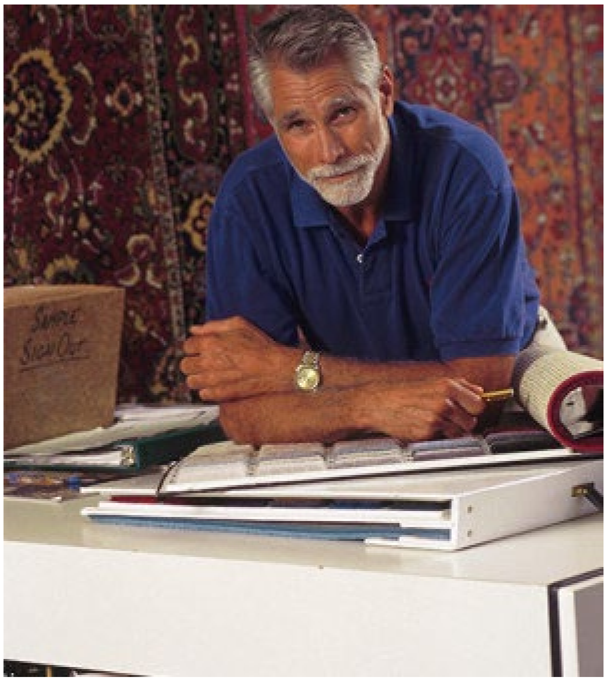

There may be times in your life when purchasing Life Insurance can make a lot of sense. For example, when you have a spouse or children dependent upon your income to survive, life insurance is often a must-have. But did you know that life insurance can also be a part of a well-rounded retirement plan?

It never hurts to have multiple sources of money during your retirement. After you have exhausted all your other tax-deferred and tax-free retirement opportunities (401K or 403B and Roth IRAs), it may be useful to consider a cash value life insurance policy in your plans to build a strong retirement safety net. Cash value builds up in a permanent life insurance policy on a tax-deferred basis. And you can tap into the cash value of the policy if you no longer need the life insurance later in life.

2 Types of Permanent Life Insurance with Investment Potential

There are two types of permanent life insurance which can offer a cash-value for retirement or estate planning opportunities. Sit down with your advisor to determine if your financial situation calls for a **Whole Life** or **Universal Life** Insurance policy.

Whole Life Insurance

- Whole life insurance offers steady premiums with a tax-deferred cash value that grows from compounded interest credited to a savings account, and protection for as long as you live, provided that premiums are paid as required to keep the policy in force.
- Participating whole life, available at mutual insurers, credits company dividends to the cash value from the carrier's own excess profits.
- The policy accumulates cash value from invested dividends on a tax-deferred basis which can be used when you need it, to help with education, retirement, long term care expenses, etc.

Universal Life Insurance

- Universal life insurance offers the low-cost protection of term life insurance as well as a variable cash value that also grows as a savings element:
- Indexed Universal Life – credits interest based on movement in an index.
- Variable Universal Life – investment returns are based in the stock market.
- Unlike whole life, the premiums are flexible, allowing policyholders to use the cash value to fund the cost of the policy.
- The death benefit, savings element and premiums can be reviewed and altered, allowing the policyholder to shift money between the insurance and savings components of the policy according to their individual situation.
- *Many advisors note that with a flexible universal life policy, clients need to maximize their payments so most of the money is going toward the cash value.*

Plan to give any permanent life insurance policy 10 to 15 years to grow before you consider tapping into the cash-value for retirement income or other uses. And don't forget to read the fine print of each policy. For example, policy loans can incur interest, fees or expenses which may wipe out any growth advantages. Not to mention any unpaid loans will lower the death benefit paid to your beneficiaries and incur a huge tax bill should the policy lapse.

Life Insurance for Retirement and Estate Planning

For retiring investors with older whole life insurance policies, there are some family and financial situations when it's a good idea to hold onto your policy and repurpose it for cash value. And for younger high-income wage earners, there may be some tax savings to purchasing the right permanent insurance policy as an investment or wealth management tool.

Who Needs Life Insurance as Tax-Deferred Retirement Income

The decision to use an insurance policy for retirement income is a difficult and complicated one. Each person or couple has a different financial situation, different needs over their lifespan and different desires to leave bequests.

So who needs life insurance in retirement? They generally fall into these categories:

1. An individual who does not own enough assets to cover their final expenses, debts or taxes, and wants a small policy to help their family cover these expenses.
2. Someone who still has dependents (spouse, child, disabled individual) who rely on their income to live on after they pass away.
3. Someone with a taxable estate and wants to protect their family from paying excessive estate taxes or having to make taxable retirement account withdrawals, sell a business or real estate in order to make those tax payments.

In the scheme of tax-efficient withdrawals, a permanent life insurance policy is in the same category as the Roth IRA: tax-free income; however, withdrawals will reduce the death benefit. If you have maxed out your contributions to your other retirement savings accounts (401K, IRAs, etc.) and still have income you want to invest tax-free, consider investing in a cash-value life insurance policy.

While cash values grow on a tax-deferred basis, policyholders can tap that pot of money on a tax-free basis. With a whole life insurance policy, you can withdraw cash from your policy without paying a dime in taxes. With a universal life policy, you will need to fund the policy well and offset any unfavorable market drains in order to draw on it for its cash value.

For larger estates valued in excess of the applicable exclusion of $2 million, life insurance is an essential component of the estate planning process as a source of support, education-expense coverage and liquidity to pay death taxes, pay expenses, fund business buy-sell agreements, fund retirement plans and sometimes to set up charitable trusts.

Do You Need Cash Value Life Insurance for Retirement?

If none of these sound like you, a low cost term policy would likely suit you just fine. To determine if permanent life insurance is a good retirement or estate planning tool for you, compare it to purchasing a lower cost term policy and investing the premium difference somewhere else like your 401(k) or an IRA.

The benefits of using permanent life insurance for savings can be significantly outweighed by the costs. Be sure to read and understand each policy as the particulars for fees, premiums, terms, etc are widely varied. Then take a hard look at your current and projected daily expenses, retirement and investment portfolio and tax burdens.

If you’re in a very high tax bracket and you’ve maxed out all your retirement plan contributions, the tax benefits of a permanent life insurance policy would be more valuable to you. However, if you could earn more by investing in stocks or pension funds and not paying for the high fees of permanent insurance, then an affordable term policy may be the insurance you require. It is always a good idea to speak with a trusted financial advisor, tax specialist and/or estate planner because each person’s situation is different.