

# FORGING YOUR OWN PATH: LIFE INSURANCE AS AN ASSET CLASS



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LIFE INSURANCE AS  
AN ASSET CLASS**

# WHAT MANY AMERICANS DON'T KNOW IS THAT LIFE INSURANCE, IN SOME INSTANCES, CAN BE A HUGE ASSET, NOT A LIABILITY

When you think of life insurance, you might compare it to renting a home: You make payments but never build wealth or see a real return on your investment.

But, what if what you were told about insurance was wrong or, at the very least, not the full picture?

What many Americans don't know is that life insurance, in some instances, can be a huge asset, not a liability. Much like buying a home, it can be used to grow value and benefits for you while you're living.

***Instead of just offering death benefit protection, certain types of life insurance can be smart additions to any retirement portfolio and can even grow significant value for you and your family over time.***

With growing economic uncertainty on the horizon, the limitations of many conventional vehicles (like 401(k)s), and the potential impact of higher income taxes on your future retirement, you may be asking yourself if there is a way to forge your own path and create wealth that's out of Uncle Sam's reach.

Whole life insurance is a unique solution that can supplement your retirement income strategy, address the potential issues you may be facing, and also provide unique tax breaks, as compared to other, more conventional, retirement assets.

But, how is this possible?

For years now, the IRS has extended distinct tax advantages to life insurance — both with death benefit proceeds and when you access the cash value.

**Unlike other retirement accounts, whole life insurance can offer the following benefits:**

- Tax-deferred growth potential
- Tax-exempt distributions
- Tax-exempt inheritance
- Tax-exempt death benefit accelerations



# LET'S DIVE INTO EACH ONE OF THESE DISTINCT ADVANTAGES:

## TAX-DEFERRED GROWTH POTENTIAL

Generally speaking, any life insurance cash value growth is tax-deferred: You don't have to pay taxes on the growth beyond what you pay in each year. What if you could achieve meaningful indexed growth on a tax-deferred basis, with downside protection if the market goes sideways?

## TAX-EXEMPT DISTRIBUTIONS

In a properly structured life insurance strategy, loans taken against a life insurance policy's cash value aren't subjected to income taxes — as long as that policy is not a modified endowment contract (MEC). Like a Roth IRA, whole life insurance offers tax-free access to the values that have grown over time. In the future, this could help you optimize your Social Security benefits by avoiding unnecessary taxes.

## TAX-EXEMPT INHERITANCE

Typically, the beneficiaries of an individually owned life insurance policy don't have a taxable event when they inherit the death benefit proceeds of that policy. Thanks to IRC Section 101(a), this is true whether the inheritors take it in one lump sum or over a period of years. There are instances where federal and state estate taxes can kick in on the proceeds of a life insurance payout, depending on particular circumstances.

## TAX-EXEMPT DEATH BENEFIT ACCELERATIONS

Let's say you have less than a year to live, or you get so sick that it affects your life in a significant way. With many policies now, you can access or "accelerate" a set percentage of your death benefit in a tax-exempt distribution to help pay for medical care. These "living benefits" are usually tax-exempt if they stay below the per diem established by IRC Section 7702B(b).

## WHAT OTHER RETIREMENT ASSET COULD PROVIDE A MEDICAL CARE SAFETY NET THAT'S TAX-EXEMPT?

You may have heard of other vehicles that offer similar tax treatment, at least with growth and distribution, like Roth IRAs or municipal bonds.

Unlike Roth IRAs, whole life insurance doesn't have contribution limits. These assets also don't have income phaseout like Roth IRAs. Additionally, Roth IRAs are often open to market volatility, while most whole life insurance is either non-market correlated or offers index-linked growth potential with added downside protection.

A photograph of a middle-aged man with grey hair, wearing a denim shirt, looking at a tablet device. The image is overlaid with a solid blue color. The text is centered in the lower half of the image.

**FORGE YOUR OWN PATH AND  
GROW LASTING WEALTH FOR  
YEARS TO COME.**

# DIVERSIFYING YOUR FINANCIAL VEHICLES TO INCLUDE A TAX-EXEMPT SOLUTION MIGHT BE THE RIGHT CHOICE FOR YOU

And, unlike municipal bonds, which have underperformed over the years, whole life insurance may likely net a reasonable rate of return that grows your money effectively and with a higher degree of safety. Plus, the income you access from your whole life insurance policy will not count toward your provisional Social Security income, unlike the proceeds from a municipal bond.

## SO, WHY ARE TAXES SO IMPORTANT TO CONSIDER WHEN THINKING ABOUT RETIREMENT?

There are two distinct factors at play, and if both continue, it's likely that taxes will increase over time:

- Growing federal debt/unchecked federal spending
- Growing IOUs to Social Security and Medicare

That increase could hamper your ability to produce the income you're looking for in retirement.

If you look at federal debt today, it exceeds \$31 trillion — that's roughly \$92,000 per citizen! If you look at total federal debt today (actual debt plus the amount the federal government would need to pay the debts of their own IOUs with popular social programs like Social Security and Medicare), that amount balloons to \$71 trillion!

***Ask yourself, “Do I expect taxes to decrease, stay the same, or increase during my retirement?”***

Depending on your answer, diversifying your financial vehicles to include a tax-exempt solution might be the right choice for you.



# ASK YOURSELF, “DO I EXPECT TAXES TO DECREASE, STAY THE SAME, OR INCREASE DURING MY RETIREMENT?”

**There are a few things to consider when purchasing whole life insurance, as you would weigh the pros and cons of any retirement asset:**

- Cost of insurance: Costs are present in each policy to pay for the death benefit and are dependent upon your age and health when you apply.
- Surrender charges: Since these vehicles are long-term solutions, there are typically surrender charges if you ever do want to walk away from the policy.

**Let’s review some of the distinct advantages you may enjoy using whole life insurance:**

- Immediate family protection
- Tax-free inheritance
- Easy divisibility for beneficiaries
- Tax-free income distributions
- Tax-deferred growth
- Tax-free living benefits
- No contribution limits (based on income)

If whole life insurance sounds like a smart addition to your retirement mix, speak with the financial professional who provided you with this piece. They can walk you through a custom strategy for where you are and where you want to be in retirement.



