Prudential

# Why high income earners should consider life insurance

Life insurance financially protects the people you love when you die. While you're living, cash-value life insurance may also help you maintain your standard of living in retirement. It's estimated that many will need to replace 70-90% of their annual income.[1]

## Challenges to Retirement Goals:

| 37% | 20% | 3.8% | 0.9% |
|---|---|---|---|
| Top income tax bracket | Long-term capital gains | Net investment income tax | Additional Medicare tax |

## Additional challenges may include:

- Contribution limits on tax-qualified retirement plans
- 85% of Social Security benefits could be taxable
- Per-person increase in Medicare Part B premiums

## Cash value life insurance can bring welcome relief, *typically income tax-free*. It can...

### Provide for your family when you die

The death benefit passes to your beneficiaries outside of probate.

### Be a source of money while you're living[2]

Some policies may build cash value. The money can be used any way you wish, like paying for unexpected medical expenses or a dream vacation.

### Lessen the impact of taxes in retirement[2]

Adding permanent life insurance to your financial picture can help you supplement your retirement income, while typically limiting your tax exposure.



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# A Flexible Option for Your Retirement Challenges – Cash Value Life Insurance

## Accumulate

- **Premium flexibility** – Allows you to overfund certain types of life insurance policies.
- **Tax-advantaged growth** – Cash Value growth is typically not subject to the capital gains tax.

## Retire

- **Leave a legacy** – Death benefit passes to beneficiaries outside of probate, typically income tax-free, per §IRC 101(a).
- **Take the income you want, when you want**[2] – Not subject to Required Minimum Distributions.
- **Unique tax treatment** – Potential for distributions to be tax exempt.[2]
- **Potentially lower tax rates** – Income from life insurance won't increase your tax bracket.
- **Exempt from net investment income tax** – Sometimes called the "Medicare Surcharge Tax."
- **Distributions will not affect taxation of Social Security benefits** – And they're not included in Provisional Income calculations.

## Get professional guidance

A financial professional can show you how life insurance can provide protection for the people you love, plus the living benefits you may need and want.

[1] Department of Labor, "Top 10 Ways to Prepare for Retirement," September 2019.

[2] Life insurance policy cash values grow tax-deferred and are potentially income tax-free. Cash values are accessed through withdrawals and policy loans. Withdrawals are generally taxable to the extent they exceed premiums paid into the policy. Any loans that remain unpaid when the policy lapses or is surrendered while the insured is alive will be taxed immediately to the extent of gain in the policy. Unpaid loans and withdrawals will reduce cash values and death benefits.

[3] Federal tax law limits the amount of premium contributions that can be made to a policy in order for it to retain certain tax advantages. When premium contributions exceed this limit, the policy is classified as a modified endowment contract (MEC). Distributions from MECs (such as loans, withdrawals, and collateral assignments) are taxed less favorably than distributions from policies that are not MECs to the extent there is gain in the policy. For distributions from a MEC prior to age 59½, a federal income tax penalty may apply to the extent there is gain in the policy. However, death benefits are still generally received income tax-free pursuant to IRC §101(a). The death benefit will be reduced by any withdrawals or loans (plus unpaid interest). Clients should consult a tax advisor.

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