John Hancock

Advanced Markets Blog

Using life insurance as an inflation-hedging strategy in retirement and estate planning

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Much has been written about the reemergence of inflation — and specifically about the danger of inflation slipping out control. In the United States, inflation has been considered "tamed" by monetary policy since the early 1980s. Nobel Prize winning economist Milton Friedman described inflation as, "always and everywhere a monetary phenomenon." Friedman's statement lays the blame for inflation on central banks creating excess money supply — and *Black's Law Dictionary* defines inflation as "when currency loses its value due to constantly raising prices."

Given the changes in the world since the start of 2020, and the extraordinary government intervention and monetary policy since then, many consumers and their financial professionals are concerned about inflation. While time will tell whether this concern is valid, the fear of inflation may be broken down to a worry about the loss of buying power.

For retirees in particular, the fear is that the buying power of their lifetime earnings and savings will be diminished quickly. For older clients, the concern is that high inflation may cause an increase in costs of goods and services requiring more assets than they had originally planned for. If this scenario happens in early retirement years, their savings may be insufficient to continue to support their lifestyle.

While inflation may be beyond our power to control, there are options you can explore with clients who have this concern. For instance, you can work "permission to spend" other assets into a client's financial plan by designing a life insurance policy for them that may help preserve "buying power" by growing the death benefit along with the cash value.

Case study — preserving "buying power"

Consider Mr. & Mrs. Hayek, ages 58 and 55 respectively, who are interested in purchasing a $1 million life insurance policy to ensure they leave a legacy to their children and (eventual) grandchildren. Mr. Hayek is concerned that due to inflation the real value of a $1 million policy may be significantly less in 30 or 40 years. Given that, their agent suggested looking at a product with a growing death benefit — and illustrated John Hancock's Accumulation Survivorship VUL with a 10-pay, non-MEC premium for the Hayeks — and designed

the policy with an Option 2 (increasing) death benefit. In addition, the policy will switch to a level death benefit at Mrs. Hayek's age 85, to help reduce the policy costs in the later years.

By allocating almost $40,000 per year to this plan, the Hayeks can invest their premium dollars into variable sub-accounts and grow those assets tax deferred. This may preserve the "buying power" of the future death benefit to their heirs as well as protect them from inflation risk during their retirement. Based upon the policy's cash value performance, the benefit to their children will potentially grow over time due to the Option 2 death benefit design. In addition, while the Hayeks don't anticipate needing extra capital to supplement their retirement, they appreciate that they could always supplement their retirement income by withdrawals or loans from this policy.

The result?

The John Hancock Accumulation Survivorship VUL policy offers the Hayeks several benefits:

- A growing death benefit, based upon the cash value performance, that could help increase the legacy to their children and eventual grandchildren, and preserve the buying power of what they leave behind. In fact, by their late 80s their policy could grow from a $1 million death benefit to $2 million or more, based upon policy performance.
- The possibility to use some of the cash value in their policy as needed to supplement their retirement income.
- A place to put some funds during their last working years that provides tax-deferred growth potential — a great fit for the tax-diversification plan that they've talked about with their agent.

While we cannot predict its extent, inflation in some degree is bound to happen over time. The ability to help clients understand the impact inflation can have, not only on their own savings but also the impact on their future legacy, is vital. Using a specifically designed life insurance product and death benefit options can assist in planning for both concerns. In the end, the Hayeks see this solution as a win that not only meets their immediate objectives of providing a legacy to their heirs, but also gives them options down the road if personal or external economic needs should change.

Call *Advanced Markets* at *888-266-7498, option 3* to speak with an *Advanced Markets Consultant*, or email *advancedmarkets@jhancock.com*

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Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.

The data shown is taken from an illustration. It assumes a hypothetical rate of return and/or current interest crediting rate and may not be used to project or predict investment results. Unless indicated otherwise, these values are not guaranteed. We urge you to show your clients a basic illustration showing the impact of 0% and maximum sales charges and/or the guaranteed interest crediting rate and an impact it will have on policy cash value and death benefit. Accumulation SVUL is not available in New York.

Variable universal life insurance has annual fees and expenses associated with it in addition to life insurance related charges. Variable universal life insurance products are subject to market risk and are unsuitable as a short term savings vehicle. Cash values are not guaranteed and will fluctuate, and the policy may lose value.

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