When do your clients want to pay taxes?

The primary purpose of life insurance is to provide death benefits to create financial security. But the cash value component of many life insurance policies can provide additional advantages and opportunities.

For more information, contact your financial professional.

Essentially, every dollar that goes towards your client's retirement goes through three phases:

1. The client puts money in
2. The money grows and
3. The client takes the money out

With regard to those three phases, there's good news and bad news to consider.

- The bad news is that the IRS will require the client to pay taxes during at least one of these three phases.
- The good news is that the CLIENT gets to decide which one.

With that in mind, in a successful retirement strategy, consistent long-term growth means that your client(s) assets continue to grow through each phase. Therefore, what your client puts in should be the smallest. As it grows it should be worth more at the end of the accumulation phase. And with continued potential growth the amount the client is able to take out should be even more.

Now that the client knows the choice is theirs – that they can choose to pay taxes on the money they put in, the growth or the money they take out – which would they prefer?

[Most people will answer: "I choose to pay tax on the smallest number, the money I put in."]

Life Insurance has tax benefits and other advantages

- ✓ Income-tax-free death benefit for beneficiaries[1]
  - In addition to everything you withdraw and borrow from the policy income-tax-free[2,3], the residual net death benefits are generally paid to your clients' beneficiaries income-tax-free.
- ✓ No limit on gross income affecting your ability to contribute premiums
  - There's no such thing as "making too much money to contribute."
- ✓ Tax-deferred accumulation[3]
  - The policy's account value potentially grows income-tax-deferred, so no taxes are paid as it grows each year.
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- ✓ Distributions using loans and withdrawals are income-tax-free when structured properly[2]
- ✓ No 10% penalty tax for accessing policy cash values prior to age 59½ when structured properly[3]
- ✓ No required minimum distributions (RMDs) for owners
- ✓ Self-completing upon death (Death benefit exceeds account value)

1 Life insurance death benefits are generally tax-free for beneficiaries under IRC 101(a), but may under certain situations be taxable in part or whole.

2 Withdrawals during the first 15 years of the contract may be treated as income first and includible in policyholder's income. Distributions will reduce policy values and may reduce benefits. Availability of policy loans and withdrawals depend on multiple factors including but not limited to policy terms and conditions, performance, and fees or expenses.

3 If the policy is classified as a modified endowment contract (see IRC 7702A), withdrawals or loans are subject to regular income tax and an additional 10% tax penalty may apply if taken prior to age 59 ½.

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