Individual retirement with life insurance

Spread out your tax risk.

In retirement, it's important to maximize your cash flow so that you can afford to maintain your lifestyle. One way to do this is by minimizing taxes through diversification.

What is diversification?

Tax diversification is a strategy where you hold assets that have different tax treatments. It creates flexibility so you can receive income in a way that helps minimize taxes. Retirement assets are generally taxed in one of three ways:

Taxed up-front

- Contributions/premiums are after-tax
- No tax on growth
- No tax when withdrawn

Examples: Cash value life insurance and Roth IRA

Taxed as it grows

- Contributions are after-tax
- Growth is taxed
- No tax when withdrawn

Examples: savings account, Certificate of Deposit, Money Market, and mutual fund

Taxed when you take income

- Contributions are tax-deductible
- No tax on growth
- Taxable when withdrawn

Examples: 401(k) account, traditional IRA, and 403(b) account

By diversifying among financial products, you have flexibility to take income in the most tax-friendly way and potentially lower your tax bill in retirement.

The benefits of diversifying with cash value life insurance

Security for your family. Income tax-free death benefit[1] for your beneficiary

Growth potential. Cash value grows tax-deferred so it builds faster.

No income-based funding limits. Save more because there's no income restriction limiting how much you can pay into your policy.

No age-based penalties. You may take distributions from your policy prior to age 59 ½ without IRS penalty.[2]

Greater tax diversification. Distributions are received income tax-free[3], offsetting other taxable income.

A hypothetical example

Let's say you have a 401(k) account and a Principal® cash value life insurance policy and now you're in retirement. You plan to withdraw $100,000 this year and your tax bracket is 25%. Here's what the withdrawal might look like using two different strategies:

STRATEGY 1

Using 401(k) account money only

401(k) account	
Withdrawal amount	$100,000
Tax amount	- $25,000
Retirement income =	$75,000

STRATEGY 2

Using a tax-diversified strategy

	401(k) account		Cash value life insurance policy
Withdrawal amount	$50,000		$50,000
Tax amount	- $12,500		- $0
Retirement income =	$37,500	+	$50,000

In this example, tax diversification provided **$12,500 more** than the 401(k) strategy.

Total retirement income = $87,500

Hypothetical example for illustrative purposes only. This does not represent the performance of any particular insurance or financial product. Your actual results will vary and may be more or less favorable. Withdrawals and loans from life insurance policies may decrease the amount of death benefit and cash accumulation value.

With its tax-free income potential, adding life insurance to your portfolio may help you lower your tax bill in retirement. Your financial professional will help you create your personal diversification strategy.

[1] In exchange for the death benefit, life insurance products charge fees such as mortality and expense risk charges and surrender fees.

[2] If the life insurance policy is a MEC, withdrawals prior to age 59 ½ may be subject to a 10% IRS penalty.

[3] Withdrawals are generally tax-free until cost basis has been recovered. Thereafter, policy loans are generally tax-free unless the policy lapses. Withdrawals and loans will reduce the policy cash surrender value and net death benefit and may cause the policy to lapse. Lapse of a life policy may cause loss of death benefit and adverse income tax consequences. A life insurance policy classified as a modified endowment contract (MEC) will have less favorable tax treatment during the life of the insured compared to other life insurance (non-MEC policies). Such tax treatment would be similar to tax treatment of a deferred annuity.

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