LIFE INSURANCE IN RETIREMENT PLANNING

For business owners and executives struggling to find a way to fund retirement in a simple and tax-efficient manner, there's life insurance.

THE PROBLEM

Many successful professionals and business owners and their key employees cannot adequately save for retirement on a pretax basis because of the limits placed on qualified retirement plan contributions. As a result of this "reverse discrimination," many individuals seek alternative means to fund retirement — specifically, nonqualified deferred compensation plans, which don't always have the flexibility the plan owner needs.

THE SOLUTION

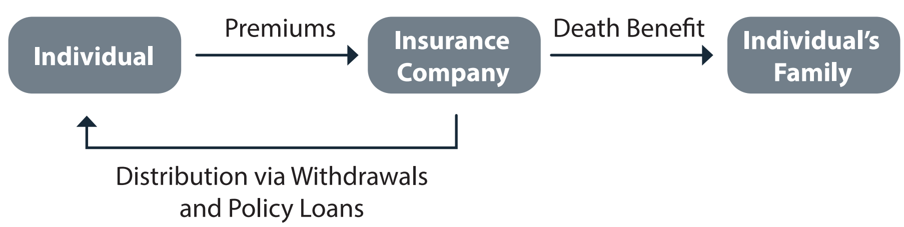
A life insurance policy funded for cash value appreciation can provide needed supplemental retirement.

HOW IT WORKS

An individual buys a life insurance policy on his or her own life. The individual pays premiums annually into the policy until retirement (or for any shorter period he or she chooses). The premium is the maximum amount the individual's budget permits. The death benefit is set at the minimum amount necessary to comply with the modified endowment contract (MEC) rules.

The premiums paid into the policy (after policy expenses and charges) grow tax-deferred inside the policy. At retirement, the individual can access the cash value of the policy for supplemental retirement needs through tax-free withdrawals and loans.

Upon the individual's death, the death benefit is paid to the policy beneficiary income tax free.



POTENTIAL BENEFITS

- **Simplicity.** A supplemental retirement plan funded with life insurance is very simple to implement and administer, with no substantive legal constraints or hurdles.
- **Flexibility.** Life insurance isn't subject to onerous regulation, which would otherwise limit its flexibility. An individual can increase, decrease or even skip annual contributions to the policy. Additionally, within limits, withdrawals can be accelerated or delayed.
- **Efficient.** Although qualified plans can be funded on a pretax basis and have tax-free accumulation, all distributions are taxed at ordinary income rates. Likewise, though nonqualified deferred compensation plans are funded on an after-tax basis and can have tax-free accumulation, the distributions are subject to ordinary income tax. Amounts passing to family members on the death of the participant in a qualified plan or nonqualified deferred compensation plan are also subject to ordinary income tax (unless certain requirements are met). Although funded on an after-tax basis, the policy cash value accumulates income tax free. Distributions from the policy to provide supplemental retirement income are also income tax free. And any residual death benefit in the policy passes to the insured's family income tax free.

- **Conservative.** Many individuals fund for retirement by investing in stocks, bonds and other investments. These strategies are subject to significant risks: market risk, volatility risk and interest rate risk, to name a few. Although not entirely risk-free, a whole life or universal life insurance policy issued by a high-quality insurance company is a conservative method for funding supplemental retirement needs.

PLANNING CONSIDERATIONS

- Life insurance qualification generally requires medical and financial underwriting.
- To achieve the projected cash values and desired distributions from the policy, premium payments must be paid as required by the policy and the plan design.
- The crediting rates and dividends applied to cash value inside the life insurance generally aren't guaranteed and may affect the ability to take – and the amount of – distributions from the policy.

Luckily for business owners and executives struggling to find a way to fund retirement in a simple and tax-efficient manner, there's life insurance, which is a nearly perfect solution to this conundrum.

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