



# Using Tax-Free Life Insurance Strategies to Boost Income

Adam C. Hyser, CFP®, CLU, ChFC, Wealth Protection Strategist <sup>1</sup>

Strategic use of cash value life insurance can provide similar tax-free benefits to a Roth IRA, without Roth IRA income limitations, all while delivering valuable policy benefits

In the world of wealth planning, retirement is often a game of complex lifestyle questions. Do I have enough to maintain my current lifestyle? Will I have enough income to live life comfortably while protecting my family from potential risks? Am I doing enough to protect those things now? Many of these answers can come simply from a review of retirement accounts, but moving to alternatives to retirement accounts is increasingly creating flexibility for individuals.

Qualified retirement plans such as 401(k)s are not always offered by an employer. And even when they are, a plan participant's full savings needs may not be satisfied because of contribution limits. IRAs and Roth IRAs offer additional qualified savings opportunities. Roth IRAs have income limitations in order to contribute to them. Also, the lower annual contribution limit may prevent savers from using these vehicles.

## Roth IRA and Cash Value Life Insurance Similarities

Cash-value life insurance can be an excellent way to supplement retirement plan savings. During your working years, the policy death benefit will protect your family and replace lost income should something happen to you. At retirement, you then have access to the policy's cash value through tax-favored loans and withdrawals.

A properly structured life insurance policy offers benefits similar to a Roth IRA. You can make contributions with after-tax money, accounts grow tax-deferred, and distributions are generally tax-free. And since there are no income limits or contribution ceilings, these policies offer flexibility and can be customized to meet unique financial planning requirements.

By structuring a life insurance plan as part of your retirement savings, you can gain several benefits, including:

1. Tax-deferred growth.
2. Distributions that are free of income taxes, although policy withdrawals and loans do impact your income tax bracket, Medicare premiums, capital gains, AGI or MAGI, or Social Security.
3. A death benefit that is free of income tax.
4. Protection from creditors (depending on the state).
5. No retirement contribution limits or income limits.
6. The potential to access cash before age 59 1/2 without penalty.
7. Flexibility (withdrawals from insurance policies are not mandatory and may occur at any time or not at all).
8. Optional riders to cover disability, long-term care, and critical illness needs.

## Taking Action - What it Means for your Plan

One critical element to note when considering adding a cash-value life insurance strategy to your plan is whether you contribute the maximum to your IRAs and 401k in a given year. The policy then provides a seamless option for overflow retirement contributions to offer tax-free benefits in the future.

# Using Tax-Free Life Insurance Strategies to Boost Income

---

Depending upon the policy's specifics, it also may include provisions for loans that would allow you to borrow cash and mitigate tax liabilities.

We need to mention that life insurance is one of the most versatile tools in your financial planning toolbox. It isn't just a means to produce another retirement income stream. It's a wealth transfer and protection vehicle as well. Having a policy strategy in place can allow you to transition wealth or assets into an account that protects these resources from higher taxation rates while providing a death benefit for heirs and loved ones.

Consider contacting your advisor to include a Wealth Protection policy audit as part of your annual wealth plan review. Use this time with your advisor to determine how this strategy could go beyond a retirement approach and into elements of your estate plan, long-term care plan, or your tax filing. A quick call with your advisor can help you not only to reinforce your Roth IRAs, but to support multiple elements of your long-term goals.

---

For more information, [please contact your Key Private Bank Wealth Protection Strategist.<sup>1</sup>](#)

---

## Key Private Bank



Page 2 of 2

Publish Date: February 4, 2021

Any opinions, projections, or recommendations contained herein are subject to change without notice and are not intended as individual investment advice. This material is presented for informational purposes only and should not be construed as individual tax or financial advice. KeyBank does not provide legal advice.

Investment products are:

**NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY**

<sup>1</sup> Insurance products are offered through KeyCorp Insurance Agency USA Inc. (KIA). Variable insurance products are securities and are offered through Key Investment Services LLC (KIS), member FINRA/SIPC. KIA and KIS are affiliated with KeyBank.

Insurance products and securities made available through KIA and KIS are:

**NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY**

Insurance products offered through KIA are underwritten by and the obligation of insurance companies that are not affiliated with KeyBank. When you buy insurance, you are dealing with a licensed agency, not KeyBank. Before purchasing an insurance policy, you should compare information obtained from more than two agents. You have the right to obtain insurance from the agent or insurer of your choice and your decision will not in any way affect KeyBank's credit decision. KIA, KIS and KeyBank are separate entities, and when you buy or sell insurance products and/or securities you are doing business with KIA and/or KIS, and not KeyBank. KIA, KIS and its representatives do not provide tax advice. Individuals should consult their personal tax advisor before making any tax-related investment decisions.

Key Private Bank Wealth Protection Strategists are not fiduciaries, as such, they are compensated based on insurance product sales.