Supplementing Your Retirement Savings Using Life Insurance

According to the U.S. Government Accountability Office in 2019, 48 percent of households aged 55 and older had no retirement savings. Approximately 26 percent of households had some retirement savings but no defined benefit pension plan which would pay a monthly retirement income for life. Only 20 percent had a pension plan but no retirement savings, and only 26 percent had both a pension plan and retirement savings. "Among those with some retirement savings, the median amount of those savings is about $104,000 for households age 55-64 and $148,000 for households age 65-74, equivalent to an inflation-protected annuity of $310 and $649 per month, respectively. Social Security provides most of the income for about half of households age 65 and older."[1]

In 2020, the maximum Social Security benefit for someone claiming benefits at age 62, which is the most popular age to claim, is $2,265 per month. It's $3,011 per month for someone claiming at full retirement age.[2]

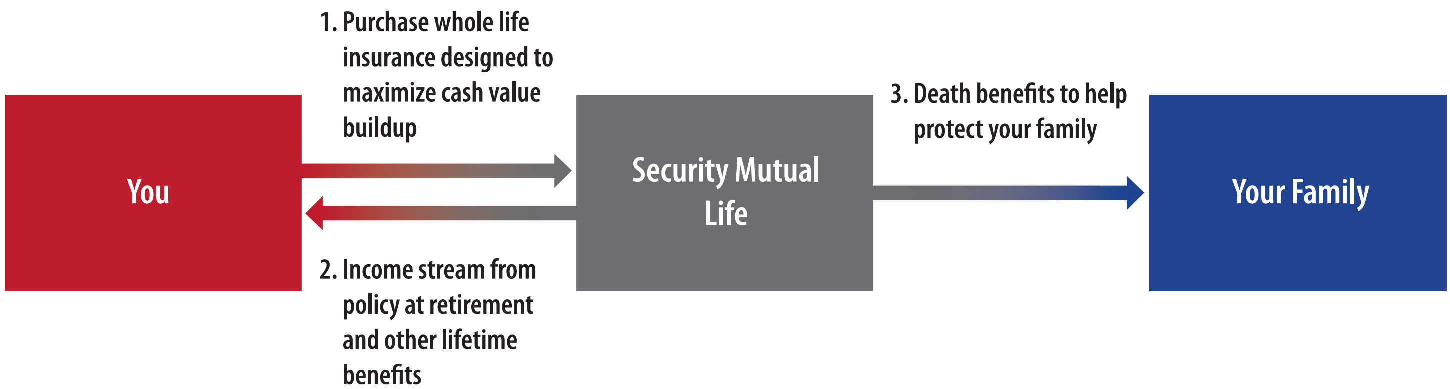
Those are worrisome statistics.

For most people, there are so many financial responsibilities to think about and address–from rent or mortgages, to children's care and tuition.

Unfortunately, safeguarding our own financial future in retirement is often overlooked. However, if you are still employed or working for yourself, it is never too late to start saving for retirement, even if you don't have access to an employer-sponsored retirement plan such as a 401(k) plan. One simple and often-overlooked option to help supplement your retirement savings is to look at your life insurance to determine if you have the best type to fit your overall financial situation.

You may be thinking–why life insurance? That's only to protect my family in the event of my death.

Life insurance comes in many different varieties and is often misunderstood. Permanent life insurance, particularly whole life insurance, has a savings and investment component that extends beyond the death benefit, i.e., the cash value component of the policy. Even better, cash values grow tax deferred. Whole life insurance generally has guaranteed premiums, the opportunity for cash value buildup and a death benefit. A whole life insurance policy may yield even more cash value and death benefit on a non-guaranteed basis. A whole life insurance policy can be designed to build up cash values as rapidly as possible while you're still working. At retirement, the cash values can be converted to an income stream to supplement your retirement income, while the death benefit continues to help protect your family from financial harm. In addition, policy riders can help to provide added protection during your lifetime. For example: a) a disability waiver of premium rider helps protect against the possibility of a disability during your working years interfering with your cash flow to pay the premium; b) a chronic illness accelerated death benefit rider provides access to a portion of the death benefit to be used for expenses if you have a chronic illness; and c) a terminal illness rider accelerates a portion of the death benefit to pay the owner a benefit as a result of a terminal illness. Other riders are also available.



Example:

Let's assume we have a 45-year-old worker planning to work to age 65. In addition to whatever savings methods he currently uses, he also applies $25,000 per year to purchase a whole life insurance policy that is designed to build up cash values quickly. Premiums are paid until age 65 when he retires. That policy may potentially yield approximately $58,000 of supplemental income to age 85, or approximately $42,000 of supplemental income to age 100. In addition, depending upon the riders chosen or purchased, the policy can have benefits available to help financially protect him from the impact of chronic or terminal illness, and help protect his family in the event of his premature death.

	Annual Premium to age 65	Cumulative Premiums	Annual Income	Cumulative Income	Death Benefit at Age 45	Death Benefit at Age 65	Death Benefit at Age 85
Income from Age 65 to 85	$25,000	$500,000	$58,000	$1.16 million	$1.3 million	$1.5 million	$400,000
Income from Age 65 to 100	$25,000	$500,000	$42,000	$1.47 million	$1.3 million	$1.5 million	$870,000

* This example assumes that dividends are used to purchase paid-up additional insurance for 20 years, and thereafter, premiums will be paid by dividends, the surrender of paid-up additional insurance, or policy loans, rather than cash. This premium payment technique is often referred to as a non-guaranteed Premium Offset. Non-guaranteed surrender values and death benefits may be greater than guaranteed values. The amount of supplemental income taken from the policy may vary based on a number of factors, including the non-guaranteed policy dividends, for one. Your professional Security Mutual life insurance advisor can provide more information, including the policy's guaranteed values. Note that the above illustration is hypothetical and is not intended to serve as a projection of any specific life insurance policy. The material presented is not a recommendation.

As you can see, this strategy allows you to achieve several important objectives. It provides you with another source of retirement income so you don't have to depend solely on personal savings, an employer-sponsored retirement plan and Social Security benefits. It also helps to provide financial protection for you and your family, during your life and at death. Care must be taken in designing, implementing and monitoring this strategy.

For more information and to discuss whether this strategy makes sense for you or not, please contact your local Security Mutual life insurance advisor.

[1] "Retirement Security: Most Households Approaching Retirement Have Low Savings", U.S. Government Accounting Office 15-419, May, 2015, https://www.gao.gov/assets/680/670153.pdf), as updated, March 26, 2019, https://www.gao.gov/assets/700/697898.pdf (accessed October 1, 2020).

[2] "What is the Maximum Social Security Benefit?", AARP, December 16, 2019, https://www.aarp.org/retirement/social-security/questions-answers/maximum-ss-benefit/ (accessed October 1, 2020).

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