

# IUL as a Retirement Vehicle

Too many American consumers approach retirement savings without all the facts or adequate knowledge of the different options that can serve them in the long term. This is particularly true when it comes to Individual Retirement Accounts (IRAs) which are often seen as the only solution for long term retirement savings when 401K programs are not available or appropriate. However, Indexed Universal life insurance (IUL) policies offer tax advantages to assist with retirement planning and should therefore be considered as an alternative, especially after IRA contribution limits have been exhausted(1).

## Life and Long Term Insurance

IUL's provide life insurance with a death benefit to protect a policy holder's loved ones and legacy (2). Additionally, most IUL providers allow death benefits to be used as long term care insurance at no additional cost. That is, if a policy holder is incapacitated and unable to perform daily functions of life, then their IUL policy can be used to pay for medical expenses, in-home help, and more.

## Market Growth

Unlike an IRA that is invested in a securities such as stocks or mutual funds, the funds inside an IUL are not invested directly in the stock market and are therefore insulated from a market collapse(3). Through indexes, IUL policies allow for potential cash value build up that can later be used by the policy holder. With the recession still fresh for many investors, this protection against another financial emergency is a strong draw.

## Timing Rules

With exceptions, IRA owners are required to wait until they are 59 ½ to withdraw IRA funds without a 10% early distribution penalty. It is vital that producers clearly understand the true cost of early withdrawal and the fact that the age 59 ½ rule (arbitrary as it is) is actually based on the IRA owner's actual age and not the year in which they turn 59 ½. They must literally wait until the day of their half birthday, whenever that may be.

IUL policies don't carry this restriction. If policy holders face emergencies at any time or any age before retirement they have access to the cash value accumulated in their policy through partial withdrawals, variable interest rate loans, and standard loans (4). Depending on the tax status of the policy, it is also possible to take partial withdraws that are generally tax free as explained below (5).

## Tax-Free Loans

In my opinion, one of the best options an IUL policy offers is the ability for the policy holder to take tax free loans against the policy. Thus, policy holders can use loans as supplemental income replacement in retirement or for emergencies normally without tax consequences. Unlike traditional loans, an IUL policy loan does NOT have to be repaid. If any portion of the loan or interest is owed at death, the death benefit is simply reduced by the amount of the outstanding balance. Unlike traditional IRA accounts where withdrawals are 100% taxable and potentially subject to tax penalties (if taken before age 59 1/2 and no other exemption exists) and loans to the owner are prohibited by the IRS<sup>6</sup>, the flexibility of a tax free IUL loan can be very beneficial for retirement planning purposes, especially if tax rates rise in the future.

IULs often face harsh criticism online from other financial competitors. Unfortunately they are all not dedicated to the truth and have a conflict of interest. To properly attain the facts about any financial product my suggestion would be to request full disclosure from the company you are considering. Why? They are under the watchful eye of the regulators.

*1 IRAs allow individuals to save with pre-tax dollars, effectively lowering their taxable income and cutting down the year's tax bill at the marginal tax rate.*

*2 Death benefits and related features are a guarantee that is backed by the claims paying ability of the underlying insurance company.*

*3 IUL policies are credited with interest based on an external index. Policy owners are not buying shares in the underlying index and therefore do not directly participate in the index or any equity or fixed interest investments. The original principal (less any withdrawals) and any interest credited are guarantees that are backed by the financial strength and claims paying ability of the issuing company.*

*4 Policy loans and withdrawals will reduce available cash values and death benefits and may cause the policy to lapse, or affect guarantees against lapse. Additional premium payments may be required to keep the policy in force. In the*

*event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. It is important that the policy has a good "over loan protection agreement".*

*5 IUL policy loans are not subject to income tax. However, withdrawals or partial surrenders are subject to income tax to the extent that the cash value in the policy immediately before the distribution exceeds the owner's tax basis in the policy.*

*6 If the owner of an IRA borrows from the IRA, the IRA is no longer an IRA, and the value of the entire IRA is included in the owner's income. (IRC Sections 408(e)(2) and (3)). If the owner of an IRA pledges part of the IRA as collateral, the part of the IRA that is pledged is treated as distributed. (IRC Section 408(e)(4)).*