Universal life

Rethinking its role in retirement planning

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Did you do a double take when you saw the title of this article? After all, the thought of retirement planning often conjures up the word "investments" – and of course, Universal Life Insurance is *not* an investment, nor should it ever be referred to as one, despite the fact that the policies have a cash value component.

However, there are key reasons why Universal Life Insurance merits a place in the discussion during the retirement planning process. Universal Life Insurance may hold particular relevance to baby boomers, ages 40-60, during retirement planning, due to its attributes as a core protection asset as well as one that may provide tax advantages and – when combined with appropriate riders – needed income in retirement.

What if you don't survive to retirement age? In that situation, the presence of a life insurance policy is intended to "self-complete" the retirement planning process, in the sense that the policy may provide loved ones with that which you may have accumulated had you lived longer.

Beyond the base-level death benefit are the tax advantages that Universal Life Insurance may offer. Any growth in cash value (although growth is not guaranteed) is tax deferred. For those of you in the traditional retirement zone of age 65 to 85, a properly structured life insurance policy to augment personal savings plans also has the potential to serve a key role, providing income tax-free benefits through loans and withdrawals.

Keep in mind, of course, that a policy loan or withdrawal will reduce the death benefit and that cash taken from the policy that surpasses the **total premiums** paid may constitute taxable income upon lapse or surrender of the policy. Additionally, you should seek independent tax or legal advice when considering your own circumstances.

UL and longevity risk

In addition to the tax advantages of Universal Life Insurance and the potential for the product to self-complete the planning process is the opportunity that it may provide to take the longevity risk off the table. When combined with a longevity rider, a universal life contract can provide to those who live to age 85 with an opportunity to access a stream of retirement income that may be income tax free. That income stream can serve a welcome role in an active retirement program.

What's more, it's possible today have a guaranteed Universal Life Insurance product that's combined with both a longevity rider and a chronic illness accelerated benefit rider – a hybrid offering that is designed to provide solutions whether you outlive your assets, become chronically ill or die too soon.

Provided you meet the rider's health impairment criteria, this type of hybrid product may provide tax-free living benefits to help fund nursing home care, assisted living or virtually any type of expense, even if not related to the illness. The ability to access the benefits may help you manage unanticipated costs without having to tap into or liquidate other assets.

That level of flexibility and protection may account for why individual life combination premium grew 12 percent in 2013 — the fifth consecutive year of double-digit growth — according to a recent press release from **LIMRA**. As Catherine Ho, LIMRA product actuary, explained in the press release, "These products clearly appeal to consumers who want a policy that provides flexible benefits and can address several of the financial risks consumers face as they grow older."

UL and small business

Alongside the dearth of so many big business jobs, we've also seen many pension plans go by the wayside. In fact, according to the Economic Policy Institute of Washington, D.C., only 22 percent of full-time, private-sector employees still had Defined Benefit (DB) pension coverage as of 2010, the latest date for which figures are available.

Given that Americans today increasingly lack access to pension income and that many have seen their retirement savings eroded by fluctuations in the markets, unanticipated medical expenses or other financial challenges, it seems prudent to raise awareness of how a smartly structured Universal Life Insurance policy may be of value.

With its all-important death benefit, its potential tax advantages, and its potential when combined with appropriate riders to provide needed income in retirement, Universal Life Insurance deserves a serious look as a component of a well-designed retirement plan. And there's no time like the present to look toward the future.