



# USING LIFE INSURANCE AND ANNUITIES TO MITIGATE RISK IN RETIREMENT

For Financial Advisors  
and Independent Reps

# USING LIFE INSURANCE AND ANNUITIES TO MITIGATE RISK IN RETIREMENT

During a client's accumulation phase, an investor can usually withstand and maneuver stock markets' ebbs and flows. But at retirement, a new challenge begins as their planning resets. As clients retire with their pool of accumulated retirement assets, the distribution phase starts, and the biggest obstacle to success often depends on how the markets perform. If clients happen to retire in a stable or up market, clients can usually retire successfully even with limited planning. However, if clients retire in a down market, without proper planning and the help of a financial advisor they can face multiple issues, including sequence of returns risk during the early years of retirement which can erode retirement savings and potentially force a retiree back into the workforce.

Other risks to retirement include:

1. LONGEVITY
2. HEALTH
3. INFLATION
4. INCOME
5. TAXES

Quantum has frequently discussed the four phases of an investor's lifecycle, the critical protection and distribution phases for investors planning for retirement, and how annuities can help mitigate certain risks in retirement.

But another tactic that should be given serious consideration is the introduction of permanent life insurance to the financial plan during the accumulation phase of the investor's lifecycle.

Let's examine how permanent life insurance with a focus on cash value should be used as an asset class during the accumulation phase to help mitigate risk in retirement.

## IDEAL CLIENT:

- IS 35-55 YEARS OF AGE.
- IS ALREADY FUNDING TRADITIONAL RETIREMENT OPTIONS (IRAS AND 401(K)S)..
- WANTS A HOLISTIC FINANCIAL PLAN FOR RETIREMENT TO MITIGATE UNFORESEEN OBSTACLES.

## BENEFITS OF PERMANENT CASH VALUE LIFE INSURANCE:



Has a death benefit to protect the family during the accumulation phase.



Builds cash value.



An asset class with special tax treatment.



Will provide a larger legacy if not depleted during retirement.

# SEQUENCE OF RETURNS RISK IS ALL ABOUT TIMING

## Two Scenarios with Exactly the Same Returns—In Reverse Order

- In both scenarios, the retiree is 65 years old and retires with \$1 million.
- In both scenarios, the retiree withdraws 4% per year plus a 3.5% annual increase for inflation each year through age 87.
- Scenario 2 shows the actual S&P 500 Index stock market returns from the years 2000 thru 2022. Scenario 1 simply inverts and reverses those same returns, starting with the 2022 S&P 500 Index return.

### Scenario 1:

AGE	RETURN	WITHDRAWAL	ENDING PORTFOLIO VALUE
			\$1,000,000
65	-19.44%	\$40,000	\$765,572
66	26.89%	\$41,400	\$930,055
67	16.26%	\$42,849	\$1,038,423
68	28.88%	\$44,349	\$1,293,951
69	- 6.24%	\$45,901	\$1,167,343
70	19.42%	\$47,507	\$1,346,533
71	9.54%	\$49,170	\$1,425,755
72	- 0.73%	\$50,891	\$1,364,504
73	11.39%	\$52,672	\$1,467,257
74	29.60%	\$54,516	\$1,847,068
75	13.41%	\$56,424	\$2,038,239
76	0.00%	\$58,399	\$1,979,792
77	12.78%	\$60,443	\$2,172,420
78	23.45%	\$62,558	\$2,619,386
79	- 38.49%	\$64,748	\$1,546,547
80	3.53%	\$67,014	\$1,534,119
81	13.62%	\$ 69,359	\$1,673,698
82	3.00%	\$ 71,787	\$1,652,139
83	8.99%	\$ 74,300	\$1,726,424
84	26.38%	\$ 76,900	\$2,104,961
85	- 23.37%	\$ 79,592	\$1,533,525
86	- 13.04%	\$ 82,377	\$ 1,251,135
87	- 10.14%	\$ 85,260	\$1,039,020
<b>TOTAL</b>	<b>4.26%</b>	<b>\$ 1,378,417</b>	<b>\$1,039,019</b>

### Scenario 2:

AGE	RETURN	WITHDRAWAL	ENDING PORTFOLIO VALUE
			\$1,000,000
65	-10.14%	\$40,000	\$858,608
66	-13.04%	\$41,400	\$705,223
67	-23.37%	\$42,849	\$497,591
68	26.38%	\$44,349	\$584,509
69	8.99%	\$45,901	\$591,176
70	3.00%	\$47,507	\$561,410
71	13.62%	\$49,170	\$588,701
72	3.53%	\$50,891	\$558,588
73	-38.49%	\$52,672	\$290,939
74	23.45%	\$54,516	\$304,660
75	12.78%	\$56,424	\$287,180
76	0.00%	\$58,399	\$228,774
77	13.41%	\$60,443	\$198,998
78	29.60%	\$62,558	\$195,346
79	11.39%	\$64,748	\$152,849
80	-0.73%	\$67,014	\$84,725
81	9.54%	\$69,359	\$23,444
82	19.42%	\$27,997	\$-
83	-6.24%	\$-	\$-
84	28.88%	\$-	\$-
85	16.26%	\$-	\$-
86	26.89%	\$-	\$-
87	-19.44%	\$-	\$-
<b>TOTAL</b>	<b>4.26%</b>	<b>\$936,197</b>	<b>\$0</b>

#### Scenario 1:

This hypothetical retiree was lucky—the portfolio was able to provide \$1,378,417 in cumulative income withdrawals from age 65 through age 87 while still maintaining \$1,039,019 in portfolio value net of income, even though in the first year of retirement the portfolio had negative returns.

**Adding those two figures together, the total portfolio benefit to the client and heirs finished at \$2,417,436.**

#### Scenario 2:

This hypothetical retiree was unlucky because there were multiple years of portfolio losses in the initial years of retirement. Even though the annualized returns were the same as Scenario 1, the timing of returns prevented this portfolio from being successful.

The portfolio was only able to provide \$936,197.00 in cumulative income withdrawals and the portfolio was completely depleted in 17 years.

**This is what is meant by sequence of returns risk: The timing of returns can affect portfolio income success.**

# INTRODUCING PERMANENT LIFE INSURANCE AND A FIXED INDEX ANNUITY INTO THE FINANCIAL PLAN

## Planning

- Client is 40 years old.
- \$1,000 premium per month for 20 years.
- At age 60, move \$200,000 from AUM to a fixed indexed annuity (FIA) with guaranteed income rider.
- Retire at age 65.
- 4% withdrawal rate starting in retirement.
- 3.5% annual inflation adjustment.
- After first year of negative returns, trigger the FIA lifetime income.
- After each year the AUM portfolio has negative returns, take the AUM income from the IUL policy in the form of a loan.
  - This keeps more money in the investment portfolio and exposed to market returns.
  - Permanent life insurance loans have special tax treatment.

Year	AUM BOY	S&P Return	AUM EOY	INCOME WITHDRAWALS			
				FIA	Portfolio	IUL	Total Income
2000	800,000	-10.14%	682,942	-	40,000		40,000
2001	682,942	-13.04%	593,868	20,668	-	20,732	41,400
2002	593,868	-23.37%	455,105	20,668	-	22,181	42,849
2003	455,105	26.38%	575,164	20,668	-	23,681	44,349
2004	575,164	8.99%	599,388	20,668	25,233	-	45,901
2005	599,388	3.00%	589,731	20,668	26,839	-	47,507
2006	589,731	13.62%	637,665	20,668	28,502	-	49,170
2007	637,665	3.53%	628,882	20,668	30,223	-	50,891
2008	628,882	-38.49%	367,165	20,668	32,004	-	52,672
2009	367,165	23.45%	453,280	20,668	-	33,848	54,516
2010	453,280	12.78%	470,895	20,668	35,756	-	56,424
2011	470,895	0.00%	433,154	20,668	37,731	-	58,399
2012	433,154	13.40%	491,218	20,668	-	39,775	60,443
2013	491,218	29.60%	582,334	20,668	41,890	-	62,558
2014	582,334	11.39%	599,565	20,668	44,080	-	64,748
2015	599,565	-0.73%	549,199	20,668	46,346	-	67,014
2016	549,199	9.54%	601,565	20,668	-	48,691	69,359
2017	601,565	19.42%	657,343	20,668	51,119	-	71,787
2018	657,343	-6.24%	566,056	20,668	53,632	-	74,300
2019	566,056	28.88%	729,522	20,668	-	56,232	76,900
2020	729,522	16.26%	779,631	20,668	58,924	-	79,592
2021	779,631	26.89%	910,990	20,668	61,709	-	82,377
2022	910,990	-19.44%	681,834	20,668	64,592	-	85,260
<b>Totals</b>		<b>4.26%</b>	<b>681,834</b>	<b>454,696</b>	<b>678,581</b>	<b>245,140</b>	<b>1,378,417</b>

## Life Insurance Values

Year	IUL Loan/Income	IUL Surrender Value	IUL Death Benefit
2000	0	556,761	668,113
2001	20,732	570,055	682,410
2002	22,181	582,762	695,782
2003	23,681	594,767	708,068
2004	0	631,945	745,103
2005	0	671,398	783,966
2006	0	713,309	816,831
2007	0	757,839	850,788
2008	0	805,168	885,869
2009	33,848	820,682	887,290
2010	0	872,240	922,721
2011	0	926,931	980,491
2012	39,775	944,023	1,000,840
2013	0	1,003,161	1,063,416
2014	0	1,065,860	1,129,755
2015	0	1,132,309	1,200,057
2016	48,691	1,152,577	1,224,394
2017	0	1,224,114	1,300,217
2018	0	1,299,845	1,380,480
2019	56,232	1,322,034	1,407,448
2020	0	1,403,184	1,493,621
2021	0	1,488,765	1,584,494
2022	0	1,578,892	1,680,193

## SUMMARY

### Client retires at age 65:

- \$800,000 in portfolio assets, \$200,000 in a Fixed Index Annuity and a permanent IUL policy started at age 40



### Age 87 Values:

- \$1,378,417 income to date
- \$682,834 in the portfolio (AUM)
- \$1,578,892 cash value life insurance
- \$1,680,193 tax-free death benefit

**Total portfolio and life insurance cash value: \$2,261,726**

**Total benefit of ownership at 87: \$3,640,143**

**Total legacy: \$2,363,027, of which \$1,680,193 is tax-free**

**The hypothetical 65-year-old retiree with \$1 million saved who experienced market downturns early in retirement could have avoided running out of money by using a guaranteed\* income fixed indexed annuity (FIA) and cash value life insurance.**

*\*Life insurance values are non-guaranteed and may differ based on insurability and future market performance.*

# SUMMARY cont.

If the client had allocated \$200,000 of the portfolio into a fixed indexed annuity with guaranteed income at age 60 during the protection phase of the client's investor life cycle before retirement, the FIA could generate \$20,668 in guaranteed income annually and \$454,696 in total as shown, assuming income is deferred to age 66, the year after his portfolio suffers a negative return.

By accessing cash from the permanent life insurance policy following down years to supplement income in retirement, the client can avoid selling into market losses. In effect, the client can preserve his traditional retirement funds instead of selling at potential market bottoms, giving those assets time to recover. In this scenario, not only did the client not exhaust his life savings, but he has taken \$1,378,417 in total income, has \$2,261,726 in liquid assets, and a legacy of \$2,363,027 at age 87.

Adding permanent life insurance and guaranteed income from a fixed indexed annuity to the mix of asset classes serves an important role in the holistic financial plan, especially when it comes to mitigating risk in retirement. The combination of traditional asset classes, fixed indexed annuities with lifetime income, and permanent life insurance can dramatically improve a client's retirement and tax-advantaged legacy passed on to their loved ones.

***A fixed indexed annuity (FIA) with an optional guaranteed income rider\**** provides guaranteed lifetime income that may help offset portfolio sequence of returns risk. Guaranteed income lessens the reliance on the portfolio to generate income, helping mitigate the risk of negative timing of returns and providing security to cover income needs.

*Having guaranteed income gives the retiree the option to leave money in the portfolio during market downturns rather than being forced to take withdrawals for living expenses which can hasten a portfolio's decline.*

*\*Guaranteed by an insurance carrier. Optional enhancement riders may be added to the policy for an additional charge. These are hypothetical average numbers based off rates obtained from A+ rated carriers.*

*This material is not a recommendation to buy, sell, hold, or roll over any asset, adopt a financial strategy or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. You should work with tax, legal and financial professionals to discuss your specific situation.*

*Indexed universal life (IUL) insurance policies are not stock market investments, do not directly participate in any stock or equity investments, and do not receive dividend or capital gains participation. The past performance of an index is no indication of future crediting rates. Loans and death benefit payments from indexed universal life policies have special tax treatment and could be tax-free.*

**DISCOVER THE POSSIBILITIES**

THEQUANTUM.COM | 800.440.1088

The Quantum Group, USA, LLC, an Arizona limited liability company. In CA, d/b/a Quantum Distribution & Insurance Services

FOR FINANCIAL PROFESSIONAL USE ONLY - NOT FOR USE WITH THE PUBLIC