

# TAX PLANNING FOR RETIREMENT

## CASE STUDY

### THE IMPORTANCE OF TAX PLANNING FOR RETIREMENT

History has proven that the only certain thing we can count on with the tax code is that it will change, it's important that financial professionals remain fluid with their approach to retirement planning with their clients and regularly review their clients' existing plans, including permanent life insurance policies, so to ensure they're kept current with the changing tax environment.

### CASH VALUE PERMANENT LIFE INSURANCE AS PART OF A RETIREMENT PLAN

In addition to providing death benefit protection, permanent life insurance can also be used to diversify a client's retirement plan and offer tax advantageous accessibility to retirement assets:

- **Tax-deferred growth of cash value.** As cash value accumulates within a life insurance policy, it's doing so tax free as long as the monies paid in under the maximum funding guidelines as defined by IRC section 7702.
- **Tax-free access to the policy's cash value.** Your client can access the cash values within their life insurance policy for any variety of reasons and regardless of age.

*A common use for permanent life insurance is supplemental retirement income since it offers the ability to withdraw monies from the policy tax-free up to the policy's cost basis<sup>1</sup> and thereafter, permits withdrawals to be treated as loans against the policy value which, also tax free unless the policy lapses.*

### HOW LIFE INSURANCE CAN BE USED IN A TAX DIVERSIFICATION STRATEGY

**Hypothetical Scenario:** \$100,000 withdrawal during a retirement year. 401(k): 32% Ordinary Income Tax, Mutual Fund: Assumes no cost basis and 15% Capital Gains Tax.

*\*Actual results will depend on your personal financial situation.*

NON-DIVERSIFIED	DIVERSIFIED		
<b>401(k)</b> Withdrawal \$100,000  <b>TAXES</b> Ordinary Income (\$32,000)	<b>401(k)</b> Withdrawal \$33,000  <b>TAXES</b> Ordinary Income (\$10,560)	<b>Mutual Funds</b> Withdrawal \$33,000  <b>TAXES</b> Capital Gains (\$4,950)	<b>Life Insurance</b> Withdrawal \$34,000  <b>TAXES</b> Ordinary Income (\$0)
<b>Total Net Income</b> \$68,000	<b>Net Income</b> \$22,440	<b>Net Income</b> \$28,050	<b>Net Income</b> \$34,000
<b>Total Net Income</b> \$84,490			

<sup>1</sup> Cost basis is the total amount that you paid into an asset, like a stock, your home or even a permanent life insurance policy. It is usually calculated starting with the purchase price or, when it comes to permanent life insurance, the premiums you pay on your policy.

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