Global Atlantic
FINANCIAL GROUP

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# TAX-READY RETIREMENT

## Making the most of a down market with Indexed Universal Life Insurance

 

# Prepare for market downturns in retirement. Consider this potential solution.

Whether looking for a job, meeting your spouse or winning the lottery, good timing can have a positive impact on the events of one's life. On the other hand, bad timing can have a negative impact.

Retirement is a life event that could be seriously affected by timing.

If you retire at the beginning of a bull market, the assets you have invested in equity accounts may appreciate substantially. But equity markets can be volatile. Retire right before a market decline, at the beginning of a bear market, and the money you have invested in those same equity accounts could be significantly impacted.

So how do you know when it's the best time?

You don't.

The good news is that there are actions you can take to alleviate the impact of a market downturn.

## The potential impact of bad timing

This chart illustrates how “bad timing,” retiring at the start of a market downturn, can impact a hypothetical account worth $1,000,000, with annual retirement distributions of $64,103. This is the withdrawal amount necessary to produce annual, after-tax income of $50,000, assuming a 22% tax bracket.

| Year | Beginning of Year Balance | Annual Withdrawal | Balance minus withdrawal | Gain/Loss | Value Gain/Lost | End of Year Balance |
|---|---|---|---|---|---|---|
| 2000 | $1,000,000 | $64,103 | $935,897 | -9.11% | -$85,260 | $850,637 |
| 2001 | $850,637 | $64,103 | $786,534 | -11.89% | -$93,519 | $693,015 |
| 2002 | $693,015 | $64,103 | $628,912 | -22.10% | -$138,990 | $489,922 |
| 2003 | $489,922 | $64,103 | $425,819 | 28.68% | $122,125 | $547,944 |
| 2004 | $547,944 | $64,103 | $483,841 | 10.88% | $52,642 | $536,483 |
| 2005 | $536,483 | $64,103 | $472,380 | 4.91% | $23,194 | $495,574 |
| 2006 | $495,574 | $64,103 | $431,471 | 15.79% | $68,129 | $499,601 |
| 2007 | $499,601 | $64,103 | $435,498 | 5.49% | $23,909 | $459,406 |
| 2008 | $459,406 | $64,103 | $395,303 | -39.30% | -$155,354 | $239,949 |
| 2009 | $239,949 | $64,103 | $175,846 | 26.46% | $46,529 | $222,375 |
| 2010 | $222,375 | $64,103 | $158,272 | 15.06% | $23,836 | $182,108 |
| 2011 | $182,108 | $64,103 | $118,005 | 2.05% | $2,419 | $120,424 |
| 2012 | $120,424 | $64,103 | $56,321 | 12.44% | $7,006 | $63,327 |
| 2013 | $63,327 | $63,327 | $0 | 29.60% | $0 | $0 |
| 2014 | $0 | $0 | $0 | 11.39% | $0 | $0 |
| 2015 | $0 | $0 | $0 | -0.73% | $0 | $0 |
| 2016 | $0 | $0 | $0 | 9.54% | $0 | $0 |
| 2017 | $0 | $0 | $0 | 19.42% | $0 | $0 |
| 2018 | $0 | $0 | $0 | -6.24% | $0 | $0 |
| 2019 | $0 | $0 | $0 | 28.88% | $0 | $0 |

## What happened?

This hypothetical chart demonstrates the potential impact of retiring during a declining economic period. Because withdrawals corresponded with consecutive down markets, the account lost over half its value in just the first three years. In 13 years, market losses and withdrawals reduced the account to zero.
This example assumes an IRA with a beginning balance of $1 million and retirement on January 1, 2000. Account gains and losses were determined using actual S&P 500® Index performance from 2000 - 2019.[1]

If these funds were your only source of income in retirement, the first three years of retirement would have been very tumultuous. From 2000 – 2003, the account would have lost almost half its value!

Down markets are inevitable. If one occurs well before your retirement, you may have time to fully recover. But when a downturn happens just before — or during — retirement, it can sometimes be difficult to recover. If the overall value of your assets declines the amount of money you can access to support yourself throughout retirement can be negatively impacted as well.

In short, losses due to a down market may compound the impact of withdrawing money from retirement accounts.

[1] These index returns do not include dividends and are based on calendar year changes in the index. Other beginning and ending dates could produce significantly different outcomes.

## What can you do?

One solution to bad timing is to minimize the effect of market losses. And one way to minimize the effect of market losses on your retirement assets is to hold off on withdrawing money the year after a market decline. Looking at our earlier example, if you avoided taking annual withdrawals in the year following a market downturn, you wouldn't risk compounding losses, and at the end of the period you would have a balance over $520,000!*

| Year | Beginning of Year Balance | Annual Withdrawal | Balance minus withdrawal | Gain/Loss | Value Gain/Lost | End of Year Balance |
|---|---|---|---|---|---|---|
| 2000 | $1,000,000 | $64,103 | $935,897 | -9.11% | -$85,260 | $850,637 |
| 2001 | $850,637 | $0 | $850,637 | -11.89% | -$101,141 | $749,496 |
| 2002 | $749,496 | $0 | $749,496 | -22.10% | -$165,639 | $583,857 |
| 2003 | $583,857 | $0 | $583,857 | 28.68% | $167,450 | $751,308 |
| 2004 | $751,308 | $64,103 | $687,205 | 10.88% | $74,768 | $761,973 |
| 2005 | $761,973 | $64,103 | $697,870 | 4.91% | $34,265 | $732,135 |
| 2006 | $732,135 | $64,103 | $668,032 | 15.79% | $105,482 | $773,514 |
| 2007 | $773,514 | $64,103 | $709,411 | 5.49% | $38,947 | $748,358 |
| 2008 | $748,358 | $64,103 | $684,255 | -39.30% | -$268,912 | $415,343 |
| 2009 | $415,343 | $0 | $415,343 | 26.46% | $109,900 | $525,242 |
| 2010 | $525,242 | $64,103 | $461,139 | 15.06% | $69,448 | $530,587 |
| 2011 | $530,587 | $64,103 | $466,484 | 2.05% | $9,563 | $476,047 |
| 2012 | $476,047 | $64,103 | $411,944 | 12.44% | $51,246 | $463,190 |
| 2013 | $463,190 | $64,103 | $399,087 | 29.60% | $118,130 | $517,217 |
| 2014 | $517,217 | $64,103 | $453,114 | 11.39% | $51,610 | $504,723 |
| 2015 | $504,723 | $64,103 | $440,620 | -0.73% | -$3,217 | $437,404 |
| 2016 | $437,404 | $0 | $437,404 | 9.54% | $41,728 | $479,132 |
| 2017 | $479,132 | $64,103 | $415,029 | 19.42% | $80,599 | $495,628 |
| 2018 | $495,628 | $64,103 | $431,525 | -6.24% | -$26,927 | $404,597 |
| 2019 | $404,597 | $0 | $404,597 | 28.88% | $116,848 | $521,445 |

*** This chart is a hypothetical example**

## Where will income come from?

You might be wondering where income will come from if you were to follow the hypothetical example in the chart above.

## Have you considered cash value life insurance?

One possible solution is an Indexed Universal Life insurance policy (IUL) from Global Atlantic.

An IUL policy is a type of cash value life insurance that allows for the growth of cash values while also providing protection from certain types of risks. Interest is credited to policy cash values based in part on the positive movement of a major financial index, like the S&P 500® Index, subject to certain limitations. These may include cap rates, participation rates and strategy expense charges. An IUL policy also provides you with protection from negative market returns, since zero is the lowest amount of interest that can be credited to the policy. In years when zero interest is credited, the policy's values do not decline as long as premium payments are sufficient to cover policy charges.

Keep in mind that it takes time for cash value to accumulate so acquiring a policy should be done well in advance of retirement in order to experience some of the benefits cash value life insurance may provide as outlined in this brochure.

The cash value that accumulates inside an IUL policy can provide a flexible source of funds to supplement your retirement income. It potentially gives you an alternative source of income during those down market years, preserving more of the value of your other retirement accounts. In the year following a year when a market downturn occurred, the retiree could have accessed IUL policy values for the desired distribution.

## How can life insurance help?

### An IUL policy from Global Atlantic may provide the following potential benefits:

- Your policy would provide an income tax-free death benefit to your beneficiaries.[1]
- Your policy would earn interest credits based in part on the upward movement of a stock market index.
- Your policy's values are not invested directly in the market or a market index.
- Your policy's values are not reduced due to a market downturn, assuming premiums paid are sufficient to cover policy charges.
- You can access the cash value of an indexed universal life insurance policy on a tax-advantaged basis.

## Now imagine the scenario:

Instead of withdrawing from your retirement account following a down year in the market, you may access cash value from your IUL policy. You preserve a larger percentage of your retirement account, which will help it last longer. Plus, your life insurance policy still has cash value you can access in the future, assuming you have adequately funded your policy. An IUL policy can provide tax deferred accumulation of policy cash values and tax advantaged distributions[2]. In addition, the income tax-free policy death benefit can protect your income during your working years, and ultimately help assure a legacy to your family[1].

The key to this concept is to use the cash value that has accumulated in the IUL policy as a supplemental source of retirement income ONLY in a year following a negative year in the market. By accessing the cash value in the life insurance policy we avoid "locking in" losses in other retirement accounts by taking distributions when they are down due to a market downturn.

In the years when the market is negative, tax-advantaged policy loans can be utilized to provide the necessary income to meet financial needs during retirement. By having cash value life insurance as an alternative source of funds you can decide the right time to access the values in your retirement account while also ensuring you have the death benefit protection your family needs.

[1] IRC §101(a)(1).
[2] Via withdrawals up to cost basis and/or policy loans. Assumes the policy remains in force and is not surrendered or lapsed.

**To learn more** about how Indexed Universal Life Insurance can help you in your retirement planning, visit **globalatlantic.com**, or contact a licensed Life Insurance Professional.

**The intent of this material is NOT to suggest liquidating retirement assets to fund a life insurance policy but to demonstrate how a permanent life insurance policy can serve as a versatile complement to other retirement assets and savings vehicles.**

**The availability of cash value from the life insurance policy assumes that the policyholder has paid sufficient premiums over time to build cash value and received a certain amount of interest on the policy's account value. It's also important to understand that the cash value of a universal life policy supports the internal charges of the policy. If the cash value falls to a point where it cannot support policy charges, the policy may lapse and the policyholder could lose insurance coverage. It's always important to keep track of the policy's account value, especially if you expect to take out a policy loan. Outstanding loan amounts may be taxable upon lapse or surrender of the policy.**

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