

Life Insurance Can Be a Great Retirement Planning Tool



Many retirees don't see an obvious connection between life insurance and retirement planning.

After all, life insurance is best known for protecting your family, particularly during your working years when children are younger and financially dependent. The truth is life insurance can offer much more than death benefit protection. It can also help you achieve a variety of retirement goals, including:

- Fill gaps in retirement saving that may happen with premature death or job loss.
- Help to provide income in retirement, even with unplanned medical needs or other emergencies.

Of course, there are three main types of life insurance products that can meet retirement planning needs:

1. Term life insurance: Provides economical death benefit protection for a specific period.
2. Protection-focused permanent life insurance: Offers a death benefit for an indefinite period. (It might offer some cash value or simply a guaranteed death benefit.)
3. Accumulation-focused permanent life insurance: It offers a death benefit, but it's also designed to accumulate cash value that can be used for a variety of future needs.

Fill a Retirement Savings Gap -

You already know that you need life insurance coverage to meet basic family needs in the event of a premature death. But what about replacing the money you've planned to continue saving for retirement if you lose your job?

Job loss. Many employers offer group term coverage that can help fill a retirement savings gap, but that makes job loss a risk on multiple levels, because it could lead to a loss of these benefits. An individually owned policy can help to ensure that at least some of the retirement savings gap is covered, even if you were to lose or change jobs.

Business owners. If you are a business owner, job loss might not be a concern. But business owners are often so focused on running the business that they don't give their own retirement much thought. A qualified plan, such as a 401(k), can reduce your tax burden, but business owner research from Principal shows that only 52% of small-to medium-sized businesses sponsor a qualified retirement plan. For many business owners, personal insurance coverage offers a way to diversify income sources in retirement, while accumulating savings that isn't subject to the qualified plan funding limits, and providing a death benefit.

Provide Income in Retirement -

Most retirees and advisors would agree that a comfortable retirement includes knowing that basic needs will be met and a nest egg will be available for unplanned expenses. Life insurance can be an important part of the retirement income strategy, by diversifying income-tax, balancing risk and providing flexibility.

Income-tax diversification. You already know the importance of diversifying investments, but income tax diversification can offer added value. When some of your assets are only partially-taxable, or even income tax-free, you can plan around income tax limits and thresholds, such as the taxation of Social Security income, and the impact of their income on Medicare Part B premiums.

Permanent cash-value life insurance offers a source of potentially income tax-free funds, because withdrawals generally come first from the policy owner's basis. Make sure you ask if the insurance carrier offers a convenient way to receive this income, and protections to help prevent adverse tax consequences.

Balancing risk. Risk and reward going hand in hand, and you might consider less exposure to stock market risk closer to retirement. Still, some market exposure counters inflation, which can erode a retirement nest egg over time.

Cash values in some accumulation-focused permanent life insurance products can provide a pool of assets to draw from in a down market, helping you to avoid having to sell low. Cash values can also help avoid triggering more taxes by giving you an alternative to making extra withdrawals from qualified plan accounts. When there's a base of assets that aren't affected by market movements, you might be more comfortable suggesting a measured degree of risk with investments that aren't immediately needed.

Flexibility for unexpected needs. Unexpected needs could come in the form of one-time surprises, like uninsured medical expenses, home repairs or family emergencies. Or they could involve long-term issues, such as a prolonged illness or injury that requires additional ongoing income. Either way, life insurance cash values can help meet these needs so you do not tap into qualified plan resources or other assets.

Meet Late Retirement Objectives -

For many people, priorities change later in life. They may wonder what will happen when the first spouse passes away and Social Security drops to one income. Many people become more focused on leaving a legacy for children, grandchildren or a charitable cause. Life insurance can help with all of these needs.

Social Security loss. Married couples drawing two Social Security benefits should plan for the impact of the loss of one of those benefits at the first death. While the higher of the two income amounts will generally continue, the loss of the lower income could cause concern. Life insurance can help offset this loss and provide the surviving spouse with replacement funds.

Death benefit needs. During your working years, you might not consider that you will lose access to group term life insurance when you retire. Individually-owned term coverage can generally be renewed or potentially converted, but not indefinitely. Permanent life insurance becomes more important for these late retirement needs.

Legacy goals. Permanent life insurance can also assure that something is left behind for loved ones or a charity, no matter what happens to your investments or retirement savings. This can provide peace of mind, knowing you'll make a difference. It can also free up other assets to work generating a comfortable lifelong income.

Life insurance death benefits can also help make the transfer of retirement assets to the next generation easier by equalizing inheritances of taxable assets with those of nontaxable assets, and providing the family with funds to pay income taxes when due on retirement benefits.

Life insurance plays a key role in effective retirement planning at all stages of the planning process, whatever your age, net income or existing assets. By having your retirement planner identify the most effective approach to life insurance, you can add significant value and foresight to your retirement planning process.