

# Episode #262: Is Life Insurance in Retirement Worth It?

## Video Transcription

Hey, thanks for tuning in to this week's episode of "Money Script Monday." My name is Laurence Williams.

"Is life insurance and retirement worth it?" Many people think of life insurance as death insurance and although there is a death benefit that gets paid out at one's passing, life insurance has a multitude of benefits that you can take advantage of while you're still living.

The Stanford Center of Longevity is an organization, and its sole focus is to look at every facet of longevity as it pertains to our society. They recently published a study in which they looked at 2,000 pre-retirees ranging from 50 to 74, and they re-evaluated their response as it pertains to some of the concerns that all pre-retirees face.

The top four concerns that they had were inflation, the rise of healthcare, long-term care, and the potential or possible reduction in Social Security benefits.

With that being said, I want to take a look at five key benefits that life insurance can play in your overall retirement. The first one is going to be managing longevity risk.

Now, I don't have a magic crystal ball to determine how long we're going to live, but what I can say, and what most people agree is that we're all living longer with the help of science and technology.

One other thing that we know is that non-guaranteed assets decrease significantly over one's life, especially in the later years. And for those individuals that are relying on retirement income from these non-

guaranteed assets, it could create tremendous stress on your portfolio, and also create a shortfall in what you want and need in retirement versus what you're actually going to receive.

However, cash value life insurance can provide some guarantees in your retirement portfolio, while also allowing you to have access to the liquidity within that policy, that cash value, as well as that death benefit that will transfer tax-free to your loved ones.

Simply put life insurance and investments, what life insurance can do that investments can't, is that life insurance can eliminate that idiosyncratic risk or the risk of the unknown.

The next one we're going to look at is increased retirement income options. Again, cash value life insurance, and we'll look at Indexed Universal Life, for example, have tax-advantageous strategies when it comes to withdrawing from these types of accounts.

We like to call Indexed Universal Life like a Roth IRA but on steroids because unlike a Roth IRA, properly structured cash value life insurance doesn't have any government restrictions.

The third one we're going to talk about is enhanced portfolio and tax efficiency. Now, I want you guys to think about your 401(k), and those qualified plans. It's important to note that in retirement, it's the after-tax return that's the most important.

Again, for that 401(k), you've done a tremendous job saving and contributing to that account, which we always recommend at least up to the match.

But a lot of people don't consider when they are going to have to pay those taxes on that account, or what that looks like. So, for example, if you've, again, been contributing to this vehicle, and you've got it to grow to a million dollars, and taxes go up, and you now find yourself in that 35% tax bracket, well, when you go to withdraw from that 401(k), which you think is a million dollars, it's actually going to be \$650,000.

That could, again, really stress out your retirement portfolio and create that shortfall that we talked about.

Now, in contrast to that, cash value life insurance, for example, Indexed Universal Life, grows tax-deferred, all of the contributions and savings that you put in. However, when it comes to taking distributions in the form of a participating loan, you don't have to pay any taxes on any of that income.

The fourth one that we have here is enhanced portfolio and diversification. So, the cash value growth within a policy that is managed by the insurance company typically is made up of highly corporate bonds, that, again, the insurance company will hold on until maturity.

As a result, there's not a lot of volatility at all in Indexed Universal Life, which is why we have that 0% floor in which you won't ever lose money, but you will be able to participate up to a certain amount, again, based on that index.

Now, if you were to look at something like a mutual fund, that is a lot more volatile. So, having some sort of diversification within your retirement portfolio, a conservative one at that, life insurance could play a key role in that.

Last but not least, we have optimized legacy plans under the SECURE Act. Now, back in 2019, when the SECURE Act was passed, they went away with one of the most popular tax reduction strategies known as the stretch IRA. In addition to that, they also extended the age at which you were required to take your minimum distributions to age 72.

What we're finding is that a lot of people were dying with significant amounts of assets in these retirement accounts. So, it gives thought to why not potentially look at taking a portion of those assets up to that tax bracket prior to RMDs kicking in and using those funds to purchase a cash value life insurance to allow us to take advantage of some of those tax advantages that we went over.

These include tax-deferred growth, tax-free income, and that death benefit, so that it transfers the most efficient way possible when we do pass away to our loved ones.

So, I'll ask you, again, is life insurance and retirement worth it? I would say that life insurance can serve as an incredibly valuable tool in your overall retirement plan.

I encourage you to reach out to your trusted financial advisor if any of these strategies, seem like they could be something that you can implement in your overall plan.

In addition to that, we would be happy to run a report for you to show you exactly where you are in retirement, and if there is an improvement if any that can be made in your specific situation.

Again, retirement doesn't have to be scary.

Thank you so much for watching, and we'll see you next time.