Using Life Insurance for Supplemental Retirement Income

In today's unpredictable economic climate, many business owners are finding that the traditional means of funding a comfortable retirement may not be reliable enough. Even with a wise investment of the proceeds from the sale of your business, the ups and downs of the market can negatively affect its rate of return, causing a ripple effect through your other retirement income sources. This could limit your ability to generate a large enough annual income in retirement.

One rule of thumb is that individuals generally need 75 percent to 85 percent of their pre-retirement income each year for retirement. With this in mind, it's important that business owners consider creating a supplemental retirement strategy; one that provides for the accumulation of funds, tax advantages and flexibility.

Equity-Based Assets in a Down Market

A traditional way to save for retirement is equity-based investments. These investments allow you the potential to enjoy long-term growth and multiple years of market upside while you are working. However, the market downside potential inherent in these investments can have serious consequences if experienced during retirement. Taking distributions from equity-based retirement investments and accounts (like a 401(k) or IRA based on stocks and bonds) during a period of negative returns can have a significant adverse effect on the future value of your account. This leaves you with a lower valued asset, limited in its ability to bounce back and grow during up markets. Ultimately, this can reduce the total amount of income you have available during retirement.

Of course, the easiest way to avoid compounding your losses is to avoid withdrawing income from your equity-based retirement investments when the stock market is in decline. This is often difficult to do, so it makes sense to find a supplemental source of retirement income that can provide conservative growth without being impacted by market volatility.

Whole Life Insurance with Cash Value

Life insurance is an excellent way to protect against the financial hardships resulting from your unexpected death. When looking for reliable protection that will also give you the flexibility you need as your life changes, permanent life insurance may be a good addition to your retirement strategy.

In short, a whole life insurance policy's cash value can provide a stable source of supplemental retirement income that is not impacted by short-term market volatility. The accumulation of your policy's cash value is guaranteed, regardless of market conditions. Whole life insurance, in addition to providing death benefit protection, can add a conservative element to your retirement income strategy that may help give you more flexibility when weathering the inevitable market downturns that occur over time.

Borrow From a Whole Life Policy

Since the cash value of a whole life policy is unaffected by short-term market volatility, it can provide a stable source of income in those years when it's inadvisable to take distributions from your equity-based retirement accounts. For example, in the year immediately following a down market, and once you've met any minimum distribution requirements, you can take a distribution, in the form of a loan, from your policy's cash value to supplement your retirement income needs.[1] Using your policy's cash value to supplement needed retirement income provides the opportunity to leave your investments better positioned to rebound when the market comes back.

It's important to remember there are implications to borrowing cash value or taking partial surrenders. These actions will reduce the policy's cash value and death benefit. This could also increase the chance the policy will lapse, and it may result in a tax liability if the policy terminates before the death of the insured.

Protect Your Family Now and Later

In addition to aiding retirement if needed, whole life insurance protects against financial hardships after death. Should you pass away prior to retirement, the policy's death benefit can provide your family with the financial resources they'll need after you're gone.

If you pass away during retirement and predecease your spouse, your income sources like Social Security and pensions will likely be reduced. But with a whole life policy, your spouse or partner will receive a death benefit (less any policy loans taken), which can help them replace other sources of lost income.

The purchase of whole life insurance is one of the most important decisions you can make. But whole life insurance isn't just about death. It's also about living – especially in retirement.

[1] Distributions under your policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (your cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty.

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