

6 WAYS TO USE LIFE INSURANCE AS PART OF A COMPREHENSIVE RETIREMENT PLAN

Experts suggest using life insurance strategically as part of a comprehensive retirement plan.



1 PEACE OF MIND, AND MORE

Having the correct type and appropriate amount of life insurance coverage in retirement can help protect income, provide tax-free cash flow, help manage taxes, provide peace of mind, and even improve the total returns in a portfolio.

JAMIE HOPKINS, CLU®, RICP®, RETIREMENT INCOME CO-DIRECTOR, THE AMERICAN COLLEGE OF FINANCIAL SERVICES

2 LIFESTYLE PROTECTION

Life insurance needs to be the foundation of any solid retirement plan if your family is depending upon your retirement income. You can't invest your way out of an untimely death.

JAMES J. MEEHAN, MSM
MANAGING PARTNER, 1847FINANCIAL

RISK MANAGEMENT 3

Life insurance can help clients recover from financial risks and unexpected costs, and increasing their chances of reaching long-term goals and achieving dreams.

JEN SIAS-LYKE
INSURANCE AGENT, STATE FARM

5 A SUBSTITUTE FOR BONDS

Position life insurance as a substitute for bonds in a retirement income portfolio. The life insurance policy can provide bond-like returns of 3 to 5 percent without the interest rate risk of a bond.

TOM HEGNA, CLU®, ChFC®, CASL®
RETIREMENT PLANNING SPEAKER,
AUTHOR, AND TV HOST

INCOME SAFEGUARD 4

A 10- to 15-year term life insurance policy on both spouses prior to retirement can protect the retirement savings plan.

CURTIS V. CLOKE, CLTC, LUTCF®, RICP®
RETIREMENT INCOME EXPERT

6 TAX BENEFITS

When properly structured, life insurance can provide tax-deferred growth, tax-free cash flow, and a tax-free death benefit. The tax-preferential treatment provided to life insurance allows an individual to have greater flexibility over which dollars to use during retirement.

RUSS DELIBERO, PHD, CFP®, ChFC®, CLU®

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Jamie Hopkins

Many people do not view life insurance as an essential and vital part of a retirement income plan. They see life insurance primarily as a way to protect families from the early loss of a breadwinner during the working years. However, life insurance has the potential to be so much more if properly utilized in a comprehensive retirement income plan. According to Jen Sias-Lyke, State Farm® Insurance Agent, “Life insurance plays an important role in any financial plan. It helps loved ones recover from financial risks and unexpected costs, increasing their chances of reaching long-term goals and achieving dreams. Thinking about financial protection and retirement can seem overwhelming, but as your life changes so does your financial situation.” Unfortunately, many people do not fully understand nor appreciate the value and benefits that life insurance can represent as part of a retirement plan. Having the correct type of life insurance and the appropriate amount of life insurance coverage in retirement will accomplish multiple jobs. It can help protect your income, provide tax-free cash flow, help manage taxes, provide peace of mind to families, and even improve the total returns in a portfolio. Here are a few strategic ways to utilize life insurance as part of a comprehensive retirement plan:

Protect Your Income in Retirement.

According to James J. Meehan, MSM, Managing Partner of 1847Financial, “Life insurance needs to be the foundation of any solid retirement plan if your family is depending upon your retirement income. You can’t invest your way out of an untimely death.” When one spouse passes away in retirement,

the surviving spouse often struggles to meet their income needs. While expenses might be lower, the drop in expenses rarely offsets the drop in income. At a minimum, one of the two Social Security benefits the couple was receiving will go away. So for many couples, life insurance can be used to ensure that there is enough money to replace any lost Social Security or other retirement income. In this way, the surviving spouse is able to maintain his or her current standard of living throughout retirement.



Keep Your Retirement Savings on Track.

According to retirement income expert Curtis V. Cloke, CLTC, LUTCF, RICP®, “In the 10 years leading up to retirement, many couples find themselves playing catch-up on their retirement savings. During this period, if one spouse dies, the surviving spouse could end up being severely short on retirement savings.” For this reason, Curtis recommends buying a 10- to 15-year term life insurance policy on both spouses prior to retirement in order to protect the retirement savings plan. Cloke notes that the premiums for this term policy could be very inexpensive, so it will not place a huge financial burden on the couple. However, he also notes that you might want to get a policy that can be converted into a permanent policy in case a future life insurance need arises. A convertible term life insurance policy will help protect your insurability in case health changes.

Improve Your Investment Asset Allocation and Returns.

With interest rates close to historical lows, bonds and CDs are not an attractive investment for many retirees today. However, most people still need some safe investments and assets in their retirement income portfolio. Tom Hegna, CLU®, ChFC®, CASL®, a professional retirement planning speaker, author, and host of the popular PBS TV special “Don’t Worry, Retire Happy!”, suggests positioning life insurance as a substitute for bonds in a retirement income portfolio. “Right now bonds have very little upside. They are only paying in the 1 to 3 percent range. Yet the risk of holding bonds is very high. If interest rates rise, the downside risk to bonds could be 20-30 percent or more.” Hegna recommends that “retirees should consider a whole life policy as a bond substitute for some or all of their bond portfolios. The life insurance policy can provide bond-like returns of 3 to 5 percent without the interest rate risk of a bond.”



Manage Your Taxes.

Russ DeLiberio, CFP®, ChFC®, CLU®, who also holds a PhD in Financial and Retirement Planning, notes that there are tremendous uses of life insurance in a retirement income plan because of the preferential tax treatment that life insurance receives. According to Dr. DeLiberio, “When properly structured, life insurance can provide tax-deferred growth, tax-free cash flow, and a tax-free death benefit. The tax-preferential treatment provided to life insurance allows an individual to have greater flexibility over which dollars to use during retirement, and depending on the type of life insurance, it can also provide a non-correlated asset to the portfolio providing additional diversification.” With tax rates constantly changing, life insurance can also function as a hedge against future tax rate hikes. “The tax-preferential treatment of life insurance can

be especially advantageous for individuals in a higher income tax bracket or as a hedge against a rising tax environment. As taxation rises, tax-free cash flow becomes more advantageous.” Tapping into cash value income tax free can be a great way to supplement a retirement income plan and, at the same time, help manage taxes.

Make sure to investigate the ways life insurance could fit into your retirement plan. Not everyone’s needs are the same. Some might benefit from term life insurance while others might benefit more from permanent life insurance. Still others might not have a significant need for additional insurance. There are those who already have insurance who may be underinsured and are leaving much risk on the table by not having the proper amount or type of life insurance. For those considering getting life insurance, sooner is better than later. Unfortunately, many people ignore the need for life insurance until some mortality event suddenly occurs. Jen Sias-Lyke states that, “Key life events such as marriage, moving or buying a home, having a child, changing jobs, and retiring could signal the need for changes to a financial plan. Life insurance should be an important piece of that conversation.” Take the challenge seriously, because having the right plan and the appropriate life insurance policy can improve your retirement. Start the process today by doing your due diligence. Determine your specific life insurance needs, get referrals for a quality life insurance specialist, and review the companies offering life insurance policies before you purchase. Remember, life insurance can provide more than just protection during the working years. It can continue to provide protection and benefits throughout retirement.

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