WELLS FARGO Advisors

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"Insurance Solutions: Using life insurance as a source of supplemental retirement income" Video Transcript

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Many high-income earners contribute the maximum to their employer provided retirement plan every year yet are still not confident they will have the retirement income to maintain their desired standard of living. They may also be concerned that their retirement income will keep them in the top tax bracket. A strategy incorporating life insurance could be the answer.

Though best known for helping meet death protection needs, due to its unique tax treatment, life insurance can also provide an additional way to save for retirement, through tax-deferred growth of its cash value.

Here are three scenarios to help demonstrate how it could work. For this example, let's assume the goal is $250,000 in yearly income in retirement.

In scenario one, after maximizing contributions to your 401k and taking advantage of your employer's match—you could potentially take all your retirement income from tax-deferred assets. But assuming you will be in the 24% marginal tax bracket—you will need to withdrawal significantly more to net $250,000 in income.

In scenario two, you could take less from tax-deferred assets to lower your marginal tax rate to 22%. And then draw from taxable accounts (assuming a 15% capital gains tax rate) to make up the rest of the needed income—lowering your overall tax liability.

In scenario three, adding withdrawals from tax-advantaged accounts can help further manage your tax liability in retirement. A Roth IRA can provide a tax-advantaged source of retirement income, but because of income restrictions, you may be limited in what you can contribute. Life insurance is another option, especially if you are not planning to retire for ten or more years and need death benefit protection.

Here's how it works:

You fully fund the policy with your premiums.

Over time, your cash value accumulates tax-deferred.

Once you reach retirement you can access the cash value through loans and withdrawals (typically income-tax-free) to supplement retirement income when you need it.

And, at your death, the remaining life insurance death benefit net of loans and withdrawals will be paid, typically income-tax-free, to your beneficiaries.

Using life insurance to supplement your retirement income you could potentially pay less in taxes versus the other two scenarios—helping you keep more of what you save.

To learn more about how this strategy might fit into your protection and retirement income plans talk to your financial advisor.

[**Image on screen:** For more information contact your financial advisor]

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Wells Fargo Advisors does not provide tax advice. Whether any planned tax result is realized by you depends on the specific facts of your situation at the time your taxes are prepared.

Death benefits generally are not subject to income taxes but may be subject to income taxes in certain cases. Policy owners should consult with legal counsel prior to assigning the ownership rights in life insurance policies.

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