Life Insurance Retirement Plans: Are they a good choice for you?

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Retirement — it's that glorious time in your life where the only worry you should have is why your grandchildren haven't called yet this week. Though it is a life-changing occasion and naturally stressful, it should be an easy transition from work life to retirement life, as you have been planning for this moment for what should be the past 40 years. There is an abundance of tools available for you to help plan for your retirement, such as IRAs, 401(k)s and the like. But have you thought of using life insurance as a tool to plan for retirement?

Working in estate planning, I've found that many people believe that retirement accounts and life insurance are two separate tools used for planning two separate events, retirement and death. This is not the case. Life insurance can be a valuable tool for retirement planning if your situation allows for it.

How Life Insurance Retirement Plans Work - A Life Insurance Retirement Plan (LIRP) is simple in theory. LIRPs are essentially over-funded policies, that is, amounts above the premiums required to keep the policy in force. The intent is to maximize the cash value for future loans. You fund the universal or whole life insurance policy and borrow against the accumulating cash value by way of a loan tax-free. There are plenty of benefits to including a LIRP in your retirement planning. Tax-deferred accumulation, asset protection, and penalty and tax-free distributions to name a few. Because life insurance is taxed on a "first-in, first-out" basis, this tax-free "loan" can be made up to basis, or whatever you have already put in. Each year, it will accumulate interest, and your account value will grow.

Who Can Benefit from Using LIRPs? - This technique is not suited for everyone and does not replace your 401(k)s or IRAs. If you are at a point in your life that you do not need life insurance, you may want to consider a Roth. Also, consider maxing out your 401(k)s and IRAs prior to funding a LIRP, as employers often will match your contribution to a certain limit, which is essentially "free money" for you. If you have already maxed out your other tax-advantaged retirement savings plans, LIRPs can be a good alternative to obtain a tax-free income stream in retirement.

High-net-worth individuals would qualify for this strategy, as many times, the contribution limits for 401(k)s and IRAs are not enough to satisfy their retirement objectives. A significant benefit of LIRPs is that there is no contribution limit.

***Case Study* -** Let's look at an example that further explains how LIRPs function as a retirement planning tool. John and Jane are high-net-worth individuals. John was a successful business owner, and Jane was a doctor. They are currently retired and both age 65. They are currently withdrawing $70,000 per year out of their retirement accounts (IRAs and 410(k)s). They are also receiving $30,000 per year from Social Security. Their taxable income is $100,000. This is an issue for them, as they, like many people, want and need to be in a lower tax bracket in their later years.

Now, let's say John and Jane planned differently. They implemented a LIRP years ago for retirement. Let's say instead of taking the $70,000 from their retirement accounts, they take a tax-free loan from their LIRP. Their taxable income is now $30,000. This is also critical as it does not add to their provisional income, which is used to calculate your specific tax on social security withdrawals. The greater your provisional income, the more of your social security will be taxed (up to 85%).

Benefits - Can you see how this can be used as a helpful retirement planning tool for some? If this strategy is a good fit for you, there are other benefits beyond using this out of necessity due to maxing out your traditional options.

• **Safety:** Let me bring you back to 2008, which I know many people remember all too well. The market plunged. Retirement plans were devastated. However, LIRPs were not. LIRPs provide a "floor" in which it is not possible to perform less than 0% (sometimes more depending on the type of policy). Safety is key when planning for retirement.

• **Hedging:** Additionally, hedging against ever-rising tax rates is important. In most cases, retirement strategies are fully taxed or tax deferred. As taxes inevitably rise, you will never be taxed on a life insurance loan up to basis. This is critical when trying to get to that "0% tax bracket."

• **Long-Term Care and Death Benefit Options:** One of the biggest advantages other than the retirement income stream is long-term care benefits. Most policies provide accelerated death benefits that are available if you are terminally ill, which can help protect you and your family. The death benefit is an obvious and critical part of this plan. It is also a safety feature for your heirs. If you are to pass away prematurely, the death benefit will pay out to your beneficiaries' income tax-free, net of your loan that you have already taken as a retirement income stream.

Always remember that there is no "one-size-fits all" retirement plan. A professional financial advisor can help you learn more about whether this strategy would benefit you.

The information provided here is not investment, tax or financial advice. You should consult with a licensed professional for advice concerning your specific situation.