Life

Beyond the 401(k): Mitigating volatility with life insurance

North American Company for Life and Health Insurance®

If you are able to fully participate in your employer's annual 401(k) contribution match and still have funds left over, there are additional options on the table to help plan for your and your family's future. You want to make a wise choice with your money, but thinking about the future can be overwhelming, especially when life experiences show us that there are external and internal factors we don't have control over:

How much time we have on earth

Market volatility

Tax rates

Your pragmatic approach to saving may be influenced by the financial environment you grew up and worked through: the 2008 Great Recession and the recent dramatic market fluctuations caused by COVID-19. Experiences like these instill a responsibility for the money you've worked hard to earn.

But, you *can* help mitigate the financial impact of what you don't control through life insurance. Life insurance provides needed death benefit protection and the opportunity for tax-deferred cash value growth potential.

Mitigate market volatility

Including an indexed universal life (IUL) insurance policy as an asset in your financial portfolio can help lower the portfolio's overall volatility due to market fluctuations. The index account has a zero percent floor and its starting value resets every year. If the index experiences negative growth or no growth, no credits will be applied to the index account, as we provide a 0% floor. The index credited will not be less than zero percent.

The index account is also subject to a cap, or a maximum interest rate, participation, or spread that is used in the calculation of the index credit. The index cap, participation, or spread rate will be declared for each index segment in advance of each index period.

While none of the index account options we offer are direct investments in the market, there is an index account option which can seek to reduce the effect of market volatility even further. The Fidelity Multifactor Yield Index℠ 5% ER blends six equity factor indices with U.S. Treasuries, and uses a dynamic allocation approach that seeks to reduce volatility to deliver more consistent returns over time. Talk to your financial professional for more information on this index.

Mitigate the effect of taxes

It may be beneficial to seek out sources of tax-advantaged retirement funds to balance out tax-deferred options, like many company sponsored retirement accounts. Let's take a look at tax-deferred and tax-advantaged money at work. In this hypothetical example, a 401(k) provides tax-deferred money and policy loans from a life insurance policy offer tax-advantaged money.

In this example:

- You and your significant other are starting retirement this year.
- You require $100,000 per year after tax for living expenses.
- A 24% federal tax rate, $25,100 standard deduction for Married Filing Jointly, and 6% state income tax.[1]

Tax-Deferred	
Tax-deferred withdrawal from 401(k):	$117,318
Taxes:	- $17,318
	$100,000
Total Annual Withdrawal	**$117,318**

Tax-Deferred[2] & Tax-Advantaged	
Tax-deferred withdrawal from 401(k):	$61,078
Taxes:	- $6,078
Policy loan:[3]	+ $45,000
	$100,000
Total Annual Withdrawal	**$106,078**

An option that combines tax-deferred and tax-advantaged withdrawals could save you about **$11,240** each year during retirement! That's a difference of **$224,800** over a 20-year retirement.

NOTE: The above hypothetical information is based on 2021 tax information. This is subject to change as tax rules are updated.

A life insurance solution

It can all come together with life insurance as a self-completing plan, a way to have an important piece of your financial plan realized, whether or not you're alive.

If you pass away unexpectedly, life insurance can provide immediate funding to help provide for your loved ones' current and future needs.

Or as you enter retirement, it can help to both supplement your retirement income and help ensure you have the money you need as you age.

Important considerations of using permanent life insurance:

- **Cost of insurance charges (COIs) or other charges:** Life insurance comes with charges that you need to be aware of for planning purposes.
- **Loss of premium and maintaining the death benefit:** Depending on funding, life insurance may not guarantee avoiding loss of premium. Also, additional premiums may be necessary to continue the desired death benefit, depending on funding. These are important to consider when using the cash value from a permanent life insurance policy to help supplement retirement income.
- **Surrender charges:** Withdrawals may be subject to surrender charges and the amount available for policy loans.

Summary and next steps

Permanent life insurance can help you mitigate the risk of things you don't have control over, as well as create a "self-completing" plan.

Think about your specific situation and what you may need to do to help ensure you have both adequate death benefit protection and supplemental retirement income. Consider the following:

- Determine your death benefit need.
- If applicable, take full advantage of your employer's retirement account matching program.
- Contact your tax advisor to see if tax-advantaged sources would work in your situation.
- and... **Talk to your financial professional to determine if a retirement planning strategy using permanent life insurance is right for you.**

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1. Source: https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2021

2. The tax-deferred feature of a universal life policy is not necessary for a tax-qualified plan. In such instances, you should consider whether other features, such as the death benefit and optional riders make the policy appropriate for your needs. Before purchasing this policy, you should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product. Neither North American nor its agents give legal or tax advice. Please consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

3. Policy loans from life insurance policies generally are not subject to income tax, provided the contract is not a Modified Endowment Contract (MEC), as defined by Section 7702A of the Internal Revenue Code. A policy loan or withdrawal from a life insurance policy that is a MEC is taxable upon receipt to the extent cash value of the contract exceeds premium paid. Distributions from MECs are subject to federal income tax to the extent of the gain in the policy and taxable distributions are subject to a 10% additional tax prior to age 59½, with certain exceptions. Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. Consult with and rely on your tax advisor or attorney on your specific situation. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

Life insurance policies have terms under which the policy may be continued in force or discontinued. Current cost of insurance rates and interest rates are not guaranteed. Therefore, the planned periodic premium may not be sufficient to carry the contract to maturity. In no case will the interest credited be less than 0 percent. Please refer to the customized illustration provided by your agent for additional detail. The policy's death benefit is paid upon the death of the insured. The policy does not continue to accumulate cash value and excess interest after the insured's death. For costs and complete details, call or write North American Company for Life and Health Insurance, Administrative Office, One Sammons Plaza, Sioux Falls, SD 57193. Telephone: 877-872-0757.

Indexed Universal Life Insurance products are not an investment in the "market" or in the applicable index and are subject to all policy fees and charges normally associated with most universal life insurance.

The Fidelity Multifactor Yield Index℠ 5% ER (the "Index") is a multi-asset index, offering exposure to companies with attractive evaluations, high quality profiles, positive momentum signals, lower volatility and higher dividend yield than the broader market, as well as U.S. treasuries, which may reduce volatility over time. Fidelity and its related marks are service marks of FMR LLC.

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