Supplemental Life Insurance For Retirement Planning

HELPING TO PROTECT YOUR FUTURE

Even though you may think you are well on your way to a comfortable nest egg, relying solely upon traditional means for your retirement income could prove costly.

Have you ever considered life insurance a potential source of additional funding for your retirement? That's right — life insurance.

Life insurance usually is not the first vehicle that comes to mind when you explore the different avenues available for retirement funding. Supplemental Life Insurance for Retirement Planning, otherwise known as SLIRP, is a strategy that uses a life insurance policy structured to generate a tax-deferred cash flow during retirement.

The funding vehicle for the SLIRP strategy is a participating whole life insurance policy issued by an insurance company. This type of policy provides tax-deferred cash value accumulation, tax-free withdrawals contingent upon certain stipulations, and a tax-free death benefit to your beneficiary(ies).

Traditional Sources of Retirement Funding and Their Pitfalls

There are several conventional vehicles most individuals turn to for their retirement income: Social Security, company or government pension plans, and personal investments, such as IRAs and 401(k)s. But, as you begin estimating how much income you will need to live securely in retirement, consider these facts:

- Social Security may not meet all of your retirement income needs. In fact, the amount of Social Security benefits you will receive is limited to a *percentage* of your current earnings. Here's an idea of what you can expect from Social Security: if annual earnings are $25,000, $40,000, or $60,000, Social Security can provide 50%, 27%, or 23% of your annual income, respectively, at normal retirement age.
- If you plan to work during retirement, there are limits on the amount of wages a retiree age 65 to 69 can earn without a reduction in Social Security benefits. The figure for retirees age 65 in 1998 was $14,500.
- Social Security may also be reduced if you begin collecting benefits before age 65.
- There are limitations on the amount of compensation that can be considered in pension plan benefit formulas. Most pension plans will only replace 40% to 60% of pre-retirement earnings. Pension plan benefits are also often integrated with (and usually reduced by) Social Security benefits.
- There are limitations on the amount you can contribute to qualified plans, such as IRAs and 401(k)s.

These pitfalls may force you to depend heavily on your personal assets and other investments to fill your retirement gap.

Whole Life Insurance and SLIRP

In its plain vanilla form, whole life insurance is a tool to protect your loved ones. In return for paying a guaranteed level premium, a whole life policy provides death benefit protection and the ability to accumulate cash value.

Whole life insurance generates cash value on a tax-deferred basis as long as the policy remains in force. A portion of the premiums builds cash value each year, providing a safe and convenient way to set aside funds for future needs, in addition to providing protection. Over the long term, cash value accumulation can be considerable, especially since taxes on the cash value's accumulation are deferred. The cash value is available through policy loans to help meet financial needs.

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A participating whole life policy is also eligible to receive dividends, if and when they are declared by the insurance company issuing your policy.[1] Dividends represent a partial return of premium.

How Does SLIRP Work?

In essence, the SLIRP strategy relies on a whole life policy's cash value and dividends. Here's how it works:

- Dividend values, if available, are withdrawn from the policy up to an amount equal to your cost basis. In the case of a life insurance policy, your cost basis generally means the total amount of premiums paid. As long as withdrawals do not exceed your cost basis, there is no taxable distribution.
- After you reach your cost basis, loans can be made against the policy's cash value. Interest will be at current rates, but the loan does not need to be repaid. The interest can simply be added to the amount of the loan. *Keep in mind that neither the loan nor the interest needs to be repaid.*[2] However, the amount of your unpaid loan plus any interest accrued will be deducted from the policy's death benefit before payment to your beneficiary(ies).

Benefits of SLIRP

Supplemental Life Insurance for Retirement Planning offers these benefits:

- A generally income tax-free death benefit.
- Can be tailored to meet individual needs.
- Can be structured to avoid early withdrawal penalties.
- Can be pledged as collateral for a loan.
- Availability of a Waiver of Premium rider to continue premium payments upon total disability.
- Government-defined annual contribution limits do not exist, provided the policy stays within the tax law definition of a life insurance contract.

The result is a cash flow that can supplement your retirement income.

Take the Steps Needed to Supplement Your Retirement

No matter what your retirement dreams are, it's important that you take the time to prepare yourself for a future that's free from financial worry. The responsibility of retirement security and comfort falls squarely on your shoulders. And with Americans living longer, healthier lives, the more sources you can turn to for income in retirement, the more likely you will be able to lead the lifestyle you deserve and expect.

Is Supplemental Life Insurance for Retirement Planning right for you? That depends on your individual retirement objectives. If you would like more information on this strategy, contact your New York Life agent today. There is no cost or obligation for this service.

[1] Dividends are not guaranteed, nor are current dividends an estimate of future performance.

[2] The Internal Revenue Code requires that taxes be paid on all gains if you surrender the policy or the policy lapses for nonpayment of premium. Policy loans that exceed your cost basis are treated as gains, if the policy goes out of force prior to death. Your policy, therefore, should be kept in force until death.

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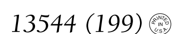

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