LIFE INSURANCE IN RETIREMENT PLANNING (“LIRP”)

For many people, planning for retirement has become one of their biggest financial priorities and one of their greatest financial challenges. Many people fear that Social Security and company-sponsored pension plans will not provide sufficient income for their retirement goals. As a result, they recognize the need to save as much money as possible to supplement their retirement.

Ordinarily, qualified plans such as a 401(k) (see pages 260 – 263) or a 403(b) (see pages 264 – 267) are an excellent way to save for retirement, but these plans are only available if your employer offers one. And, if offered, these plans have contribution limitations which may not meet your full savings needs. IRAs (see page 435) and Roth IRAs (see page 524) both offer additional qualified savings opportunities, but they have their own limits (dollar amounts and income levels) to participate or deduct. Ultimately you may still need to put away more money.

Especially with today’s ordinary income and capital gains tax rates at higher marginal rates than in recent memory, people are often looking for ways to help them supplement their retirement savings after they have fully funded their available qualified plans and IRAs. For these people, life insurance may be a solution. During your working years, the life insurance policy death benefit can protect your family and replace income that would otherwise be lost should something happen to you. At retirement, you can usually access the policy cash value via tax-favored loans and withdrawals.

Life Insurance in Retirement Planning, sometimes referred to as Life Insurance Retirement Plans, 401k Alternative or Supplement Income, is a simple means of self-funding your retirement needs. It is not a qualified plan and is not backed by the federal government. A LIRP arrangement simply requires the purchase of a permanent life insurance policy on your life on which you will pay the premiums with after-tax dollars.

The life insurance policy will provide a death benefit that will ordinarily be received by the beneficiary on an income tax-free basis. This can help protect a family during a client’s working years. Because a permanent life insurance policy also has the potential to develop a cash value, which will grow on a tax-deferred basis, you may access any potential policy cash to supplement your retirement income via tax-favored loans and withdrawals. Life insurance offers many benefits, including the potential to increase the amount left to heirs. Because life insurance cash surrender values grow tax-deferred, the policy cash surrender values are not reduced by ordinary income or capital gains taxation.

.For Example.



**SE STUDY**

**Jane Smith**, Female, Preferred Non Smoker, Age 40, 28% Tax Bracket,

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| **Year** | **Approximate Annual Premium** | **Cumulative Amount Received from Policy** | **Approximate Cash Surrender Value** | **Approximate Death Benefit Net of Loans/Withdrawals** |
| 1 | $4,500 | $0 | $637 | $153,650 |
| 10 | $4,500 | $0 | $50,400 | $200,500 |
| 20 | $4,500 | $0 | $155,600 | $305,600 |
| 26 | $0 | $20,000 | $233,750 | $350,650 |
| 30 | $0 | $100,000 | $208,100 | $270,650 |
| 40 | $0 | $300,000 | $112,400 | $128,300 |

The figures used in this case study are hypothetical, for discussion purposes only, are not guaranteed and may not be used to project or predict results. Actual results may be more or less favorable. Specific product and policy elements would be found in a policy illustration provided by an insurer. With any decision regarding the purchase of life insurance, a client would need to determine which type of life insurance product is most suitable for their specific needs

1. Life insurance death benefit proceeds are generally excludable from the beneficiary’s gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration. Please consult your professional tax advisor.

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seek advice based on his or her particular circumstances from independent professional advisors.

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| **INSURANCE PRODUCTS:** | | | |
| **Not FDIC Insured** | | **Not Bank Guaranteed** | **May Lose Value** |
| **Not a Deposit** | **Not Insured by Any Government Agency** | | |