Top 10 Reasons

Lafayette Life Insurance Company
A member of Western & Southern Financial Group

Why Owning Whole Life Insurance in Retirement May Make Good Financial Sense

1. **Freedom to spend other assets in retirement:** Worried about robbing their heirs of an inheritance upon passing, some senior citizens spend too little in retirement. The death benefit provided to life insurance beneficiaries (typically tax-free income) helps give retirees the ability to spend other assets and potentially leave a legacy for loved ones and the necessary funds to pay the retiree's final expenses.

2. **Increase social security benefits for self and others:** The accumulated cash value within a whole life insurance policy can be accessed to help supplement retirement income while delaying filing for social security benefits until the age at which benefits to both the worker and the worker's survivors can be maximized. Taking social security earlier directly affects survivor benefits for life, and there are no "do overs."[1]

3. **Tax diversification:** The tax deferral of life insurance cash value can allow taxpayers to diversify among other assets they own that are currently taxable and reduce current taxable income that isn't needed, which potentially reduces taxation of social security benefits and exposure to the Medicare surtax on net investment income for higher income taxpayers.[2]

4. **Asset allocation:** Whole life insurance is not subject to market risk, which can allow for riskier equity-based investments to continue to be part of a retiree's portfolio as a hedge on inflation, but not in such a heavy concentration that it exposes the retiree to unnecessary market risk.

5. **Cash reserve for emergencies:** A recent survey of pre-retirees and retirees revealed that some were not prepared to address unexpected health care costs and home repairs.[3] Depending on how it's funded, cash value can accumulate within a policy and, generally, be accessed tax free through loans and withdrawals to help cover such emergencies.[4,5] There's no bank loan or line of credit issues involved. The life insurance policy remains in force until it is surrendered, lapses, reaches its stated maturity date or the insured dies, whichever comes first as long as you continue to make required premium payments.

6. **No required minimum distributions:** Unlike qualified money in retirement plans or IRAs, there are no required minimum distributions from life insurance policies funded with after-tax dollars, giving retirees more choice about when to access cash value in a life insurance policy, if needed to help supplement retirement income.[4]

7 **Accelerated death benefit rider for when "life happens":** Most people don't want to think about their own demise; it's depressing. Even more depressing is the idea of having a long illness prior to our eventual demise. However, being able to access part of the death benefit of a life insurance policy while still living may provide a family with some peace of mind and relief from substantial out-of-pocket medical expenses at a very difficult time.[6]

8 **Supplement to college savings funds:** In addition to providing an emergency cash reserve, the accumulated cash value in life insurance or the death benefit can also be used to help pay for expected expenses, such as a college education for children and grandchildren without it affecting the college student's financial aid. Unlike 529 college savings plans, money in a life insurance policy is not counted as a parental or student asset. By making planned, scheduled withdrawals from a life insurance policy, families can better prepare for college, if financial aid falls short.[4]

9 **Potentially, no contribution limits:** Once contribution limits to tax-deferred (e.g., 401(k), traditional IRA) or even tax-free accounts (e.g., Roth IRA) have been reached, life insurance can provide another means to save money for retirement without IRS contribution or income limits. The only limits to the amount people can pay into a life insurance policy are the modified endowment contract limits, which may be far more generous than tax-qualified accounts and underwriting limits.

10 **No pre-age 59½ 10% tax penalty:** Assets that are left to accumulate in a whole life insurance policy not only are tax-deferred, but can be taken out income tax free at any time without penalty.[4] There is no need to wait until age 59½ or for one of the other exceptions to apply to avoid having a 10% penalty tax imposed as with tax-qualified accounts. This allows retirees to better time withdrawals from tax-qualified accounts when they will only be paying straight income taxes. People love flexibility and dislike being penalized for accessing their money when it's needed!

To learn more about how Lafayette Life whole life insurance may help meet your needs, contact your financial representative today.

1 A customer should consider his or her specific situation regarding receiving early Social Security benefits. The decision when to take benefits is highly individualized based on health, income and other assets. Clients should seek the advice of a social security expert before making any irrevocable decisions. Please go to SSA.gov for more information.

2 Payment of benefits under the life insurance policy is the obligation of, and guaranteed by the issuing life insurance company. Withdrawals and surrenders are tax-free up to the cost basis, provided the policy is not a modified endowment contract (MEC). If a policy is a MEC, there could be tax consequences for accessing the cash value and a 10% federal tax penalty may apply to any withdrawals prior to age 59½. Withdrawals may be subject to charges. Neither Lafayette Life, nor its agents, offer tax or legal advice. For specific tax information, consult your attorney or tax advisor. Interest rates are declared by the insurance company at annual effective rates, taking into account daily compounding of interest. Product feature and availability, as well as benefit provisions, vary by state. See your financial professional for products details and limitations.

3 Society of Actuaries: 2021 Risks and Process of Retirement Survey, February 2022.

4 Loans will accrue interest. Loans and withdrawals may generate an income tax liability, reduce account value and the death benefit, and may cause the policy to lapse. Sufficient premium and account value are necessary to cover insurance costs and charges.

5 Tax free assumes the policy is not a Modified Endowment Contract, the withdrawals do not exceed cost basis, and the policy does not lapse.

6 Payment of Accelerated Death Benefits, if not repaid, will reduce the death benefit and affect the available loan amount and other policy values. An advance is treated as a lien against the policy and will reduce the death benefit payable and affect the availability loan amount and other policy vales if not repaid. The advance will accrue interest each year. The lien may be increased if necessary to keep your policy in effect. A fee may be charged for an advance payment. The accelerated death benefit will terminate the policy. Receipt of accelerated death benefit payments may adversely affect the recipient's eligibility for Medicaid or government benefits or entitlements and cause a taxable event. They may also be considered taxable by the Internal Revenue Service. You should contact your personal tax advisor for assistance.

Loans, withdrawals and advances will reduce the death benefit and cash surrender value and may cause the policy to lapse. The lapse or surrender of a policy with an outstanding loan may result in taxable income.

Life insurance is not intended to be used as a savings product, retirement plan or investment vehicle. Lafayette Life's role is strictly limited to providing life insurance policies and annuity contracts. Any other services a Lafayette Life independent agent provides to applicants and policyholders, including but not limited to financial planning, estate and retirement planning, tax planning or investment planning, are not provided on behalf of Lafayette Life.

Life insurance products are not bank products, are not a deposit, are not insured by the FDIC or any other federal entity, have no bank guarantee, and may lose value.
The Lafayette Life Insurance Company, Cincinnati, Ohio, operates in DC and all states except NY.

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The Lafayette Life Insurance Company
400 Broadway
Cincinnati, OH 45202-3341
LafayetteLife.com