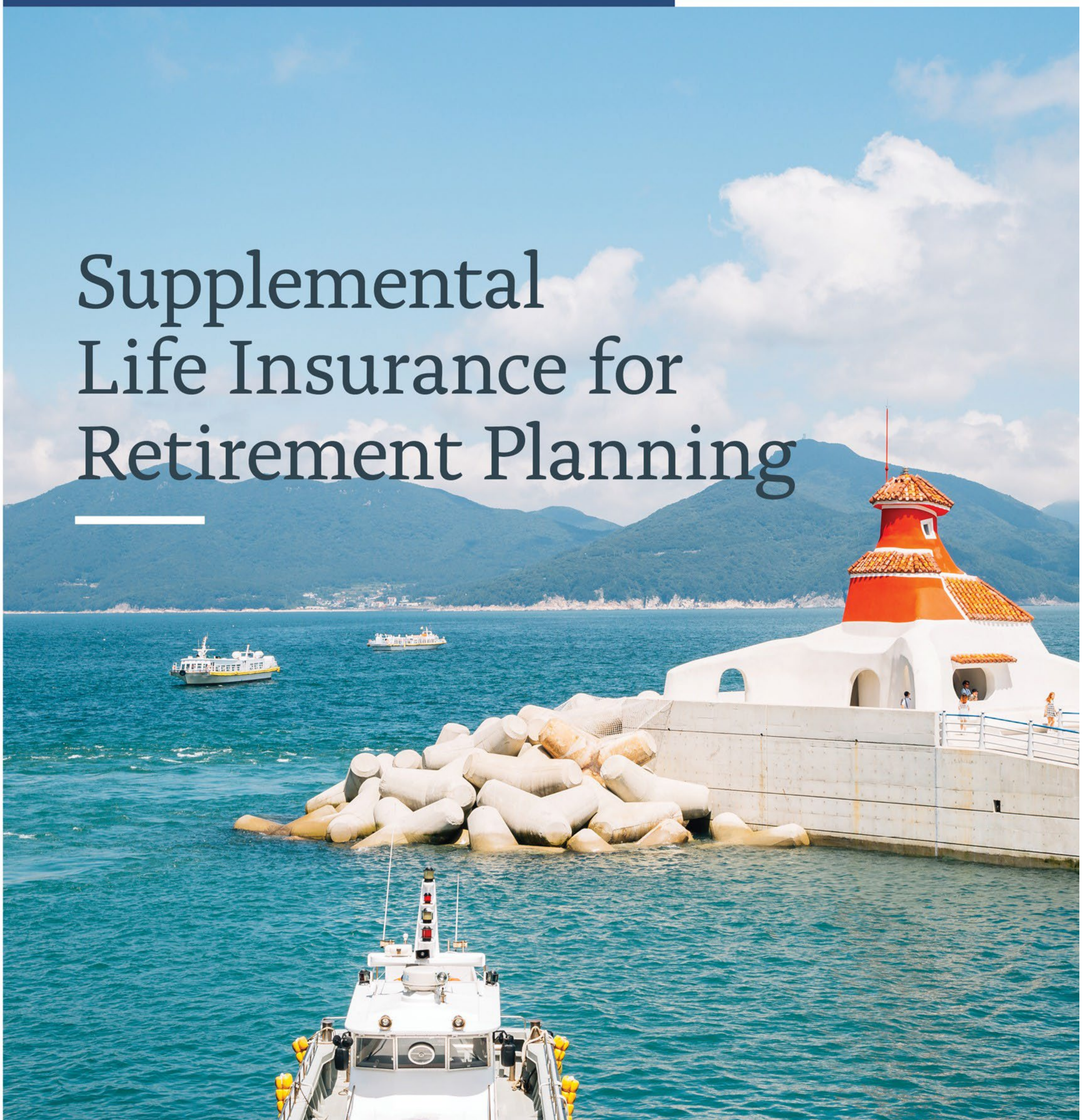
THE NAUTILUS GROUP®

Supplemental Life Insurance for Retirement Planning



Supplemental Life Insurance for Retirement Planning

Although the primary reason for purchasing life insurance is for death benefit protection, there exist secondary reasons that can be almost as important, such as cash value accumulation and/or chronic care components. Supplemental life insurance for retirement planning (SLIRP) uses a life insurance policy structured to generate a tax-deferred cash flow during retirement and provide income tax-free death benefit proceeds upon the insured's death.

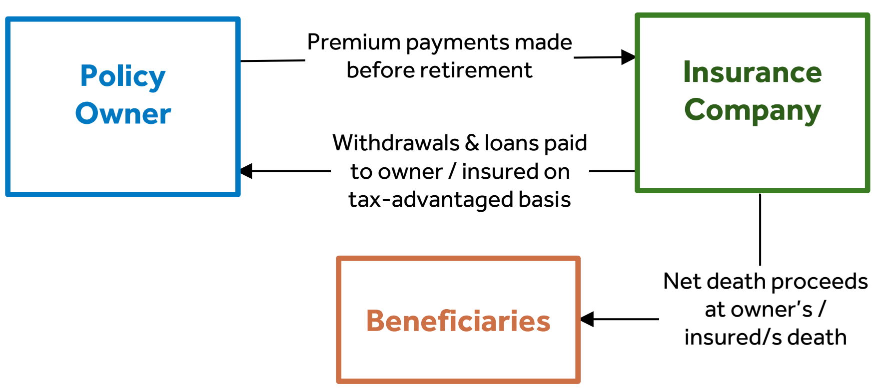
This technique may be advantageous to an individual wishing to supplement his/her retirement income, and avoid the contribution, vesting, and participation limits that apply to qualified retirement plans and individual retirement accounts. Also, the SLIRP technique allows the owner to access policy cash values without imposition of the 10% penalty that may apply if qualified retirement plans are accessed prior to age 59½. Additional benefits of the SLIRP technique include:

- Upon the insured's death, beneficiaries will receive death benefit proceeds, often leveraging the funds that would otherwise be available for survivor income needs;
- The income and contribution limits applicable to Roth IRAs do not exist;
- Some states have statutes in place protecting life insurance cash values and/or death benefits from the creditors of the owner or beneficiaries; and
- Unlike other retirement funding options, the arrangement is flexible and can be tailored to fit the needs of the individual.

Description

Premiums are paid into a permanent life insurance policy with the intent to provide a death benefit as well as cash value accumulation for as long as the policy remains in force. A portion of the premium funds death benefit protection and the remaining premium increases the policy's cash value. Increases in the policy's cash value are not subject to income tax for as long as the policy remains in force.

At the time when retirement funds are needed, cash surrender values can be withdrawn income tax-free up to the owner's cost basis in the policy for as long as the policy is not classified as a modified endowment contract (MEC). Cost basis is generally the total premiums paid. When withdrawals exceed cost basis, the owner might choose to take loans against the cash surrender value, with interest calculated at the current policy rate. Interest which is not paid would be added to the outstanding loan amount.



Upon the insured's death, net death benefit proceeds will be paid to the designated beneficiaries, income tax-free. If a policy loan is outstanding at the time of death, the distribution of the death proceeds will be reduced by the amount of the outstanding loan and accumulated interest.

Accessing policy cash values

The extent to which cash value may be accessed depends on the type of permanent life insurance policy. The owner of a **whole life** policy may surrender paid-up additions and take loans against the policy's cash value. In the case of a **universal life** policy, an owner may make withdrawals in addition to taking loans against cash value. Withdrawals would also reduce the total death benefit of the policy.

Tax considerations

Estate tax

If the policy is owned by the insured outright, upon the death of the insured, proceeds would be included in the owner's taxable estate. To avoid inclusion of proceeds in the taxable estate, the owner might consider having an irrevocable trust own the policy. Ownership of life insurance through an irrevocable trust enables the trust grantor to remove policy values from his/her taxable estate. Upon the insured's death, the trustee receives life insurance proceeds estate tax free.

If the policy is owned by an irrevocable trust, cash value may be accessed through spousal access provisions, loans from the trust, or funding policy premiums through a split dollar arrangement.

Gift tax

If the policy is owned outright, the payment of premiums would not be considered a gift. If, however, the policy is owned by an irrevocable trust, the grantor can utilize gifts to the trust to fund ongoing premiums. The annual gift tax exclusion amount allows a donor to give up to $19,000 (in 2026) to an unlimited number of recipients per year without being deemed a taxable gift. However, only "present interest" gifts qualify for the annual gift tax exclusion. To ensure gifts to an irrevocable trust qualify as present interest gifts, trusts often include "Crummey" withdrawal provisions, giving each beneficiary a limited right to withdraw gifts to the trust. In addition to relying on the annual gift tax exclusion to make tax-free gifts to an irrevocable trust, an individual may utilize the basic exclusion amount ($15 million in 2026) to make tax-free gifts to the trust to fund ongoing premiums.

Income tax

As described above, withdrawals up to the owner's basis in the policy are generally received income tax-free. Loans taken against policy cash value are also income tax-free as long as the policy remains in force. Loan interest must be paid or accrued at the current policy rate.

If the policy lapses or is surrendered during the insured's life, income tax is owed on any gain in the policy at ordinary income tax rates. If a policy loan is outstanding at the time of death, in general, the use of the death proceeds to repay a policy loan does not cause the recognition of taxable income with respect to the policy's death proceeds.

The 3.8% Medicare surtax does not apply to cash value withdrawals (for as long as the policy is not a MEC). The Medicare surtax is imposed on the lesser of a taxpayer's net investment income and the excess of modified adjusted gross income over $200,000 for single taxpayers and $250,000 for married taxpayers filing jointly. (These adjusted gross income amounts are not adjusted annually for inflation.)

Additionally, lifetime access to policy cash value is not added to adjusted gross income in determining whether Social Security benefits are subject to income tax as well as the increase in certain Medicare premiums. In contrast, tax-free municipal bond income is included in the calculation.

As a result of H.R.1 of the 119th Congress (commonly known as the One Big Beautiful Bill Act), the estate, gift, and generation skipping tax exemptions amounts enacted under the Tax Cuts and Jobs Act of 2017 were made permanent. Effective January 1, 2026, the exemption amount will be $15 million per person ($30 million for a married couple), with annual adjustments for inflation. For asset transfers in excess of the applicable exemption amount and otherwise subject to such taxes, the highest applicable federal tax rate remains at 40%. In addition, under different rates, rules, and exemption amounts (if any), there may be state and local estate, inheritance, or gift taxes that apply in your circumstances. The cash value in a life insurance policy is accessed through withdrawals and policy loans, which accrue interest at the current rate. Loans and withdrawals will decrease the cash surrender value and death benefit. This tax-related discussion reflects an understanding of generally applicable rules and was prepared to assist in the promotion or marketing of the transactions or matters addressed. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding any IRS penalties that may be imposed upon the taxpayer. New York Life Insurance Company, its agents and employees may not provide legal, tax or accounting advice. Individuals should consult their own professional advisors before implementing any planning strategies. These materials are prepared by The Nautilus Group®, a service of New York Life Insurance Company, and are made available to all Nautilus member agents and, as a courtesy, to select agents of New York Life Insurance Company. SMRU 5018378 Exp. 12/31/2028