

Individual retirement using life insurance



# Help your clients do more in retirement.

Marketing guide

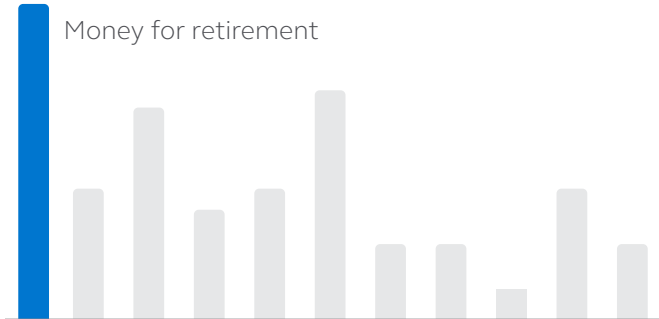


# Meet the needs of a growing market.

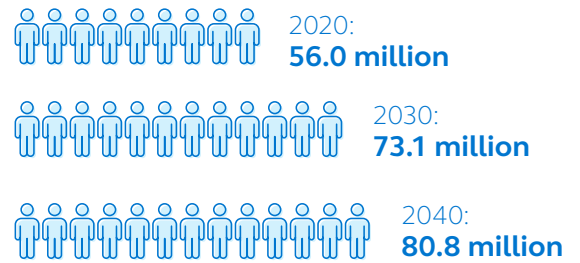
The retirement income landscape is changing. There are fewer pension plans and much uncertainty about Social Security, tax legislation, and market performance.

The ability to maintain a comfortable standard of living is on Americans' minds, as more and more of them head towards retirement.

## #1 Financial concern of Americans<sup>1</sup>



## Number of retirees<sup>2</sup>



<sup>1</sup> 2023 Insurance Barometer Study, LIMRA

<sup>2</sup> Projected Age Groups and Sex Composition of the Population: Main Projections Series for the United States, 2017-2060, released September 2018. U.S. Census Bureau, Population Division: Washington, DC.

## What does all of this tell us?

It's a crucial time in the retirement income market—and you play a big role in helping pre-retirees get prepared. In this guide, we'll cover how to:

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### Ready to get started?

We're here to help. Get the resources and support you need to help your clients build a brighter future.



## Who you should talk to

It's a big market, but there are certain characteristics to look for. A good prospect is:

- Business owners, key employees
- In need of life insurance coverage
- Age 30-55 and has at least 10 years until retirement
- In good health
- Limited by or has no access to a qualified plan
- Looking to diversify their tax portfolio

# Introduce your clients to an attractive retirement asset.

Do your clients view life insurance as a valuable asset or as just another expense to be paid? Many aren't aware that life insurance can be an important part of a diversified retirement strategy providing valuable death benefit protection<sup>3</sup> for their family, plus unique attributes and tax treatment.

Consider what makes life insurance different from other top retirement assets in key areas:

	401(k)/ Traditional IRA	Roth IRA	Taxable Investment	Life Insurance <sup>4</sup>
<b>Tax-deductible contribution</b>	●			
<b>No tax on asset growth</b>	●	●		●
<b>No tax on money withdrawn</b>		●		●
<b>Withdrawals available prior to age 59 ½ without penalty</b>		● <sup>5</sup>	●	●
<b>No required minimum distribution</b>		●	●	●
<b>No income-based funding limit</b>			●	●
<b>Income tax-free to heirs</b>		●	●	●
<b>Contribution/premium made for participant/insured due to disability</b>				●

This table depicts only federal tax treatment. It is not intended to compare the features, fees, expenses, or benefits of specific products.

<sup>3</sup> In exchange for the death benefit, life insurance products charge fees such as mortality and expense risk charges and surrender fees.

<sup>4</sup> Assumes policy is not a Modified Endowment Contract (MEC) and has a waiver of premium/monthly charges rider.

<sup>5</sup> Contributions made can be withdrawn penalty-free. However, earnings withdrawn may be subject to penalty and tax.

## Help your clients bolster their retirement portfolio.

Adding a life insurance policy can help them save more, diversify taxes, and provide a contingency plan to keep savings intact.

# Start the conversation.

## 1 Understand the goals by asking questions.

- At what age would you like to retire?
- What are the things you would like to do in retirement?
- How much income would you like to have in retirement?

## 2 Determine the Retirement Wellness Score.

Identify assets set aside for retirement. Include Social Security as a source of guaranteed income. Add any personal savings they have in place, such as:

- Employer-sponsored retirement plans
- Personal savings
- Mutual funds, stocks, or bonds

Then, use the interactive retirement wellness planner at [principal.com/yourfuture](https://principal.com/yourfuture). A score “in the green” means the savings plan is on track. Yellow or red means your client has some work to do yet.

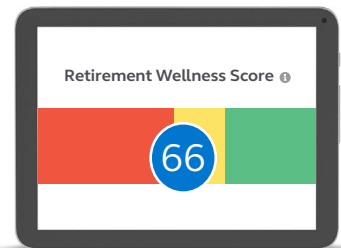
## 3 Discuss the options.

How could your client improve their score? They could save more or work longer. Or, they might add a cash-value life insurance policy which can help to:

- meet the retirement income needs of their spouse should they die before retirement,
- provide a tax-free income stream in retirement,<sup>6</sup>
- diversify their tax portfolio,
- offer a liquid source of funds for expenses due to a chronic illness, and
- self-fund in the event of a disability.

### Common goals

- Meeting basic expenses
- Living a desired lifestyle
- Leaving inheritances and/or charitable donations



### Your clients may benefit from other Principal® products for retirement.

- Annuities
- Individual disability insurance
- Mutual funds

<sup>6</sup> 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.

## Focus on understanding your client’s needs.

Then, leverage the tools and resources available to drive your conversations about the options available.

# Three retirement income strategies



Proper retirement income planning takes into consideration things that could jeopardize a secure retirement, including taxes, market volatility, and access of guaranteed income early. Life insurance can be used in strategies that can help clients meet these challenges.

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## Tax diversification

Create more diversified tax treatment of retirement income.

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## Down market buffer

Provide a non-correlated income alternative when the market declines.

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## Social Security bridge

Maximize Social Security payouts by waiting to take benefits at a later age.

# Tax diversification

Tax diversification is a strategy based on holding assets with different tax treatments to make sure that not all retirement income has the same income tax impact.

By diversifying among retirement assets, clients have the flexibility to take income in the most tax-friendly way and potentially lower their tax bill.

## A hypothetical example

Assume you have a client in the following scenario:

- Is in retirement and plans to withdraw \$100,000 from retirement assets for the year
- Has both a 401(k) account and a cash-value life insurance policy
- Is in a 25% tax bracket

**Here's what the withdrawal could 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
<hr/>	
Retirement income =	\$75,000

For illustrative purposes only

### STRATEGY 2

Using a tax-diversified strategy

#### 401(k) account

Withdrawal amount	\$50,000
Tax amount	- \$12,500
<hr/>	
Retirement income =	\$37,500

#### Life insurance policy

Withdrawal amount	\$50,000
Tax amount	- \$0
<hr/>	
Retirement income =	\$50,000

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

**Total retirement income = \$87,500**

## Show your clients the value of tax diversification.

Adding life insurance to their portfolio can result in more retirement income for them and their families, and less going to the IRS.

# Down market buffer

A secure retirement depends not only on a plan for accumulating assets, but also a strategy for distributing them so savings can last throughout retirement.

When retirement assets are invested in the market, clients face a risk of their savings being eroded by market declines as they take distributions. While your clients can't control the market, they can control the types of assets they hold. With cash-value life insurance as part of a diversified retirement portfolio, they have an additional option to draw from when the market is down. This can help prevent outliving retirement savings.

## Here's how it works

Assumptions in the following hypothetical example:

- Retirement portfolio of \$1 million
- 65 years old and ready to retire
- Needs \$30,000 supplemental income per year
- Pays 25% income tax
- Hypothetical rates of return shown in the table on the following page

## Scenario 1

### Traditional retirement portfolio

In years where the market declines, taking a withdrawal is like selling low. It effectively locks in the loss and doesn't give the portfolio an opportunity to recover before the next withdrawal.

In this example, \$40,000 is withdrawn to net the \$30,000 needed after taxes.

➤ **Portfolio balance of \$515,752 after 10 years**

## Scenario 2

### Diversified retirement portfolio with life insurance

Distributions are taken like normal when the market is up, but when the market declines, take distributions from the life insurance policy the following year. It provides a buffer against the down market and helps to avoid having to sell low, so the portfolio has time to recover.

In this example, a \$500,000 IUL policy was purchased at age 50, with annual premiums of \$12,500 for 15 years,<sup>7</sup> as shown on the following page. A policy loan of \$30,000 is used three times in years following a down market. Since policy distributions are tax-free, the \$30,000 is equivalent to the \$40,000 taken from the taxable asset.

➤ **Portfolio balance of \$672,420 after 10 years**

### Scenario 2 delivers \$156,668 more.

Using life insurance when the market is down retains **\$156,668** of the traditional retirement portfolio.

Plus, the client also has an additional death benefit and accumulated value left on the table.

<sup>7</sup> Assumptions: Principal Indexed Universal Life Accumulation II policy, \$500,00 face amount, male, age 50, preferred non-tobacco, \$12,500 annual premium.



## Scenario 1 | Traditional retirement portfolio

Year	Hypothetical rate of return	Amount withdrawn	Year-end portfolio balance
1	-13.04%	\$40,000	\$834,816
2	-23.37%	\$40,000	\$609,067
3	26.38%	\$40,000	\$719,187
4	8.99%	\$40,000	\$740,246
5	3.00%	\$40,000	\$721,253
6	13.62%	\$40,000	\$774,040
7	3.53%	\$40,000	\$759,952
8	-38.49%	\$40,000	\$442,842
9	23.45%	\$40,000	\$497,308
10	12.78%	\$40,000	<b>\$515,752</b>

**Adding life insurance to the retirement savings portfolio pays off. In this example:**

Scenario 1 = \$515,752  
(year 10 value)

Scenario 2 = \$672,420  
(year 10 value)

The portfolio balance is **increased by more than \$150,000 by using life insurance** as another income source.

## Scenario 2 | Diversified retirement portfolio with life insurance

Policy loans taken the year after market decline.

Retirement account			Principal IUL				
Hypothetical rate of return	Amount withdrawn	Year-end portfolio balance	Policy year	Annual premium	Death benefit	Loan	Accumulated value
-13.04%	\$40,000	\$834,816	1 - 15	\$12,500	\$500,000	\$0	\$8,657 (yr 1)
-23.37%	\$0	\$639,720	16	\$0	\$500,000	\$0	\$228,831
26.38%	\$0	\$808,478	17	\$0	\$469,100	\$30,000	\$210,361
8.99%	\$40,000	\$837,564	18	\$0	\$437,273	\$30,000	\$190,638
3.00%	\$40,000	\$821,491	19	\$0	\$435,391	\$0	\$201,514
13.62%	\$40,000	\$887,930	20	\$0	\$434,198	\$0	\$213,032
3.53%	\$40,000	\$877,862	21	\$0	\$443,524	\$0	\$225,245
-38.49%	\$40,000	\$515,369	22	\$0	\$453,391	\$0	\$238,182
23.45%	\$0	\$636,223	23	\$0	\$463,757	\$0	\$251,818
12.78%	\$40,000	<b>\$672,420</b>	24	\$0	\$442,105	\$30,000	\$234,239
			25	\$0	\$450,971	\$0	\$247,295

For illustrative purposes only

## 🔗 Stretch retirement income with life insurance

Strategic withdrawals from life insurance in the year following a market loss helps minimize the impact of the decline on your clients' retirement savings.

# Social Security bridge

The timing of when your clients start receiving Social Security impacts how much they receive in a monthly maximum benefit. The longer they wait, the greater the monthly benefit, which can make a significant difference over their lifetime.

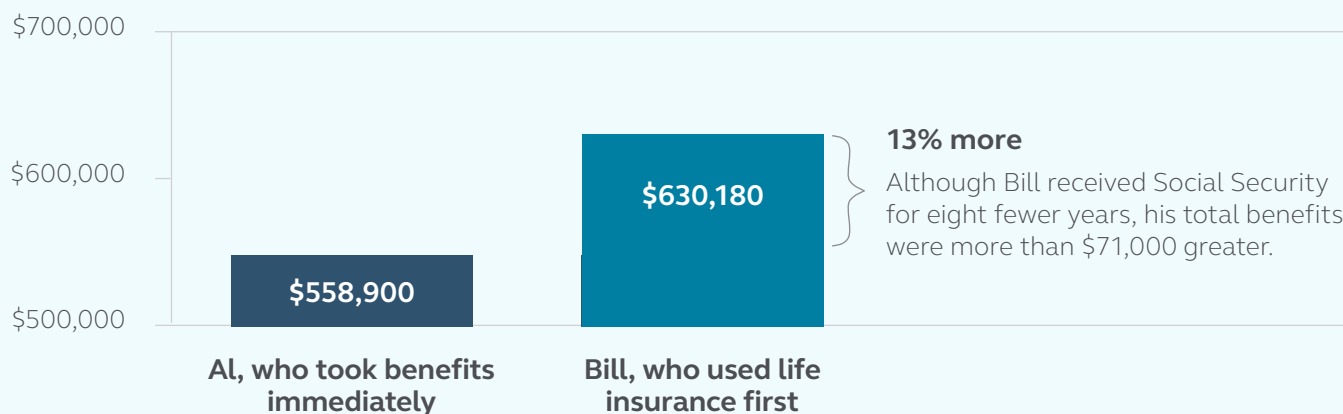
## Consider twins Al and Bill and how life insurance as a Social Security bridge makes a difference.

- Both retire at age 62 and are eligible for the maximum Social Security benefit.
- Al elects to receive Social Security immediately and gets a benefit of \$2,025 per month.
- Bill defers his Social Security benefit to age 70 at which time he receives \$3,501 monthly. To make up the difference for the Social Security he's not receiving, he takes distributions of \$2,025 a month from his cash-value life insurance policy from age 62 to 70.

Benefit age	Monthly maximum benefit
62	\$2,025
67	\$2,663
70	\$3,501

## Lifetime Social Security benefit

Received prior to death at age 85



For illustrative purposes only

## Help maximize Social Security benefits.

Use a life insurance policy to provide income in early retirement and defer Social Security until later, creating more income over a lifetime.

# Offer a valuable option.

Now that you've seen some ways that cash-value life insurance can help your clients up to and through retirement, it's time to put it all together. Give them a turn-key supplemental retirement solution called the Power of 3. This unique concept can help boost your sales when you:

Shorten the underwriting process on the front-end.

## 1 Principal Accelerated Underwriting<sup>SM</sup>

Offer clients the speed and convenience of our innovative program.

- No medical exams or blood work required.
- Medical questions asked for you via an online or telephone interview.
- Underwriting decisions in as little as 24 hours and payment in 10 days or less.

Provide a choice of accumulation products designed to meet any risk tolerance.

## 2 Accumulation-focused life insurance

Talk about the cash value advantage.

- **Competitive product choices:**
  - › Variable universal life offering market-based performance
  - › Indexed universal life featuring index-linked potential
  - › Universal life with fixed rate growth and protection from market volatility
- **Tax-favored benefits:**
  - › Tax-free survivor benefit
  - › No income taxes on accumulation or distribution
  - › No penalty for pre-age 59½ withdrawals
  - › No income-based funding limits

Note: Over-fund the policy to maximize potential. Rule of thumb = \$1,000 premium x client's age.

Simplify auto income process on the back-end.

## 3 Automated income

Benefit from “set it and forget it” process.

- **Easy.** Income received as frequently as monthly with completion of a single form.
- **Efficient.** Automated events to help your clients get the most from policy distributions:
  - › Death benefit option switches from increasing to level to maximize income amount.
  - › Withdrawal method changes from surrenders to loans when cost basis is gone to prevent an unwelcome Form 1099.
  - › Amount re-calculates annually to ensure target-ending cash value goal is met.
- **Ends properly.** Over-loan protection automatically triggers to provide a safety net against policy lapse and resulting tax liability.

<sup>8</sup> Accelerated Underwriting is an expedited underwriting program offered by Principal Life Insurance Company that eliminates paramed exams and lab tests for 45-55% of applicants who qualify. Applicants may qualify based on age, product, face amount, and personal history, and must be approved at a Standard or better underwriting classification without the use of any other special underwriting programs or reinsurance. To monitor quality and ensure solid mortality results, a small, random sample of applicants who qualify for Principal Accelerated Underwriting will go through full, traditional underwriting.

## 💡 Stand out in the retirement income market.

Offer an easy, simplified approach with unique services and high-value products.

 Let's connect

**Still want more?** Contact the National Sales Desk at 800.654.4278.



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