

LIF PRO (“Life Insurance Funded Personal Retirement Option”) is an option for clients who are concerned about their retirement savings. One concern is the potential market volatility and loss that can occur in market based accounts, like a 401(k) plan. Another concern is that Social Security and qualified plans will only replace a fraction of their income. These clients are looking for ways to save additional retirement funds in a tax-efficient manner. When properly structured, a life insurance policy can provide valuable supplemental retirement income while also providing death benefit protection for loved ones in case of death.

## Life Insurance as a Retirement Source of Income

Life insurance is the only financial product offering:

- Tax Deferred Accumulation
- Tax-Preferred Distributions
- Income Tax-Free Death Benefit
- No income limitations on the ability to participate

## How LIF PRO Works

1. Client selects the life insurance policy that best suits their objective (death benefits and cash accumulation).
2. Client applies for the policy as owner and insured.
3. If the objective is to emphasize cash accumulation, then the policy’s death benefit is usually established at the lowest possible face amount to minimize costs associated with the policy.
4. Client pays the scheduled premiums for the desired period of time (usually until retirement age).
5. The life insurance policy’s cash values can be accessed to provide supplemental retirement income. Accessing the policy’s cash value is typically income tax free through withdrawals (limited to basis) and policy loans.
6. The named beneficiaries will receive an income tax free death benefit at client’s death.

## Considerations

- The policy’s death benefit must be set at a high enough amount to avoid being classified as a Modified Endowment Contract (“MEC”). An MEC does not allow income tax-free distributions.
- Any outstanding policy loans in excess of basis are taxable to the policy owner if the policy lapses. (IRC Section 72.)
- The policy should not be owned by an ILIT so the insured can access the cash value of the policy. If the policy were owned by an ILIT, the insured’s ability to access policy cash value would cause the death benefit to be subject to federal estate tax.

## Essentially

LIF PRO uses life insurance cash values as a supplemental source of retirement income. If properly structured, a life insurance policy can play an important role in retirement and provide a valuable benefit for loved ones in case of death.

