Principal®

Life insurance solutions

Meet your retirement's new friend.

The connection between life insurance and retirement isn't obvious. After all, life insurance is primarily about protecting your family, typically during your working years when your children are younger and more reliant on you. And retirement is all about living the life you want when your working years are over and the kids are independent, right?

Well, guess what: Life insurance can offer much more than protection for loved ones. It can also help you achieve a variety of retirement goals, including:

Filling in gaps in retirement saving that may result from events such as premature death or job loss.

Providing a comfortable income in retirement, even in the event of unplanned medical needs or other emergencies.

Meeting late-retirement needs and legacy goals, such as leaving assets for your children or grandchildren.

Have any of these needs? Chances are you do—and we're here to help you understand how life insurance can help.

Life insurance generally falls into three categories:

1 | **Term life insurance.** Provides economical death benefit protection for a specific time period.

2 | **Protection-focused permanent life insurance.** Offers a death benefit for an indefinite time period (it might offer some cash value, or simply a guaranteed death benefit).

3 | **Accumulation-focused permanent life insurance.** Designed to accumulate cash value that can be used for a variety of needs during your lifetime.

Filling in retirement **savings gaps**

A retirement savings gap—that is, a period of time in which you're unable to save for the retirement you and your partner are striving for—can result from several factors, including:

> Is your family protected in the event of a premature death?

Premature death. You probably know that you need life insurance coverage that can meet your family's basic needs if you pass away. But what about replacing the money you're currently saving for retirement? With more and more employers offering defined contribution retirement plans such as 401(k)s rather than pensions, it's more important than ever to have coverage that goes beyond meeting your family's immediate needs. Most employers offer group term coverage that can help fill this gap.

> Would you have enough life insurance coverage if your employment were interrupted?

Job loss. As noted above, most employers offer group life insurance benefits. But an unexpected job loss could lead to a loss of these benefits. An individually owned policy can ensure that at least some of the retirement savings gap is covered even if you lose or change jobs.

> Are you effectively using your business to help build your retirement dollars?

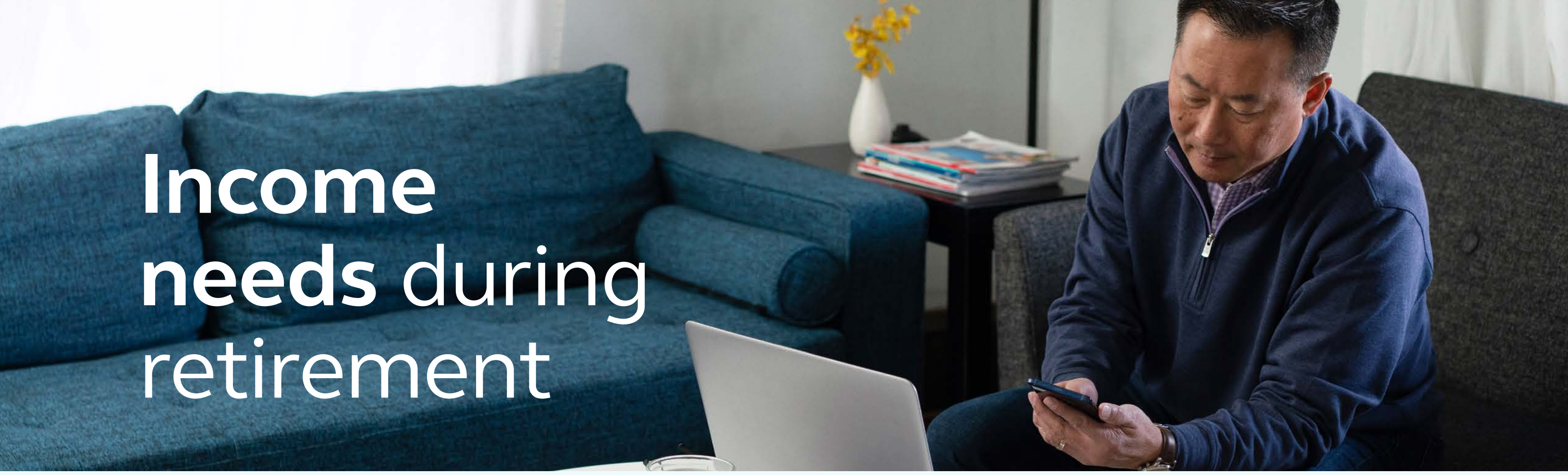
Business concerns. If you're a business owner, you might be so focused on running your business that you haven't given your own retirement much thought. Our research shows that only 61% of small- to medium-sized businesses sponsor a qualified retirement plan.[1] A qualified plan, such as a 401(k), can reduce your tax burden and help you and your employees save for the future. But depending on your income, these plans can limit how much you can contribute. So you may also want to consider personal insurance coverage as a way to supplement and diversify your income sources in retirement. The planning you do today will better position both you and your business upon your retirement.

Solutions for filling in retirement savings gaps

During your working years, **term life insurance** can help cover the risk of premature death. With individually owned coverage, you'll have the added security of knowing it will be there even if you experience a gap in employment. But when purchasing term life insurance, pay attention to the terms of the policy's conversion option (such as how long it's available and which products you can convert it to). This feature can allow you to economically cover risks now, and then convert to a more permanent option when your earnings are greater—without additional underwriting (i.e., the process of determining your eligibility for coverage). Exercising a conversion option can help establish lifelong coverage.[2]

When your resources allow more flexibility, **a combination of term insurance and permanent insurance** may be appropriate. This will allow you to cover immediate needs affordably while also providing permanent coverage and potentially building a nest egg for cash needs in retirement.

Business owners have an additional option: Certain life insurance arrangements can allow your business to pay for and own permanent life insurance. This strategy can cover your business-protection needs as well as provide a death benefit for your family.[3] The same business-owned life insurance policy could also be transferred to you later, so you can use it for other financial needs you may have.



Income needs during retirement

What does it mean to have a comfortable retirement income? It all starts with knowing that your basic needs will be met and that a nest egg will be available for unplanned expenses. Whatever your expectations and resources, life insurance can be an important part of your retirement-income strategy, offering:

Will all of your retirement assets trigger income taxes, or will some of your assets be available on a tax-advantaged basis?

Income tax diversification. You might know how important it is to diversify your investments. But have you thought about income-tax diversification? This means having a variety of assets that aren't all taxed in the same way—or at the same time. When some of your assets are only partially taxable, or even income tax-free, you and your tax advisors can plan around income-tax limits and other thresholds each year. For instance, if you can draw from either taxable funds or those that don't trigger taxation, you can plan for things like how much of your Social Security income will be taxed, and what impact your income will have on Medicare Part B premiums.

Most people know that Roth IRAs can offer a source of potentially income tax-free funds, but their availability to higher-income earners is limited.[4] What may not be as well-known is that permanent cash value life insurance also offers a source of potentially income tax-free funds, because withdrawals generally first come from the policy owner's basis (the total sum of payments made), which has already been taxed.[5] It's important to check whether your insurance carrier offers a convenient way to begin receiving this income and provides protections to help prevent adverse tax consequences in the future.

Will your retirement portfolio allow you to balance market and inflation risk?

A way to balance risk. Risk and reward generally go hand in hand. And you might prefer less exposure to stock-market risk as you get closer to retirement. Even with a comfortable nest egg, watching asset values fluctuate with market volatility could cause sleepless nights. Yet some market exposure is often recommended to counter inflation, which can also erode a retirement nest egg over time.[6] In other words, it's a balancing act.

Cash values in some accumulation-focused permanent life insurance products[7] can provide a pool of assets to draw from in a down market, helping you avoid having to sell low. They can also help you avoid triggering more taxes by giving you an alternative to making extra withdrawals from qualified plan accounts. When you have a base of assets that aren't affected by market movements, you might be more comfortable taking a measured degree of risk with investments that aren't immediately needed.

Is your family protected in the event of a premature death?

Flexibility for unexpected needs. These needs could be one-time surprises, such as uninsured medical expenses, home repairs, or family emergencies. Or they could involve long-term issues, such as a prolonged illness or injury, requiring additional ongoing income. Either way, your life insurance can help meet these needs so you don't have to rely on qualified plan resources, Social Security income, or other assets.

- For one-time needs, financial vehicles offering distributions that don't increase your income tax liability can be helpful. These might include assets such as cash value life insurance, Roth IRAs, municipal bonds, and brokerage accounts.
- For medical expenses, a number of types of permanent products offer a chronic illness feature that allows you, under certain conditions, to take an advance against your policy's death benefit.
- For additional short-term needs, a portion of an accumulation-focused permanent life insurance policy's cash value can be converted to an income stream.
- If the death benefit is no longer needed, or income needs become a higher priority, the policy could be exchanged on a tax-free basis for an annuity.[8] This can give you the peace of mind of knowing you'll never outlive your income.[9]

Solutions for income needs during retirement

Accumulation-focused permanent life insurance can provide funds to meet key needs during retirement—including additional income, cash for unexpected expenses, or assets that can be accessed without triggering immediate income taxation.

Depending on your age and health, term insurance may continue to be a solution for providing additional death benefit protection in your early retirement years.

Meeting **late-retirement** needs and **legacy** goals

As you get deeper into retirement, your priorities will likely change. Perhaps you'll begin wondering what will happen if you or your partner passes away and you no longer have two Social Security income streams. Or maybe you'll start to focus on leaving a legacy for your children or grandchildren. Whatever your needs, life insurance could help address them.

Do your plans as a married couple take into account that Social Security benefits are typically reduced after the death of the first spouse?

Social Security loss. For any married couple drawing two Social Security benefits, it's important to plan for the impact of the loss of one of those benefits at the first death. While the higher of the two income amounts will generally continue,[6] the loss of the lower income could be cause for concern. Life insurance could help offset this loss and provide the surviving spouse with replacement funds, allowing the life insurance benefit to be annuitized into an income stream.

Does your plan for retirement include a source of life insurance death benefits for your heirs that will remain affordable for as long as you live?

Death benefit needs. Once you've retired, you'll no longer have access to the group term life insurance coverage that you may have had during your working years. Individually owned term coverage can generally be renewed or potentially converted, but not indefinitely. That's why permanent life insurance becomes even more important in later retirement.

Does your retirement plan allow you the flexibility to leave something for your family or favorite charity while still enjoying your retirement assets?

Legacy goals. Leaving something behind for your loved ones or a favorite charity when you pass on becomes an increasingly important goal for many people later in life. And permanent life insurance can help you do this, no matter what happens to your investments or retirement nest egg. This can provide peace of mind and allow you to enjoy your other assets and put them to use generating a comfortable lifelong income.

Note: The earlier you and your financial professional discuss this strategy, the more affordable it will be to put a plan in place.

Here are some examples of how life insurance can help make the transfer of retirement assets to the next generation easier:

- The death benefit can provide your family with funds to pay income taxes when due on retirement benefits.
- It can help equalize inheritances of taxable assets with those of nontaxable assets.
- Life insurance is also one of the most efficient tools for making a significant charitable gift at death.

Solutions for meeting late-retirement needs and legacy goals

The death benefit from life insurance can play an important role in planning for the loss of a second Social Security income and funding legacy goals.

Permanent life insurance, even with a modest death benefit, can also help you meet legacy goals, especially if term insurance becomes unavailable due to age or premium costs.

Make your retirement all you want it to be.

Interested in the role life insurance can play in securing your retirement? Principal® and your financial professional can offer the right solutions for your specific needs. Remember: Generally, any life insurance solution is better than none. And since the cost of life insurance is primarily determined by the age and health of the person being insured, the sooner you get started, the better.

We look forward to helping you make your retirement the best it can be.

[1] 2023 Principal Financial Group Business Owner Insights Survey, conducted by Dynata.

[2] Not all conversion options are the same. While most term policies offer a conversion option in some form, it is important to be aware of how long the conversion option is available and which products are available through the conversion.

[3] When a business owns life insurance and endorses part of the death benefit to an employee or owner, the income tax impact can be minimal if it is structured correctly.

[4] The ability to contribute to a Roth IRA in 2023 phases out for those with modified adjusted gross income of $138,000-153,000 (single) or $218,000-228,000 (married filing jointly). irs.gov/retirement-plans/amount-of-roth-ira-contributions-that-you-can-make-for-2023

[5] See IRC Sec. 72(e)(5).

[6] As an example, it would take $185.13 in today's dollars to have the same buying power as $100 had 25 years ago. bls.gov/data/inflation_calculator.htm

[7] Certain products correlate to the markets less than others. If the policy is a variable universal life or indexed universal life product, the impact of market volatility on cash values would need to be taken into account.

[8] Under Section 1035, a life insurance policy can be exchanged in whole or in part for an annuity without triggering taxable gain. However, it is important to note that annuity payouts are taxed differently than withdrawals from a life insurance policy. See IRC Sec. 72(b).

[9] Depending on the income option selected.

[10] For a married couple at full retirement age or later, Social Security generally provides the surviving spouse a benefit of the greater of the deceased spouse's benefit or the surviving spouse's own benefit (see SSA.gov).

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