MAKING THE NEST EGG LAST: BEST PRODUCTS FOR BOOMERS

April 18, 2017 excerpts by Warren S. Hersch

Entering retirement can be a particularly jarring experience for boomers, and not only because they're leaving behind the familiar world of work. For the change also requires a shift in one's financial orientation — from savings accumulation (Financial Planning) to distribution (Retirement Planning).

Above all, the transition brings into focus one overriding goal: how best to "pensionize" a nest egg so that your money outlasts you, and not the other way around.

Among the more 78 million baby boomers in or near retirement, the oldest of whom are now over age 70, retirement income planning has thus become an urgent priority. That's true, too, for the thousands of agents and advisors who serve these boomers — a demographic group now in possession of lion's share of the nation's wealth.

"Americans age 55-plus own almost 70 percent of all investable assets in the U.S.," says Jafor Iqbal, an assistant vice president at LIMRA Secure Retirement Institute. "That's a huge concentration of money. So naturally, advisors have changed their focus in recent years to incorporate retirement income planning in their practices."

In tandem with this shift, insurance and financial professionals are looking to a range of solutions that can best secure senior clients' post-retirement objectives. Among the main aims are preservation of principal, guaranteed income for life and healthy returns on invested capital.

There's also this not-insignificant one: tax-favored treatment of retirement assets. This can have a potentially huge impact, not only on the quality of life in retirement, but also on money available to fund a retiree's legacy planning objectives.

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One vehicle well suited to achieving these goals is cash value life insurance. Ed Slott, a CPA, author and expert on individual retirement accounts, advocates that individuals move assets held in an IRA to a permanent, paid-up index universal life insurance policy. The sweet spot is after 59 ½, when IRS tax penalties on IRA withdrawals no longer apply.

Why do this? Because unlike an IRA, funds in a cash value life policy can be accessed free of income tax (up to cost-basis through withdrawals; and thereafter as policy loans).

The tax-favored treatment also lets policyholders avoid "stealth taxes" that kick in because of increase in taxable income. For example, an IRA distribution could boost tax on Social Security benefits or trigger a 3.8 surtax on net investment income from capital gains, investment income or dividends.

Cash value index universal life insurance is also exempt from required minimum distribution (RMD) rules governing IRAs. Boomers can thus let their policy's cash value grow beyond age 70 ½ (the age at which IRA holders must begin taking income) on a tax-deferred basis.

"People think of life insurance for the death benefit, but most people don't know about the powerful lifetime retirement and tax benefits," observes Slot. "Funds in a permanent life insurance policy can double as a retirement savings account, but without the worry about what future tax rates will be."