



# Insurance Solutions for a Lifetime of Needs

## Living Benefits of Life Insurance in the Age of Longevity

As financial professionals, we're constantly seeking strategies that not only protect our clients but also enhance their long-term financial health. In today's world, where individuals live longer and healthier lives, life insurance has evolved beyond merely a vehicle for providing a death benefit. It's a dynamic tool that can be leveraged throughout a client's lifetime, addressing various financial needs as they age.



According to a 2024 MassMutual survey, the **average retirement age is 62**, which has stayed relatively consistent since 2012.<sup>1</sup>

For those navigating the complexities of longevity, the often-overlooked living benefits of life insurance can be a game-changer. These benefits offer flexibility, opportunities for financial growth, and critical access to funds when unexpected needs arise. Your clients can leverage life insurance for retirement income, to fund long term care, or to manage expenses incurred during a critical illness. Here's a deeper look at how life insurance can address the financial challenges of living longer.

## Cash Value Growth and Tax Efficiency for Retirement

Permanent life insurance policies, such as whole life or universal life, may accumulate cash value over time, which grows tax-deferred. This cash value can be accessed tax-free through policy loans or withdrawals, providing flexibility as a supplemental income stream in retirement or as a safety net for emergencies. Life insurance also offers a unique tax-free income bucket that can complement taxable and tax-deferred accounts, making it a valuable tool for a broader retirement income strategy.

### How Permanent Life Insurance Can Help:

- **Tax-deferred growth:** Cash value in a permanent life insurance policy grows without annual tax liabilities.
- **Flexible income access:** Withdrawals are made basis first, so clients will only owe taxes once gains are withdrawn.
- **Tax-free loans:** When taken, loans from the policy are not subject to tax, offering a reliable, tax-free income source.\*
- **Income stream flexibility:** Clients can pause or adjust withdrawals based on their income needs each year.

### A Long-Term Strategy for Today's Market

In today's unpredictable markets, the stability and flexibility offered by life insurance cash value can be particularly appealing. However, as with any long-term strategy, patience is key. A 15 to 20-year time horizon is often recommended for optimal results as the value compounds over time—typically, the longer, the better. Additional long-term benefits include:

- **Creditor protection:** Cash value may be protected from creditors in many states, providing an extra layer of security.
- **Self-completing plan:** If the policyholder passes away prematurely, the death benefit is paid out income tax-free to beneficiaries, fulfilling the policy's intended purpose.

### Let's Look at a Client Example

**Profile:** Melinda is a 47-year-old, successful executive at a large software company. She made the maximum contributions permitted to her employer's qualified plan and is interested in saving more and diversifying her income in retirement. She is also concerned about having liquidity available for funding her children's educations should she die during her earning years.

**Solution:** Melinda will fund a life insurance policy with \$40,000 for the next twenty years. The policy will have a death benefit of \$750,000 in the first year, which could be used for the children's education costs if she passes away. Assuming a 6% rate of return, in year 21, she can receive a tax-free income stream of \$129,556 for 15 years for a total of \$1,943,340. Assuming a 40% income tax bracket, that's a savings of \$457,336 in income taxes.



\* If the policy lapses, the loans will be recharacterized as distributions and will be taxable to the extent that they exceed the policy basis.

## Enhancing Spendable Income with Life Insurance

Life insurance can provide tax-free supplemental income, significantly enhancing a retirement strategy. For instance, a taxable distribution of \$150,000 from a retirement account, assuming a 40% tax rate, results in only \$90,000 of spendable income. By contrast, a \$150,000 distribution from a life insurance policy's tax-free bucket allows the policyholder to retain the total amount, translating to an additional \$60,000 in spendable income. This tax-free feature, paired with the flexibility to adjust or stop withdrawals as needed, makes life insurance an especially powerful tool for retirees facing an uncertain tax environment.

Recent updates to federal regulations under IRC section 7702 have strengthened the appeal of cash value life insurance in retirement planning. Policyholders can contribute more to their policies without facing adverse tax consequences, enabling greater growth potential in the policy's early years. These changes and the tax and product benefits mentioned previously have prompted many to reconsider life insurance as a valuable component of a retirement portfolio.

## Living Benefits Through Policy Riders

While the cash value component of permanent life insurance provides significant financial flexibility, it's not the only living benefit to consider. Many policies can be enhanced with riders\* that cover critical life events, such as long term care or serious illness. These benefits are especially important as people live longer, increasing the likelihood of needing some form of extended care later in life. According to LongTermCare.gov, 65-year-olds today have almost a 70% chance of needing extended care assistance in their remaining years.<sup>2</sup> With the high cost of long term care services and many individuals not having separate long term care policies, these riders can offer a crucial safety net. By allowing policyholders to access a portion of their death benefit while still alive, they provide vital financial support during times of medical or extended care needs. Let's explore how these additional riders can strengthen an overall financial plan.



**45%** of those age 65 and older **believe Medicare will cover long term care expenses**, when in fact **Medicare only pays for short term stays of 100 days or less** following a qualifying hospitalization.<sup>3</sup>

## Long Term Care

According to a recent Retirement Income Literacy Study conducted by the American College of Financial Services, one of the top areas of concern for Americans approaching retirement is paying for long term care expenses. Despite this apparent awareness of high costs, 80% of the respondents in the survey stated they do not have a plan to pay for these potential expenses.<sup>4</sup>

In recent years, many permanent life insurance policies have been designed to offer long term care riders that allow the policyholder to access their death benefit early, providing liquidity to cover long term care costs. If a qualifying extended care event occurs, these riders can support various care needs, including in-home care, assisted living, or a nursing home. Accessing these funds while still alive can protect a client's other financial assets, like savings or investments, from being depleted. It also ensures that clients receive the care they need without sacrificing their quality of life.

\* Policy riders are available at an additional cost and may not be available for all products or in all states. Terms and conditions apply.



## Are clients underestimating their extended care needs?

# 60%

of Americans **between the ages of 50 and 75** have not taken any action towards a **long term care plan** in any capacity.<sup>4</sup>



### Critical or Chronic Illness

In addition to long term care, some life insurance policies offer accelerated benefit riders for critical or chronic illnesses. These provisions allow policyholders to tap into their death benefit if they are diagnosed with a serious condition such as cancer or heart disease, have a stroke, or develop a chronic condition requiring ongoing care.

This benefit provides financial relief during one of life's most challenging times. It allows policyholders to focus on recovery rather than worrying about how to cover medical costs or manage daily expenses. By utilizing this early access to funds, clients can avoid dipping into their retirement accounts or selling off investments, preserving their long-term financial security.

### Policy Loans for Financial Emergencies

Unexpected financial emergencies can happen at any stage of life. Permanent life insurance policies with accumulated cash value offer clients a unique source of liquidity in such situations. Policyholders can borrow against their cash value without undergoing a credit check, and unlike traditional loans, these policy loans do not come with strict repayment schedules.

This flexibility makes life insurance a versatile resource in times of financial strain, whether due to a job loss, economic downturn, or sudden medical expense. Accessing these funds quickly and on favorable terms can help clients avoid dipping into their savings or liquidating other investments.

### Bottom Line

Navigating the economic challenges of longer, healthier lives, requires adapting financial planning. Life insurance can play an essential part in a smart asset mix for appropriate clients. As valuable as providing a death benefit to protect family and loved ones, life insurance can also provide far more. It's a multi-dimensional tool that can help address a wide array of needs throughout a client's lifetime, from providing supplemental income in retirement to covering healthcare expenses and managing financial risks.

By helping your clients view life insurance through this broader lens, you can offer solutions that evolve with their lives—helping them achieve financial security, regardless of what the future holds. Contact your Crump representative to help assess life insurance's role in your clients' plans and find policies designed to suit their needs. The comfort of knowing there will be enough income planned for retirement to allow for a comfortable lifestyle can go a long way in helping your clients live their best lives!

## Contributor

**Carma McCallie, J.D.**, is a Vice President of Advanced Sales at Crump. She oversees a team of analysts and insurance design specialists who specialize in cases involving complex estate, business and charitable planning strategies. Carma and her team work directly with financial professionals to provide case analysis and technical illustrations for cases involving planning with life insurance. Carma has been with the company since 2008 and has over 25 years of experience in the estate and business planning arena.

## End Notes

<sup>1</sup> [What is the Average Retirement Age in the U.S.?; NerdWallet](#)

<sup>2</sup> [How Much Care Will You Need?; LongTermCare.gov](#)

<sup>3</sup> [Does Medicare Cover Nursing Homes?; National Council on Aging](#)

<sup>4</sup> [Long Term Care Trends and Strategies; The American College of Financial Services](#)

Contact your Crump representative today to discuss the role permanent life insurance can play in retirement planning.



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