



**SUCCESS
STRATEGIES**
Advanced Sales

Creating Tax-Diversified Income

Using whole life insurance in retirement

Diversifying retirement savings among accounts that have different income tax treatment can go a long way to maximizing income. Whole life insurance purchased during the working years to protect loved ones can also help to diversify income at retirement via:

- **Tax-Deferred Growth**

The policy cash values grow tax-deferred

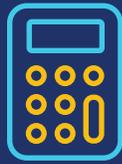
- **Tax-Advantaged Withdrawals and Loans**

Withdrawals (up to cost basis) and policy loans can be accessed on a tax-free basis when structured properly

Retirement savings challenges

Diversifying taxation across sources of income addresses the following challenges faced in retirement:

1. The unknown of where tax rates will be in the future
2. The impact of taxes on growth and distributions

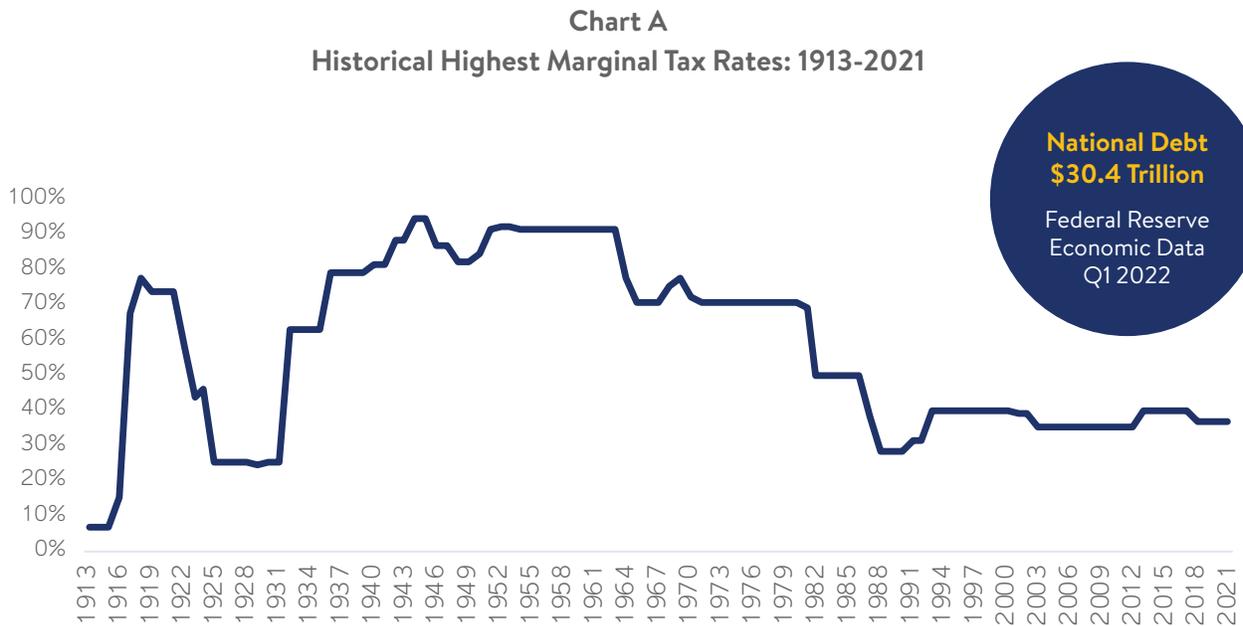


Tax Rates

1. Where will taxes be at retirement?

We do not know where taxes will be at any point in the future. However, in Chart A below, we can look at the history of the highest marginal tax rates from **1913-2021** for context (consider that in the last 20 years, taxes are near their lowest point).

With the national debt at +\$30 Trillion in 2022, can taxes remain low?



At retirement, taxes can consume a large portion of a nest egg, leaving retirees shocked at just how much of their hard-earned savings is paid in taxes.

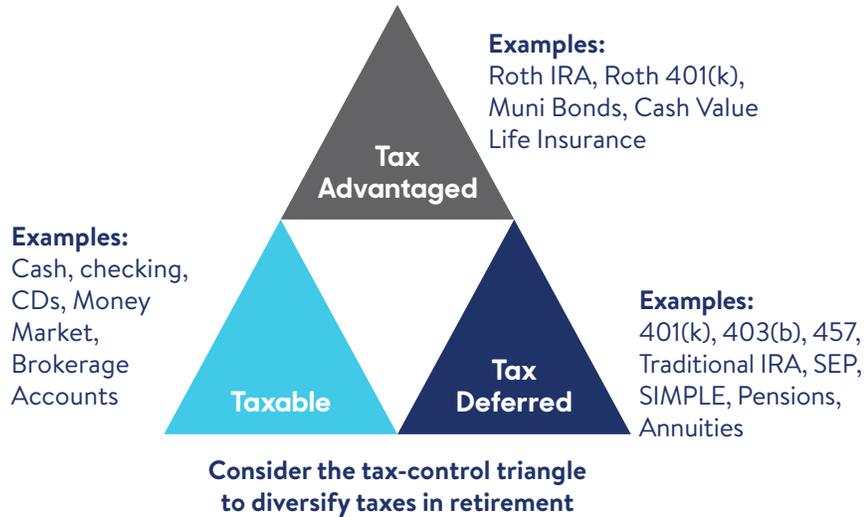
Planning decisions can be made TODAY to help minimize taxes at retirement.



Taxation of Savings

2. The impact of taxes on growth

A concern when planning for retirement income is how to reduce and time income-tax liability. For example, high-income earners must decide in which retirement accounts to place additional savings once the employer-sponsored qualified retirement plan limit is met. (In 2022, the maximum pre-tax contribution is \$20,500, plus a \$6,500 catch-up contribution for those age 50+.)



TAXABLE ACCOUNTS	TAX-DEFERRED ACCOUNTS	TAX-ADVANTAGED ACCOUNTS
<ul style="list-style-type: none"> • After-tax dollars in – taxable gains out • Accounts provides flexibility and liquidity • Sometimes gains are taxed at favorable rate (Long-Term Capital Gains and Qualified Dividends) • Some gains are taxed only as they are realized • Sometimes gains are taxed as Ordinary Income (Short-Term Capital Gains, Non-Qualified Dividends and Interest) • Some gains are taxed annually (such as interest) • No tax reduction for account contributions • Examples: Bank Accounts and Non-Qualified Brokerage Accounts such as mutual funds and stocks 	<ul style="list-style-type: none"> • Before-tax or after-tax dollars in – taxable out • Accounts grow and are not taxed until withdrawals are made • Reduces tax burden on the years contributions are made to qualified plans • Contributions and gains are taxed as Ordinary Income upon withdrawal • Contribution limits on qualified plan accounts • Possibility for higher personal tax rates in future during withdrawals • Possible Required Minimum Withdrawals at age 72 • Possible Early Withdrawal Penalties • Examples: 401(k), 403(b), 457, Traditional IRA, SEP, SIMPLE, Annuities 	<ul style="list-style-type: none"> • After-tax dollars in – potentially tax free out • Accounts grow tax-deferred • Typically no tax on growth, if conditions are met • Contribution limits on qualified accounts • No tax reduction for account contributions • Possible Early Withdrawal Penalties • Examples: Roth IRA, Roth 401(k), municipal bonds and cash value life insurance



Benefits of Tax-Deferred Growth

TAXATION OF GROWTH

When funds are taxed as they accumulate, the balance is impacted.

A powerful long-term savings concept is tax deferral. In a tax-deferred account, taxes are generally not due on investment earnings until withdrawals are taken. When tax is deferred on earnings growth, the balance will be higher over time than a traditional taxable account, all other things being equal. Consider a hypothetical example of a \$200,000 investment growing at 6% with the taxable account subject to an average income tax of 25% annually:

\$200,000 Balance Over Time: Taxable Growth Account vs. Tax-Deferred Growth Account



TAX DEFERRAL MAY CUT THE AMOUNT OF TIME IT TAKES TO DOUBLE

Paying taxes now increases the time needed to reach target savings. Consider how many years it takes for a taxable and tax-deferred account to double using the same hypothetical \$200,000 investment in the example above:

Tax-deferred: Takes 12 years to double

Taxable Account @25% Annual Tax: Takes 16 years to double

Taxable Account @37% Annual Tax: Takes 19 years to double





Life Insurance

WHAT TAX DIVERSIFICATION LOOKS LIKE

Assume that Jane retires and plans to withdraw \$120,000 annually from her 401(k) plan for her annual living expenses. Alternatively, assuming she did some income planning prior to retirement, she could take a combination of withdrawals from various income sources, **including from her whole life policy**, with varying tax treatment for each. She could potentially increase her income. Chart B below illustrates how different types of accounts—taxed in different ways—can go a long way in addressing the uncertainty of future tax rates and the impact of those taxes on growth, and ultimately, on disposable income at retirement.

Chart B

	NON-DIVERSIFIED WITHDRAWALS				DIVERSIFIED WITHDRAWALS			
	Mutual Fund	Whole Life	401(k) Plan (35% Tax)	Total Net Income (All Sources)	Mutual Fund (22% Tax) ¹	Whole Life ²	401(k) Plan (35% Tax)	Total Net Income (All Sources)
Withdrawal	-	-	120,000		40,000	40,000	40,000	
Income Tax	-	-	42,000		8,800	-	14,000	
Net Income	-	-	78,000	\$78,000	31,200	40,000	26,000	\$97,200



Chart C

USING WHOLE LIFE INSURANCE TO HELP DIVERSIFY INCOME

NON-GUARANTEED VALUES

Year	Age	Annual Premium	Cumulative Premium	Annual Distributions	Cumulative Distributions	Net Cash Value	Net Death Benefit	IRR on Net Cash Value	Tax Equivalent IRR on Net Cash Value (@28%)
1	46	41,280	41,280	-	-	12,960	1,002,752	-	-
10	55	41,280	412,800	-	-	424,935	1,182,179	0.53%	0.74%
15	60	41,280	619,200	-	-	766,302	1,385,868	2.62%	3.64%
22	67	-	-	40,000	40,000	1,063,871	1,672,017	3.85%	5.35%
25	70	-	-	40,000	160,000	1,109,197	1,648,481	4.06%	5.63%
30	75	-	-	40,000	360,000	1,197,992	1,632,186	4.26%	5.91%
35	80	-	-	40,000	560,000	1,303,138	1,641,500	4.37%	6.06%
40	85	-	-	40,000	760,000	1,425,416	1,705,767	4.43%	6.15%

Chart C assumes the use of a Whole Life 15 Pay on a female, age 45, Ultra Preferred Non-tobacco risk class with an initial face amount of \$1,000,000. Premiums of \$41,280 are paid for 15 years. Annual distributions of \$40,000 are taken age 67 through 85. **Chart C** is a supplemental illustration that is not valid unless accompanied by the [basic illustration](#). Refer to the basic illustration for assumptions, explanations, guaranteed elements and additional information. The values shown here are taken from the current assumption of non-guaranteed values.

These illustrated amounts are not guaranteed. They include dividends, which are neither estimates nor guarantees, that have been applied to purchase paid-up additions based on the 2022 dividend schedule. The dividend schedule is reviewed annually, and it is likely that dividends in future years will be lower or higher depending on the Company's actual experience. For this reason, we strongly recommend that you look at a lower dividend schedule illustration.



Contact Advanced Sales at 1-800-601-9983 Option #2
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Any discussion of taxes is for general informational purposes only, does not purport to be complete or cover every tax situation, and should not be construed as legal, tax or accounting advice. Clients should consult with their qualified legal, tax, and accounting advisors regarding their own particular situation.

¹ In this example, the 22% tax is based on a hypothetical average tax rate that includes long-term capital gains at 20% and qualified dividends at 35% ordinary income tax.

² Loans and withdrawals from a cash value life insurance policy will reduce the death benefit, and cash surrender value may cause the policy to lapse. Lapse or surrender of a policy with a loan may trigger taxation. Policies classified as Modified Endowment Contracts (MEC) may be subject to tax when a loan or withdrawal is made, and a 10% penalty may apply if the loan or withdrawal is taken prior to age 59½.

