The Retirement Savings Triangle

We're probably all aware that we should save more for retirement. After all, most of us don't have much confidence in the future of Social Security[1], and very few of the companies that we work for still provide pensions. Fortunately, there is a full spectrum of retirement savings vehicles to choose from. Keep in mind, however, that taxes can have a significant impact on how much of your savings you ultimately get to use once you retire.

Tax-exempt or tax-free

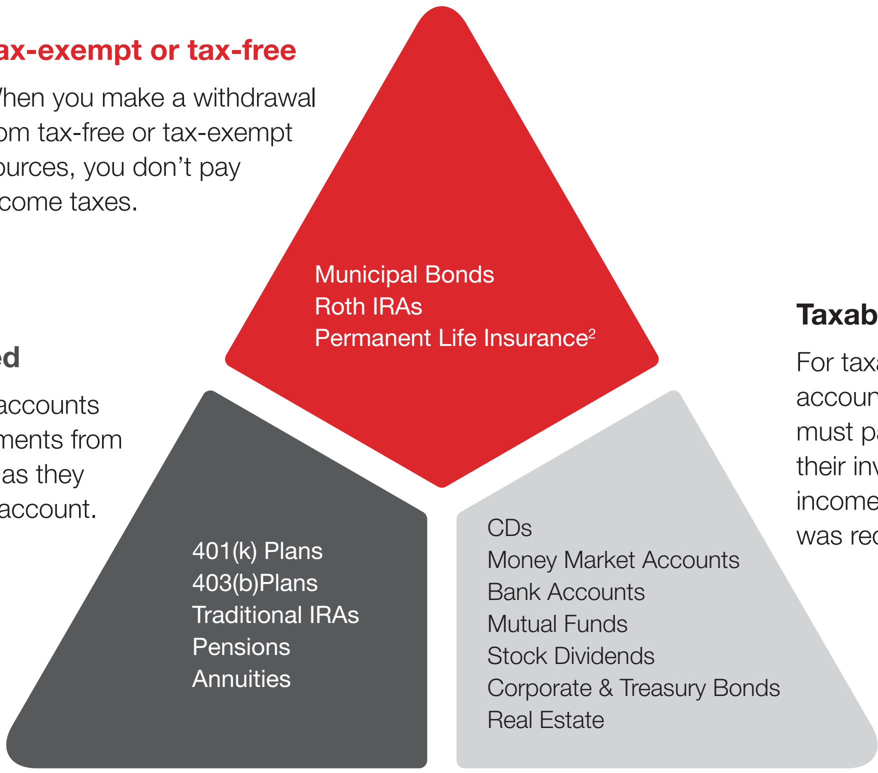
When you make a withdrawal from tax-free or tax-exempt sources, you don't pay income taxes.

Tax-deferred

Tax-deferred accounts shelter investments from taxes as long as they remain in the account.

Taxable

For taxable accounts, investors must pay taxes on their investment income in the year it was received.



Life insurance and retirement savings

Not only does life insurance provide a valuable death benefit, the cash value within the policy grows tax-deferred, and you can access that cash value at any time through loans and withdrawals. You won't have to pay taxes on withdrawals of your investment in the policy or from policy loans unless the policy lapses.[2] This is a powerful option to have at retirement, offsetting what might be lost to taxes from other retirement savings.

Many retirement savings tools enjoy tax-deferred growth but may pose limitations on the amount you can save or, if your income is too high, limit your use of them. Life insurance doesn't have these limitations, providing flexibility to help you meet your retirement savings goals.

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How Each Part Works Together

The following hypothetical scenarios illustrate the advantages of including all parts of the savings triangle in your retirement plan.

Scenario 1

Consider a recently retired married couple that wants to withdraw $150,000 from their savings each year. If they withdraw the full amount from their tax-deferred 401(k) with a 22% marginal tax rate*, they lose a large amount to taxes.

Account	Withdrawal	Tax	Net Income
401(k)	$150,000	$33,000	$117,000
		Total Net Income	**$117,000**

This chart is hypothetical and does not represent the performance of any product. Actual results may vary.

Scenario 2

They can receive more after-tax income if they withdraw half of the $150,000 from their 401(k) and half from their taxable mutual funds. In this case, the marginal tax rate would fall to 12% for the income taxes owed on the 401(k) and the mutual funds would be taxed at a 15% capital gains tax rate.

Account	Withdrawal	Tax	Net Income
401(k)	$75,000	$9,000	$66,000
Mutual Funds	$75,000	$11,250	$63,750
		Total Net Income	**$129.750**

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The couple has $12,750 more income in this scenario.

Scenario 3

Now look what happens when the couple adds a withdrawal from a tax-exempt or tax-free source. Here, the couple withdraws $150,000 for retirement, with $50,000 coming from the 401(k), $50,000 from mutual funds and $50,000 from a permanent life insurance policy. The withdrawal from the 401(k) is still taxed at the marginal tax rate of 12% and the capital gains tax falls to 0% for the mutual funds.

Account	Withdrawal	Tax	Net Income
401(k)	$50,000	$6,000	$44,000
Mutual Funds	$50,000	$0	$50,000
Permanent Life Insurance	$50,000	$0	$50,000
		Total Net Income	**$144,000**

This chart is hypothetical and does not represent the performance of any product. Actual results may vary.

The couple has $27,000 more income in this scenario than in the first scenario and $14,250 more than in the second scenario.

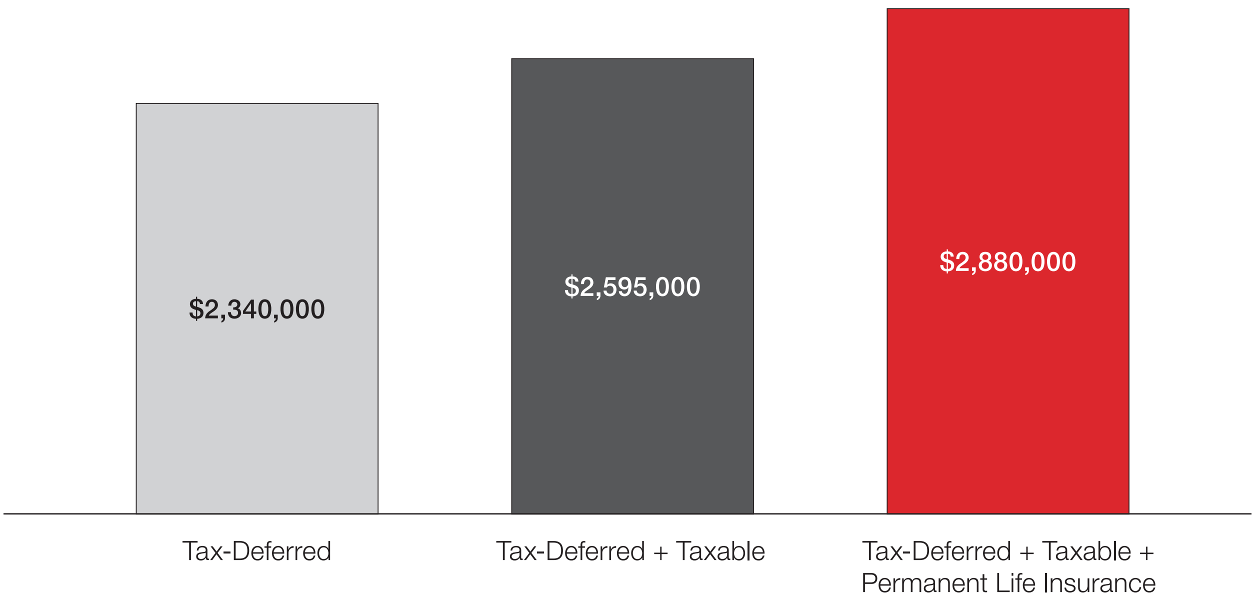
More Retirement Income Using Life Insurance

This chart further illustrates the benefits of including all three types of investments, including permanent life insurance, in a retirement plan.

This chart is hypothetical and does not represent the performance of any product. Actual results may vary.

The couple has 23% more net income when withdrawing from all three components, which includes permanent life insurance, than from the tax-deferred 401(k) only and 11% more than if they withdraw from the tax-deferred 401(k) and the taxable mutual funds.

Looking at a retirement that could last at least 20 years, this difference can really add up.



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After 20 years, the couple has $540,000 more net retirement income when withdrawing from all three components, which includes permanent life insurance, than from the tax-deferred 401(k) only and $285,000 more than if they withdraw from the tax-deferred 401(k) and the taxable mutual funds.

[1] https://www.ebri.org/pdf/surveys/rcs/2017/RCS_17.FS-6_SS-Med.FinalFlow.pdf

[2] Tax law permits a policy owner to withdraw life insurance policy cash values up to the policy owner's basis or investment in the contract without income tax consequences. Withdrawals and loans will reduce the available death benefit. Withdrawals beyond basis may be taxable income. Excess and unpaid loans will reduce policy value and may cause the policy to lapse. If a policy lapses, unpaid loans are treated as distributions for tax purposes. For more information about the tax results of life insurance, consult your attorney or tax advisor.

Marginal tax rates for 2020 were used for this hypothetical example. Tax rates do not include state or local taxes which may cause the net income amount to change. Actual results may vary.

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