



# Using Cash Value Life Insurance for Retirement

Using cash value life insurance for retirement—often referred to as a **Life Insurance Retirement Plan (LIRP)**—is a strategy that combines permanent life insurance protection with long-term cash value accumulation. These policies provide a death benefit and the potential to build tax-advantaged cash value that may be accessed during retirement.

Cash value life insurance includes a range of permanent policy types, such as whole life, universal life, indexed universal life, and variable universal life insurance. Unlike term life insurance, which provides pure death benefit protection for a specified period, permanent policies can accumulate cash value over time.

Some individuals use these policies as a **supplement** to traditional retirement savings vehicles, particularly when they have maximized contributions to qualified retirement plans or when they desire additional tax diversification.

## How Cash Value Life Insurance Works

A cash value life insurance policy generally consists of two components:

- **Insurance protection**, which provides a death benefit to beneficiaries
- **Cash value accumulation**, which grows over time based on policy guarantees, credited interest, or investment performance, depending on policy type

Premiums paid into the policy are allocated between these components, along with policy expenses and charges. Cash value grows on a tax-deferred basis and may be accessed through withdrawals or policy loans, subject to policy terms.

**Important:** Cash value life insurance is not a savings account and is not FDIC insured. Policy performance and guarantees vary by product and carrier.

## When This Strategy May Be Appropriate

Using cash value life insurance for retirement may be appropriate when:

- There is an ongoing **need for life insurance protection**
- Retirement savings goals extend beyond employer-sponsored plans
- Tax diversification is a priority
- Liquidity and flexibility during retirement are desired
- Estate planning or legacy objectives are part of the overall plan



### *Life Insurance Need Considerations*

Life insurance needs often arise when:

- Dependents rely on your income
- A non-income-earning spouse provides valuable household services
- Estate taxes or debts may create liquidity needs
- Business succession or wealth transfer goals exist

If no life insurance need exists, alternative retirement savings strategies may be more appropriate

### **Key Advantages of Cash Value Life Insurance**

#### *Integrated Protection and Savings*

A primary benefit of this strategy is the ability to combine **death benefit protection** with long-term savings in a single vehicle. This may simplify planning for individuals who need life insurance and also want to accumulate retirement assets.

#### *Tax-Deferred Growth*

Cash value grows tax deferred, similar to an annuity. Taxes are generally not owed on interest or investment gains while they remain inside the policy.

#### *Tax-Advantaged Access*

- **Withdrawals** up to basis are generally income-tax free
- **Policy loans** are typically not taxable if the policy remains in force and is not a modified endowment contract (MEC)

#### *Flexibility*

Policy cash values may be accessed at any time, subject to policy provisions, without age-based penalties that apply to qualified retirement plans.

### **Important Tradeoffs and Risks**

#### *Insurability Requirements*

Applicants must qualify medically and financially. Age and health significantly impact policy costs and availability.

#### *Higher Premium Costs*

Permanent life insurance premiums are substantially higher than term insurance premiums because they fund both insurance protection and cash value accumulation. Policies also include internal charges and expenses.

#### *Policy Limits and MEC Rules*

Federal tax law limits how much premium can be paid into a policy relative to the death benefit. Exceeding these limits may cause the policy to become a **Modified Endowment Contract (MEC)**, changing the tax treatment of distributions.

#### *Investment and Performance Risk*

Some policy types (such as variable life or indexed universal life) are affected by market performance and may not offer guaranteed returns.

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## Tax Considerations

### *Premiums*

Premiums are generally **not income-tax deductible** unless life insurance is purchased within a qualified retirement plan—a rare and complex arrangement.

### *Withdrawals and Loans*

- Withdrawals in excess of basis are taxable as ordinary income
- Loans are generally tax free while the policy remains in force
- Policy lapse or surrender with outstanding loans may trigger taxable income

### *Surrender*

Surrendering a policy may result in taxable gain equal to the excess of net cash value over the policy basis.

### *Death Benefits*

Death benefits are generally **income-tax free** to beneficiaries, subject to certain exceptions (e.g., transfer-for-value rules or qualified plan ownership).

## Gift and Estate Tax Considerations

### *Gift Tax*

- Premiums paid on a policy you own are generally not considered taxable gifts
- Special rules apply when ownership, insured, and beneficiary are different parties

### *Estate Tax*

Policy death benefits may be included in the insured's taxable estate if incidents of ownership are retained or if ownership was transferred within three years of death.

## Key Takeaways

- Cash value life insurance can supplement retirement income while providing life insurance protection
- The strategy offers tax-deferred growth and potential tax-advantaged access
- Costs, policy design, and tax rules are complex and must be carefully managed
- This approach is most appropriate when integrated into a broader financial, tax, and estate plan

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## IMPORTANT DISCLOSURES

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