BROKER WORLD

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Will You Outlive Your Money?

Using an IUL Strategy to Supplement Your Retirement Income, Plan for the Worst in Life, and Address Declining Health in Mature Age

My grandmother and grandfather had seven kids and lived in a southern state. The kids were known as the "The Magnificent Seven," an homage to a popular western at the time. When my grandmother matured to old age, life transpired along the way. My grandparents lost their oldest child while she attended college. My grandfather passed away and left my grandmother to live out the rest of her days alone. She was surrounded by love, but all the kids were spread out across the country. When we traveled down to visit her later in her life, we recognized that her memory was declining. It started with her sense of smell, then escalated to forgetting to turn off the oven or forgetting the way home after running errands. My grandmother was diagnosed with Alzheimer's disease. At first she only needed day care, but her condition worsened progressively requiring round the clock care. Ultimately, she spent her last days peacefully in a hospice facility.

You may be asking yourself, "Why did he begin with such a sad story?" A better question is, "Who paid for the care she received later in life as her health declined?" You guessed it, the six children who reached adulthood and had kids of their own. They all chipped in to cover a multitude of bills including: Groceries, housing costs, in home care, and everything else not covered by Social Security and savings. The closest adult children would travel down and watch her on the weekend to cut costs. What if there was a product that could help supplement your retirement income, cover your beneficiaries in the case of premature death, and supplement your health care costs if you were to suffer a terminal, chronic, or critical illness? That product is a fixed indexed universal life product (IUL) with living benefits.

> *"When comparing an IUL to other financial vehicles, one key difference is the IUL can help with medical bills upon suffering physical or cognitive impairment."*

An IUL product at the end of the day is life insurance. Clients must have an insurable interest, are subject to underwriting based on health, and must have the funds to purchase this product. The funds to supplement one's retirement do not have to come from one's checking account. A client does not have to cut back on their desire to have daily fancy coffee creations or avocado toast, even though cutting back to a few days a week could be a good idea. The funds could come from repurposing money from other financial vehicles. If the client is paying above the match for their 401k or 400 series tax-deferred account, it would be wise to use the excess to fund IUL premiums. The IUL grows tax-deferred just like the 400 series tax-deferred account. The big differences with the IUL are: 1) you can withdraw funds tax-free; 2) your beneficiaries can receive a death benefit income tax-free; 3) funds can be used for living benefits; and, 4) IUL cash value is not susceptible to stock market volatility.

IULs are tied to the market, but not **in** the market. Traditional IULs have a zero percent floor. While newer products still have the zero percent floor, they can also be subject to asset fees in mediocre or poor years. For more insight on this topic, please read my September, 2019, *Broker World* article, "Is Zero Still Your Hero? How High Fees And Bonuses Have Adjusted The IUL Landscape."

When comparing an IUL product to mutual funds or stocks, there are notable differences. The gains on market-based products can be astronomical, but so can the losses. With an IUL, since the money is not in the market, insurance carriers can guarantee a zero percent floor. Using uncapped strategies and/or high participation rates an IUL can see index credits in the double digits. But to be conservative and based on AG49 Regulations, IUL products generally are not illustrated above seven percent. In addition to being immune to stock market volatility, if done properly, an IUL is not subject to taxes upon withdrawal. If a client needs to purchase a vehicle, pay down credit card debt, pay for college, or put a down payment on a house, they can withdraw funds from their IUL income tax-free. Additionally, if the client takes out the funds as a participating loan, the client does not lose the ability for those funds to gain an index credit. The funds could still receive positive interest based on the difference in index credit and loan rate.

Whether the client repurposes the funds from their tax-deferred account, i.e. 401k, or their mutual fund, or both, the goal is the same—purchase an IUL to supplement retirement income in the future. For example, a client retires at 65 and is looking to postpone taking Social Security to the maximum age of 70, they could use a portion of their cash value in their IUL to supplement their retirement from ages 65 to 70, thus holding off accessing their Social Security. The income tax-free loans do not have to stop at age 70 and, if properly designed and funded, loans could be taken out from age 65 to age 100 and beyond, thereby preventing a client from outliving their money.

What happens if the unexpected happens? We all know life insurance can cover a percentage of one's estimated lifetime earnings and can be distributed to beneficiaries tax-free upon death. (Which is something market-based products, 401ks, and other tax-deferred accounts cannot replicate.) What if the unfortunate happens while you are still alive? Whether your client contracts a terminal illness with a two-year life expectancy, or cannot perform multiple activities of daily living (ADLs), or suffers cognitive impairment, wouldn't it give them peace of mind knowing their IUL can accelerate a portion of their death benefit to cover medical expenses or whatever they choose to spend money on upon diagnosis? When comparing an IUL to other financial vehicles, apart from the differences mentioned earlier, one key difference is the IUL can help with medical bills upon suffering physical or cognitive impairment.

When my grandmother was unable to perform two out of the six ADLs, my family would have been in a better position to pay her medical expenses if this superb product was available back then. I do not know you or your client's family dynamic. I do know I do not want to burden my wife and daughter with the costs of a critical, chronic, or terminal illness diagnosis. If something unfortunate happens prematurely, I want to make sure my family is not only taken care of, I also want to ensure the financial burden incurred by declining health in old age is taken care of as well. A fixed indexed universal life (IUL) product is a great vehicle to cover costs associated with premature death, can supplement one's retirement income, and can be accessed while living even when subject to debilitating illness. Due to those reasons, and the fact that other financial vehicles cannot replicate those features, don't you think it's time to add an IUL with living benefits to your product portfolio?