

CASE IN POINT:

# Planning For Retirement? Use Life Insurance

To Minimize  
Tax Impacts

RIGHTSURE

It's said that only two things in this world are certain: death and taxes. Life insurance can help ease the burden of both. Life insurance policies provide multiple tax advantages that can be used by policyholders to generate tax-free retirement income and to create a tax-free wealth transfer.

## Create a Tax-Free Wealth Transfer

You want your estate to go to your heirs – not Uncle Sam. Unfortunately, estate taxes levied by federal and state governments can take a big bite out of your estate. If your state has an inheritance tax, your heirs could also be left with a major tax bill.

These taxes can be an issue if you have a large estate or if you live in a state with a low threshold for what can be taxed. Fortunately, Arizona does not have an estate tax, but residents of other states are not so lucky. For example, [Oregon's estate tax](#) applies to estates with a value of \$1,000,000 or more, and the [inheritance tax in Pennsylvania](#) is up to 15 percent on transfers to heirs.

Life insurance provides a way to transfer wealth tax-free. Under [IRS rules for life insurance](#), the death benefit paid to beneficiaries after the death of the insured is typically not reported as gross income and is therefore not taxable.

You can also set up an irrevocable life insurance trust. The trust becomes the owner of the life insurance policy, and in this way, the policy is separate from the estate. This arrangement provides another way to ease the tax burden that can be associated with large estates and to take control of your assets.

Due to these tax advantages, life insurance is an attractive option for anyone who wants to transfer wealth to their heirs without worrying about the resulting tax burden. However, the tax advantages of life insurance don't have to end there.

## Create Tax-Free Retirement Income Stream

Life insurance can provide a source of income during retirement. To understand how life insurance can generate income, it's important to understand some of the different types of life insurance.

- **Term life insurance** is written to provide coverage for a set period of time, or term, and it pays out the death benefit if the insured dies during this time. Although this type of policy does provide tax advantages associated with the death benefit, term life insurance does not build a cash value with additional tax advantages.
- **Permanent life insurance** is written to provide coverage for the entirety of the insured's life, as long as the policy is maintained. Permanent life insurance also builds a cash value that can be accessed by the insured and provides additional tax advantages.



*Life insurance is an attractive option for anyone who wants to transfer wealth to their heirs without worrying about the resulting tax burden.*



When we talk about tax-free retirement income generated by life insurance, we are talking specifically about **permanent life insurance**. However, permanent life insurance can be broken down further into specific types. Two major types of permanent life insurance are whole life insurance and universal life insurance.

- **Whole life insurance** provides guaranteed cash value that grows as you pay fixed premiums.
- **Universal life insurance** provides flexibility with premiums that can be adjusted based on your needs and a cash value that grows based on current interest rates.

**Both policy types provide the opportunity for retirement income with tax advantages.**

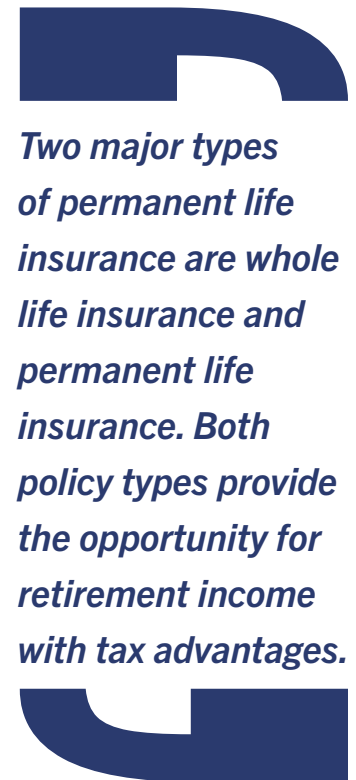
- The cash value accumulation enjoys a **tax-deferred status**. You don't have to pay taxes on the interest earned until you access the cash value.
- You may receive **tax-free dividends**. Some types of policies, specifically certain whole life insurance policies, can pay annual dividends. These dividends are typically tax-free, although taxes will be owed if the dividends exceed the premiums you have paid.
- You can take a **tax-free loan**. You can use the cash value of your life insurance policy to take out a loan. This money can be used for any purpose, and it is usually not taxable. Unlike withdrawals, however, the policyholder is expected to repay life insurance loans.
- Distributions are **not considered income** when calculating Social Security tax.

Although life insurance provides many tax advantages, taxes may be owed under certain circumstances.

For example, if you receive money that exceeds the premiums you have paid – that is, money earned through interest – this amount will be taxable. If you surrender your policy for the cash value, you may owe taxes on any amount you receive that is greater than the premiums you paid.

### **Save without Limits**

One key benefit is how much you can save. Unlike many other investments, premium contributions to a life insurance policy are not subject to the IRS annual contribution maximums. This is particularly attractive for high earners who have maxed-out retirement savings through their 401(k) and other savings vehicles.



*Two major types of permanent life insurance are whole life insurance and permanent life insurance. Both policy types provide the opportunity for retirement income with tax advantages.*

## **Withdraw Money Anytime**

You can make a tax-free withdrawal at any age, on the cash value accumulated. Withdrawals do not have to be paid back, although the death benefit may be impacted as a result. If borrowed, policy cash values can be distributed as retirement income tax-free and are not counted as income for purposes of calculating income taxes on Social Security benefits.

Money can be used for any purpose. Pay for college, buy a retirement home, or cover your daily living expenses.

## **Add Living Benefits**

Many policies provide optional riders which allow you to access the death benefit to cover long-term care or chronic illness expenses.

## **About RightSure Insurance Group**

Headquartered in Tucson, Arizona, RightSure Insurance Group is a full-service independent insurance agency providing insurance products to families and businesses in 42 states. By using a unique, client-centered approach combined with superior technology, RightSure presents clients with a wide range of insurance options and a seamless purchasing process.

To learn more, visit <https://www.rightsure.com> or call 877-917-5295.