



# Thinking Differently About Retirement

Participating whole life insurance from  
Massachusetts Mutual Life Insurance Company (MassMutual®)



Many people think that preparing for retirement means saving and investing for retirement. While that's a big part of it, developing a sound retirement income strategy may be even more important. This involves coordinating all of the assets you have accumulated and the benefits you have earned to achieve your retirement income goals and effectively address the financial risks you will face during retirement.

**The decision to purchase life insurance should be based on long-term financial goals and the need for a death benefit. Life insurance is not an appropriate vehicle for short-term savings or short-term investment strategies. While the policy allows for loans, you should know that there may be little to no cash value available for loans in the policy's early years.**

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# The Role of Life Insurance

People buy life insurance to help protect the financial security of their family or business, and many assume that their need for it ends when they stop working. However, life insurance can help you achieve other financial goals, such as preparing for retirement.

A participating whole life insurance policy from MassMutual offers a combination of permanent life insurance protection, cash value accumulation, guarantees and income tax advantages. In addition, participating policies are eligible to receive annual dividends<sup>1</sup> that can be used to purchase additional life insurance protection and increase cash value over time. This combination of benefits and features makes whole life valuable as part of a comprehensive retirement income strategy.

The following example illustrates how someone who purchased a MassMutual policy many years ago might use it for retirement today.

## Brad and Cora Retired in 2010

Brad and Cora are married and retired in 2010 when they both turned 65. They earned similar incomes and have comparable retirement assets. While this example illustrates how whole life insurance on Brad provides additional flexibility and financial security for them during retirement, it is important to note that a comparable amount of whole life coverage on Cora would provide the same benefits and would be an equally important part of their overall retirement income planning.

When they retired, Brad's retirement savings and benefits included:

- A 401(k) plan with a balance of \$1,000,000, which he transferred to an individual retirement account (IRA).
- A pension plan that his employer provided.
- Social Security retirement benefits.

He also had a \$250,000 MassMutual participating whole life policy that he purchased in 1980, when he was 35. He bought the policy to help protect Cora and their family and to accumulate cash value that he could use to supplement their income when they retired.<sup>2</sup>

<sup>1</sup> The payment of future dividends is not guaranteed.

<sup>2</sup> Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty if the policyowner is under age 59½.

Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

# Brad's Whole Life Policy



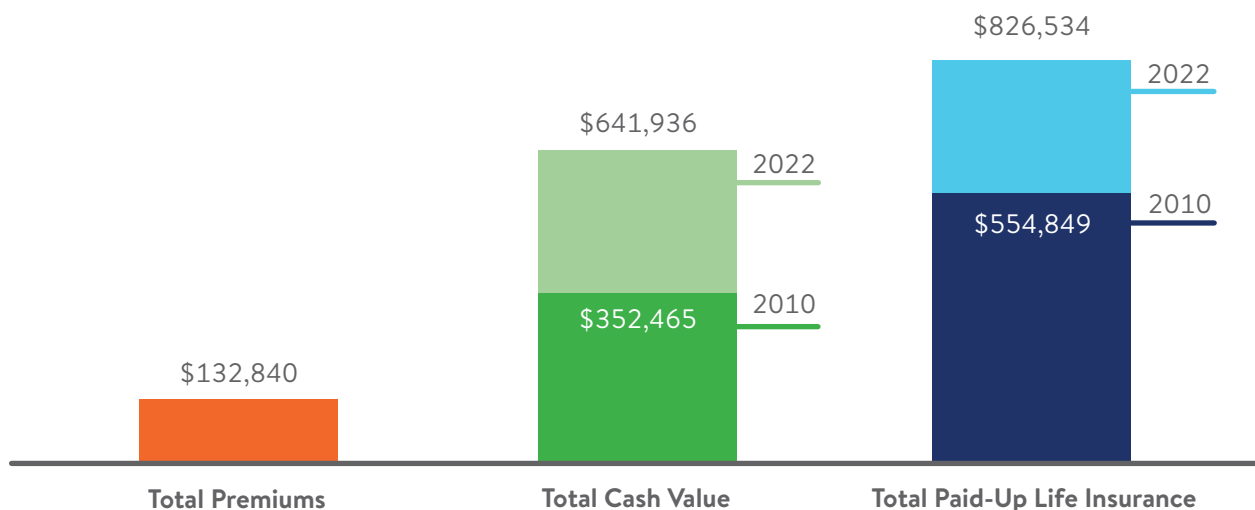
Brad paid his annual premium of \$4,428 every year, and his policy was guaranteed to be paid-up in 2010 when he turned 65. He used his annual policy dividends<sup>1</sup> to purchase additional paid-up life insurance each year.

By 2010 he had paid a total of \$132,840 in premiums. The dividends<sup>1</sup> he received over the years significantly increased both his total life insurance protection (from \$250,000 to \$554,849) and his total cash value, which was \$352,465. His policy was paid-up, and his total life insurance protection and cash value were both guaranteed.

In 2022, Brad turned 77. Since retiring in 2010:

- His policy's total cash value increased by 82% to \$641,936.
- His total paid-up life insurance increased by 49% to \$826,534.
- His annual dividend in 2022 was \$18,799.

## BRAD'S WHOLE LIFE POLICY IN 2022



This hypothetical example shows actual historical performance for a Life Paid-Up at 65 participating whole life policy issued in 1980 by MassMutual prior to the merger with the former Connecticut Mutual Life Insurance Company in 1996. This policy is no longer sold. It is based on the best underwriting class available at time of issue (non-smoker) and assumes the policy was originally issued with a fixed loan rate updated to adjustable loan rate in 1983. This example also assumes dividends are used to purchase paid-up additional insurance, and that no surrenders or loans are made. The results shown are based on the actual experience of the company. The Total Cash Value and Total Paid-Up Life Insurance include termination dividends, which are only available upon death or full surrender of the policy. Values are as of the policy anniversary in 2010 and 2022.

# An Additional Source of Retirement Income

The following are some of the ways that Brad and Cora could use his policy during their retirement.

Brad has the option to access his policy cash value on a tax-advantaged basis at any time to help meet their retirement income needs.<sup>2</sup> These may include:

## Paying Off Debt

Taking partial surrenders of the cash value to help pay off a mortgage, student loans or other debt could eliminate these liabilities during retirement.

## Increasing Social Security Benefits

Brad's full retirement age for Social Security is 66, and delaying retirement beyond this age will increase his monthly benefit by 8% each year.<sup>3</sup> Using partial surrenders of his cash value to supplement his income could allow Brad to postpone taking Social Security retirement benefits for a few years.

## A Stable Source of Income During Market Downturns

His policy's cash value is guaranteed to increase each year and will never decline in value due to market conditions. It offers a dependable, alternative source of income during market downturns, giving retirement assets that have declined in value time to rebound.

## Additional Guaranteed Retirement Income

Alternatively, Brad could cancel his policy (forfeiting his life insurance protection) and elect one of the guaranteed income options that are available in his policy.<sup>4</sup>

It is important to note that accessing the policy cash value will reduce the amount of life insurance protection that Brad's policy provides. In addition, it is unlikely that Brad would be able to use his policy to accomplish all of these financial goals. The ability to use a whole life policy to help meet different financial needs during retirement will depend upon a number of factors that include:

- How much and what type of whole life policy you purchase.
- How long you pay premiums out-of-pocket.
- The amount of future dividends (which are not guaranteed) and how they are used.
- The amount of any distributions that you take from the policy, such as partial surrenders or policy loans.

<sup>3</sup> Based on Social Security retirement benefit provisions as of 3/1/2021.

<sup>4</sup> If a whole life policy is surrendered for its cash value, the policyowner has the option to apply this value towards the purchase of a monthly life income annuity.

# The Value of Life Insurance in Retirement

Assume that Brad decided not to use his cash value for additional income, as outlined in the previous section. Here are some of the ways that his life insurance protection can provide additional financial security and flexibility during retirement.

## Replacing Benefit Reductions at Death

Brad and Cora each have a Social Security retirement benefit of \$2,250 per month. In addition, his pension plan provides a guaranteed monthly income of \$2,500 over his lifetime, with a survivor benefit for Cora of half this amount (\$1,250 per month) for the remainder of her life. So they entered retirement with a guaranteed monthly income of \$7,000 per month (\$4,500 from Social Security plus \$2,500 from his pension plan). This is enough to cover their basic living expenses.

However, if Brad predeceases Cora, she would continue to receive a Social Security retirement benefit of \$2,250 per month and the pension survivor benefit of \$1,250 per month. This is a reduction of \$3,500 per month, half of their guaranteed income.

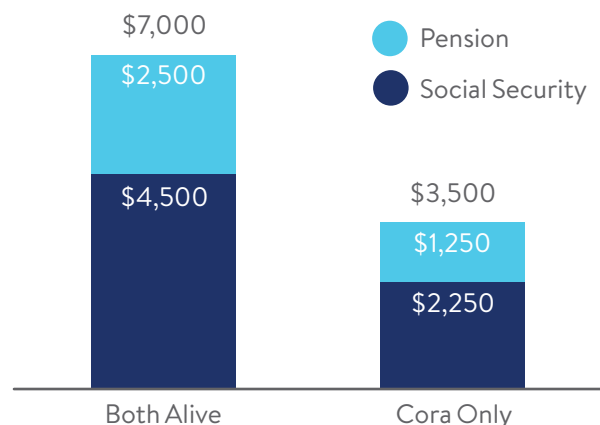
Brad's life insurance can help protect this income. For example, if he died in 2016, Cora would receive the death proceeds of \$681,708 income tax free. She could use this amount to purchase an income annuity to provide a guaranteed monthly income that would be more than enough to replace the \$3,500 reduction in taxable monthly income. The amount of life insurance needed to replace these benefits will decrease as Brad and Cora get older.

## Getting More Out of Retirement Savings

One of Brad's concerns is that he and/or Cora may live for many more years and eventually deplete their retirement savings. Since retiring, they have tried to preserve his IRA by only withdrawing the earnings each year, which have been about \$50,000 (5%) annually.

However, they have decided to withdraw more from his IRA going forward, so that they can enjoy retirement while they are still relatively young. Taking an additional \$25,000 (50% more) each year would mean the IRA would last another 20 years if they continue to earn 5% annually.

### REDUCTION IN MONTHLY RETIREMENT BENEFITS FOLLOWING BRAD'S DEATH



## But What if One or Both of Them Lived Longer?

Brad could use his whole life policy to help replace the value of the IRA as they spend it down.

- If Brad dies before Cora, the life insurance proceeds will be paid to her and would provide additional financial support over her lifetime.
- If Brad lives longer than Cora, he could access his policy's cash value to provide additional income.<sup>2</sup>

They decide to base their withdrawals from Brad's IRA each year on investment results for the account and any increases in his policy cash value and death benefit, including any future dividends paid.<sup>1</sup> This approach may give them the confidence to spend more of their retirement savings and worry less about running out of money.

## Whole Life as Part of a Comprehensive Retirement Income Strategy

Overall, Brad's whole life policy may allow him and Cora to enjoy a more secure and comfortable retirement by giving them the option to take advantage of different planning opportunities. These may include:

- Paying off debt.
- Delaying Social Security retirement benefits.
- An alternative source of income<sup>2</sup> during market downturns.
- The option to surrender his policy and use the cash value to provide additional guaranteed income.<sup>4</sup>
- Protection against benefit reductions if Brad were to die before Cora.
- The confidence to spend down their retirement savings.

Think differently about your retirement with MassMutual whole life insurance.

### BRAD'S IRA WITH ADDITIONAL WITHDRAWALS



This comparison does not reflect the potential impact of required minimum distributions on the account value. Brad will need to withdraw the greater of the planned amount or the required minimum distribution each year in order to avoid incurring an excise tax equal to 50% of the shortfall.

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**Helping you secure what matters most.**

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