

Financial Security Insights

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Solid Like a Rock

Now is the Time to Consider the Security
and Stability of Permanent Life Insurance
and Annuities

The New Normal American author Thomas H. Cook said, “Life to me is defined by uncertainty. Uncertainty is the state in which we live, and there is no way to outfox it.” Cook’s words perfectly describe the state of the current economy, and the indecision Americans face in their own financial planning. The stock market’s decline and volatility has eaten away at investment nest eggs while keeping additional investment on the sidelines in cash or cash-like securities. Contributing to the near-daily wide swings of the market is the knowledge that personal and business taxes will almost certainly rise sooner-than-later to pay for recent infrastructure and pandemic-related spending.

People are looking for security and the confidence that they can protect their money, build wealth, and protect their legacies. They are increasingly turning to cash value life insurance and annuities to accomplish this.

Which Way is Up? Heading toward the end of 2022, the stock market and most qualified plan balances are down 20% or more for the year. This means that not only is 2022 a lost year when it comes to savings and wealth accumulation, but that principal is at risk, making it extremely difficult to meet financial goals and objectives, especially when considering qualified plan contribution limits and discrimination rules.

Compounding this crisis is the increase in the lifespan of affluent Americans. According to a 2020 report by Opportunity Insights, a policy institute based at Harvard University, those in the top 10% of household income can expect to live to age 88. This longevity is a potential risk in that the savings and income goals established a decade ago or longer likely greatly underestimated the amount of money that will be needed

to maintain expected lifestyles and to meet medical and other long term care needs.

Permanent Life Insurance Cash value life insurance is often associated with death benefit planning. Those needing liquidity to meet tax liabilities or to see to the care of others turn to life insurance for its income tax-free death benefit. While this immediate and tax-advantaged benefit is attractive, it is only a small part of what life insurance offers to a financial plan. Other attractions include:

- **Predictability** General Account life insurance products are interest rate sensitive and earn stable returns. Universal Life and Whole Life products currently earn between 4.50% and 6.00%. Indexed Universal Life products offer floors of 0.00% and upside potential up to 10.00% or uncapped within newer structures.
- **Tax Efficiency** Money inside of a life insurance policy grows tax-free and, if structured properly, distributions can be taken from a policy tax-free. Better still, there are no regulatory contribution limitations or age minimums to receive distributions without penalty. As an asset the policyholder owns and controls, a life insurance policy can be tapped to supplement retirement, purchase real estate, meet educational expenses, etc. If the money is not needed and is left to grow within the policy, the entire balance transfers to heirs income tax-free.
- **Guarantees** Many modern life insurance policies available in the market today offer the policyholder contractually guaranteed costs and benefits to and through life expectancy.

Planning Opportunities Both affluent individuals and business can benefit from life insurance’s unique characteristics.

For Private Clients

- **Volatility Control** Cash value life insurance can be an ideal buffer asset in times of volatility. When other asset classes are down, a policy can be accessed tax-free and allow for faster recovery, thereby greatly lowering return sequence risk.
- **Risk Management** Policy cash values and death benefits of General Account products have significant contractual guarantees. As such, they allow for the risk metrics of a diversified portfolio to move into the Northwest quadrant of the efficient frontier – low risk/high return.

For Business Owners/Leaders

- **Key Talent Retention** Studies indicate that many employees feel underinsured and would welcome supplemental life insurance as part of their overall benefits offerings.¹ This will greatly help with retaining, recruiting or rewarding key human capital.
- **Tax Mitigation** Highly compensated business owners looking to maximize their tax savings now and/or later should consider Cash Balance or Profit-Sharing Plans funded with General Account permanent life insurance policies. With proper structuring, these insurance products can greatly enhance tax benefits.



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Annuities A primary concern of those working today is securing adequate retirement income that will support them through retirement. Their concerns are valid as statistics show half of U.S. retirees are at risk of being unable to maintain their pre-retirement standard of living based on current savings levels.² For most workers, their workplace retirement plans have been the most effective way to accumulate assets and will provide the greatest portion of replacement income in retirement (36 percent).³ Over the past 40 years, 401(k) plans, which focus on do-it-yourself asset accumulation, have become the most prevalent employee retirement plan offered in the workplace, displacing defined benefit plans, under which employers guaranteed retirement income to participants.⁴ Annuities are growing in popularity with features and benefits designed to provide guaranteed future income. Common characteristics include:

- **Yield** Deferred annuities currently offer guaranteed returns in the of 4.00% to 5.00% range. Indexed Annuities (FIA's) currently offer 0.00% floors with upside potential of up to 10.00% or uncapped within newer structures.
- **Tax Efficiency** Annuity holder pays no income taxes on the earnings from their annuity investments until they begin making withdrawals or receiving periodic payments. Note that withdrawals prior to age 59½ may be subject to an additional 10% tax.
- **Lifetime Income** Typically, the annuity holder will have several options for receiving annuity payments for the rest of their life, including the choice of continuing payments to beneficiaries for a set period of time.

Living Benefits Contrary to common belief, annuities have come a long way and now offer many attractive features including:

- **Liquidity** Most carriers offer 10% penalty free withdrawals. If there are triggering events, like a long-term health care event, liquidity and/or income benefits can be considerably higher.
- **Riders** A welcome evolution in the annuity market is how annuities can be customized to clients' specific needs. If someone is uninsurable for life and/or long-term care coverage, annuities can be an attractive Plan B. Many carriers also offer attractive bonuses and roll-up rates that will guarantee an income in retirement regardless of the underlying investment performance.

Planning Opportunities As with life insurance, affluent individuals and businesses are seeking out the tax and planning benefits of annuities.

For Private Clients

- **Cash or Bond Alternative** Many clients now use annuities to enhance their idle cash and/or bonds yields.
- **Life Insurance Funding** Annuities can be a powerful estate planning tool. With proper structuring, they can be removed from a taxable estate and fund trust owned life insurance until the insured(s) dies, whenever that may be.

For Business Owners/Leaders

- **Pension Risk Transfer** Underfunded pension plans make annuities an attractive alternative. IBM recently moved \$16B of pension risk to several large insurance carriers.⁵

- **Fiduciary Risk Mitigation** Studies indicate that employees would invest into annuities within their qualified retirement plans if they were offered.⁶ Plan sponsors and trustees should keep an eye on this issue to limit their liability.

Peace of Mind In today's environment of financial uncertainty, life insurance and annuities can be depended upon to secure and protect income, to meet estate planning liabilities and to guard generational wealth.

The life insurance companies we work with are among the most well-capitalized and highest rated in the world, allowing policyholders to rely upon their products for their tax efficient features and contractually guaranteed benefits.

At Stuermann Consulting, we know how to help our affluent clients and their advisors select and implement the life insurance and annuity solutions best suited for their planning goals and objectives.

¹ Miller, S. (2022, May 9). *Employees want voluntary benefits but don't always understand them*. SHRM.

² Center for Retirement Research at Boston College, *The National Retirement Risk Index: an update from the 2019 SCF*, January 2021

³ Social Security Administration (SSA), *Improving the Measurement of Retirement Income of the Aged Population*, 2021

⁴ Plan Sponsor Council of America, *63rd Annual Survey*, 2020

⁵ Katz, M. (2022, September 14). *IBM completes \$16 billion pension risk transfer*. PLANSPONSOR.

⁶ Manganaro, J. (2022, October 6). *What the future of annuities means for advisors*. ThinkAdvisor.