Consider sequence of returns

Help make your client's income last throughout retirement with this protection strategy

Today, more and more people are responsible for their own retirement plan. Your clients have to save and invest carefully to ensure their money lasts several decades. But it's not enough to just look at the dollar amount they've accumulated. They need to consider how the **sequence of returns** may affect their withdrawal schedule.

An unpredictable risk

The sequence of positive vs. negative annual investment returns in retirement is unpredictable. Historically, the market trends upward, but there are down years too. And these down years can impact the amount your clients planned to withdraw in a given year and their total future savings. This is how the market has always functioned. We can't time the market, but we can plan for both upward and downward trends.

Help safeguard your client's portfolio

The good news is there are proven ways to safeguard savings, investments and legacy from market downturns such as cash value life insurance. An indexed universal life policy is a vehicle that can provide upside potential with limited downside risk due to the features built into the product such as the guaranteed floor. Life insurance provides valuable protection for your client's heirs and it empowers them to diversify their portfolio to help make it stronger and last longer. Key benefits include:

- Managing the impact of market downturns, through use of indexed accounts in IUL policies
- Income tax-free death benefit for beneficiaries[1]
- Tax-deferred growth opportunities
- Income tax-free resource for retirement (assuming the policy is not a MEC)[1]
- No tax penalties for cash values taken before age 59½[1]
- There are no IRS limits to life insurance premiums, while qualified (or Roth) plans have contribution limitations.[2]

When your clients retire, assuming the policy is not a MEC, they can take income through policy loans and withdrawals without affecting their income tax bracket, Medicare premiums, Social Security tax, capital gains, or modified adjusted gross income (MAGI). See the last page for important loans and withdrawal information.

[1] Distributions are taken through loans and withdrawals, which reduce a policy's cash value and death benefit and may cause the policy to lapse. Loans are not considered income and are generally tax-free. Withdrawals and surrenders are tax-free up to the cost basis, provided the policy is not a modified endowment contract (MEC). A MEC policy is one in which the life insurance limits exceed certain high levels of premium or the cumulative premium payments exceed certain amounts specified under the Internal Revenue Code. For policies that are MECs, distributions during the life of the insured, including loans, are first treated as taxable to the extent of income in the contract, and an additional 10% federal income tax may apply for withdrawals made prior to age 59½.

[2] The current Roth IRA contribution limit is $8,000 for those 50 years of age or older. This is subject to change and is established each tax year by the IRS. Contributions to a Roth IRA are from after-tax dollars.

Insurance products issued by:
The Lincoln National Life Insurance Company

Case study

Consider this hypothetical example of how you can help your clients leverage negative returns in retirement:

- Marc, male, age 45, preferred nontobacco
- Maximizes his 401(k) match by contributing $10,000 a year to his 401(k)
- Has another $10,000 annually of investable assets he'd like to save for additional retirement income use to create additional retirement income

Therefore, the financial professional suggests cash value life insurance to meet Marc's protection needs, provide flexibility to access cash value and to provide for his family should anything happen to him.

Sequence planning in action

Let's look at the difference in Marc's potential qualified account balances — with and without life insurance — assuming he accumulated $2,000,000, started taking distributions at age 67 and lives to age 88.

If Marc were to solely use his 401(k) for retirement distributions, he would withdraw $100,000 annually. This would net him $76,000 after taxes and at age 88 he would have $1,632,182 remaining in his account.

Now let's look at a different approach. Marc again takes his first qualified retirement account distribution at 67, withdrawing $100,000 ($76,000 after taxes). However, in years following negative annual investment returns, he instead uses the cash value from his life insurance policy to take a $76,000 loan or withdrawal. This would result in cash surrender value of $650,386 and a death benefit of $692,704 at age 99 for Marc.

This allows his qualified account to potentially recover and grow — while having multiple asset locations available. It also helps him increase the amount available in later years and helps counter the risk of negative returns.

Here's the hypothetical ending balance for Marc under both scenarios:

When Marc is age 88

Hypothetical portfolio results *without* insurance	Hypothetical portfolio results *with* insurance	Death benefit provided by Lincoln *WealthAccumulate*® IUL policy
$1,632,182 Ending balance[3]	$3,250,235 Cash value	$692,704 Death benefit

As you can see, in these hypothetical examples, without insurance, there would be **$1,632,182** left in Marc's qualified account (there would also be $200,000 that could have been used for savings, or additional 401(k) contributions. With insurance, there would be **$3,250,235** remaining. And there would be an additional **$692,704** from his life insurance policy's death benefit.

[3]Marc's portfolio without life insurance is based on S&P 500 Index returns, price only (dividends not reinvested), from 2002–2023. This is for demonstration purposes only; it is not possible to invest directly in an index. The ending balance does not account for the $10,000 per year Marc would not be using to buy the IUL.

[4]Marc's portfolio with life insurance (Lincoln WealthAccumulate® Indexed Universal Life Insurance policy) is based on the following assumptions: a male, age 45, preferred nontobacco, $10,000 premium paid to age 65, assuming 6.50% annual crediting rate in the S&P 500 Traditional Indexed Account, minimum non-MEC death benefit, increasing by cash value death benefit option switching to level at age 66, $76,000 withdrawal in year 23, fixed loans in years 29, 36, 39 and 43, 24% tax bracket. Illustration run in CT. At 0% and guaranteed charges, this policy lapses in year 29 with $91,743 in distributions. This is a non-guaranteed illustrated value at an assumed rate of return. Neither the amount of this death benefit nor the policy value available for loans and withdrawals is guaranteed. Depending on policy performance additional premium may be required to keep the policy in force in order to execute this strategy. Consult the illustration for details. Your client's situation and risk tolerance will be unique and should be considered prior to recommending any particular strategy. **Click here for the full illustration**

Adding a protection strategy can increase flexibly and optionality for when it comes time to start taking distributions and removing unnecessary risks in retirement. The hypothetical example below shows the power of using the sequence of withdrawals the year after a down market. In down years, an Indexed Universal Life policy with a 0% floor, would get credited 0% and the policy charges continue to be deducted.

Hypothetical historical portfolio results without life insurance

Year	Age	Beginning Year Balance	Annual Withdrawal	Balance After Withdrawal	S&P Return	End Balance
2002	67	$2,000,000	-$100,000	$1,900,000	-23.37%	$1,455,970
2003	68	$1,455,970	-$100,000	$1,355,970	26.38%	$1,713,675
2004	69	$1,713,675	-$100,000	$1,613,675	8.99%	$1,758,744
2005	70	$1,758,744	-$100,000	$1,658,744	3%	$1,708,507
2006	71	$1,708,507	-$100,000	$1,608,507	13.62%	$1,827,585
2007	72	$1,827,585	-$100,000	$1,727,585	3.53%	$1,788,569
2008	73	$1,788,569	-$100,000	$1,688,569	-38.49%	$1,038,639
2009	74	$1,038,639	-$100,000	$938,639	23.45%	$1,158,750
2010	75	$1,158,750	-$100,000	$1,058,750	12.78%	$1,194,058
2011	76	$1,194,058	-$100,000	$1,094,058	$0	$1,094,058
2012	77	$1,094,058	-$100,000	$994,058	13.41%	$1,127,361
2013	78	$1,127,361	-$100,000	$1,027,361	29.60%	$1,331,460
2014	79	$1,331,460	-$100,000	$1,231,460	11.39%	$1,371,723
2015	80	$1,371,723	-$100,000	$1,271,723	-0.73%	$1,262,439
2016	81	$1,262,439	-$100,000	$1,162,439	9.54%	$1,273,336
2017	82	$1,273,336	-$100,000	$1,173,336	19.42%	$1,401,198
2018	83	$1,401,198	-$100,000	$1,301,198	-6.24%	$1,220,003
2019	84	$1,220,003	-$100,000	$1,120,003	28.88%	$1,443,460
2020	85	$1,443,460	-$100,000	$1,343,460	16.26%	$1,561,907
2021	86	$1,561,907	-$100,000	$1,461,907	26.89%	$1,855,013
2022	87	$1,855,013	-$100,000	$1,755,013	-19.44%	$1,413,839
2023	**88**	**$1,413,839**	-$100,000	**$1,313,839**	**24.23%**	**$1,632,182**

Hypothetical historical portfolio results utilizing life insurance after down years

Beginning Year Balance	Annual Withdrawal	Balance After Withdrawal	End Balance
$2,000,000	-$100,000	$1,900,000	$1,455,970
$1,455,970	$0	$1,455,970	$1,840,055
$1,840,055	-$100,000	$1,740,055	$1,896,486
$1,896,486	-$100,000	$1,796,486	$1,850,380
$1,850,380	-$100,000	$1,750,380	$1,988,782
$1,988,782	-$100,000	$1,888,782	$1,955,456
$1,955,456	-$100,000	$1,855,456	$1,141,291
$1,141,291	$0	$1,141,291	$1,408,924
$1,408,924	-$100,000	$1,308,924	$1,476,204
$1,476,204	-$100,000	$1,376,204	$1,376,204
$1,376,204	-$100,000	$1,276,204	$1,447,343
$1,447,343	-$100,000	$1,347,343	$1,746,157
$1,746,157	-$100,000	$1,646,157	$1,833,654
$1,833,654	-$100,000	$1,733,654	$1,720,999
$1,720,999	$0	$1,720,999	$1,885,182
$1,885,182	-$100,000	$1,785,182	$2,131,864
$2,131,864	-$100,000	$2,031,864	$1,905,076
$1,905,076	$0	$1,905,076	$2,455,262
$2,455,262	-$100,000	$2,355,262	$2,738,227
$2,738,227	-$100,000	$2,638,227	$3,347,647
$3,347,647	-$100,000	$3,247,647	$2,616,304
$2,616,304	$0	**$2,616,304**	**$3,250,235**

Source: https://www.macrotrends.net/2526/sp-500-historical-annual-returns

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