# CAPITAS FINANCIAL

## Using Life Insurance for Retirement Planning

### OVERVIEW

The primary reason for buying life insurance is for death benefit protection.[1] It can also play an important role in retirement by adding tax benefits, diversification to minimize risk, income tax control and important protection elements to retirement planning. These strategies should be carefully considered while planning for retirement or in retirement.

### TAX BENEFITS

While people are aware of costs during retirement, such as housing and health care, they often overlook the fact that taxes have the potential to have the greatest impact. For example, someone receiving a $100,000 annual retirement income for 25 years would lose $375,000 to taxes, assuming only a 15% income tax rate. Such losses can be detrimental to a secure retirement.

A cash value life insurance policy can help minimize the tax loss. Any earnings growth within a policy accumulates tax deferred. Investment transfers within a policy can be made tax free and can offer income-tax-free access to cash value, following specific guidelines. Upon death, the money passes to heirs income-tax-free.

### DIVERSIFICATION TO MINIMIZE RISK

Diversification is commonly recognized as a key principle to minimize risk. This principle holds true for retirement income planning as well.

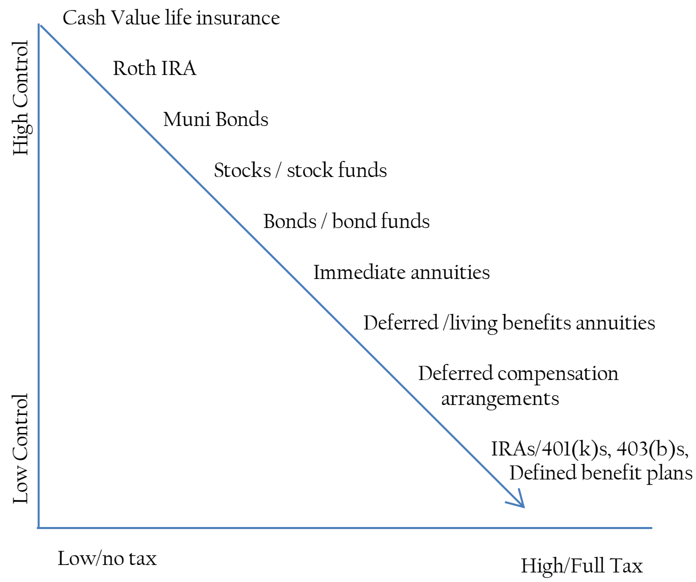
Specifically, there are several risk factors against which to employ diversification principles:

- Inflation risk — the risk of rising prices
- Longevity risk — the risk of outliving your money
- Tax loss risk — the risk of taxes decreasing your income

Addressing diversification from all of these aspects can help stabilize your retirement income and help secure your retirement lifestyle.

### TAX CONTROL

In addition, a cash value life insurance plan is a valuable retirement planning tool because it offers a high level of control for the owner. That is, unlike most retirement accounts, when properly structured, money can be withdrawn without penalty before age 59½,* and there are no required minimum distributions (RMDs) after age 73.




[1] A death benefit goal must be the clear primary purpose, with a secondary plan to access potential future cash values. Clients should understand risks that affect the policy's future potential income as well as potential lapse risk and negative tax consequences. This solution is appropriate for high liquid net worth, healthy clients who have maximized contributions to qualified plans and other savings, and allowing sufficient time to build up the cash value before accessing it to ensure the policy remains healthy and does not result in premature lapse. As this is supplemental income, the intended goal being supplemented (retirement, education, etc.) should be funded and on track for success without the addition of the life insurance withdrawals. Clients may need to modify their insurance supplemental income plan to avoid premature policy lapse.

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