Life

# Beyond the 401(k): Mitigating volatility with indexed universal life insurance

North American Company for Life and Health Insurance®

If you're maximizing your employer's 401(k) match and still have funds left over, life insurance can offer valuable death benefit protection and additional options for your family's future. While many factors remain beyond our control, indexed universal life (IUL) insurance can help mitigate the financial impact of those uncertainties. In addition to death benefit protection, an IUL provides the potential for tax-deferred cash value growth.

FACTORS BEYOND OUR CONTROL


## Mitigate market volatility

Including an IUL policy as an asset in your financial portfolio can help lower the portfolio's overall volatility due to market fluctuations. The index account has a zero percent floor and its starting value resets every year. If the index experiences negative growth or no growth, no credits will be applied to the index account, as we provide a zero percent floor. The index credited will not be less than zero percent.

The index account is also subject to a cap, or a maximum interest rate, participation, or spread that is used in the calculation of the index credit. The index cap, participation, or spread rate will be declared for each index segment in advance of each index period.

While none of the index account options we offer are direct investments in the market, there is an index account option which can seek to reduce the effect of market volatility even further. The Fidelity Multifactor Yield Index℠ 5% ER blends six equity factor indices with U.S. Treasuries, and uses a dynamic allocation approach that seeks to reduce volatility to deliver more consistent returns over time. Talk to your financial professional for more information on this index.

## Mitigate the effect of taxes

It may be beneficial to seek out sources of tax-advantaged retirement funds to balance out tax-deferred options, like many company sponsored retirement accounts. Let's take a look at tax-deferred and tax-advantaged money at work. In this hypothetical example, a 401(k) provides tax-deferred money and policy loans from a life insurance policy offer tax-advantaged money.

**In this example**:
- You and your significant other are starting retirement this year.
- You require $150,000 per year after tax for living expenses.
- 2024 federal tax rates, $29,200 standard deduction for Married Filing Jointly, and 6% state income tax.[1]

| **Tax-Deferred** | |
|---|---|
| ***Tax-deferred withdrawal from 401(k):*** | $183,236 |
| ***Taxes:*** | - $33,236 |
| | $150,000 |
| Total Annual Withdrawal | **$183,236** |

| **Tax-Deferred[2] & Tax-Advantaged** | |
|---|---|
| ***Tax-deferred withdrawal from 401(k):*** | $96,683 |
| ***Taxes:*** | - $11,683 |
| ***Policy loan:[3]*** | + $65,000 |
| | $150,000 |
| Total Annual Withdrawal | **$161,683** |

An option that combines tax-deferred and tax-advantaged withdrawals could save you about **$21,553** each year during retirement! That's a difference of **$431,060** over a 20-year retirement.

NOTE: The above hypothetical information is based on 2024 tax information. This is subject to change as tax rules are updated.

## A life insurance solution

It can all come together with life insurance as a self-completing plan, a way to have an important piece of your financial plan realized, whether or not you're alive.

**If you pass away unexpectedly**, life insurance can provide immediate funding to help provide for your loved ones' current and future needs.

**Or as you enter retirement**, it can help to both supplement your retirement income and help ensure you have the money you need as you age.

## Important considerations of using permanent life insurance:

- **Cost of insurance charges (COIs) or other charges:** Life insurance comes with charges that you need to be aware of for planning purposes.
- **Loss of premium and maintaining the death benefit:** Depending on funding, life insurance may not guarantee avoiding loss of premium. Also, additional premiums may be necessary to continue the desired death benefit, depending on funding. These are important to consider when using the cash value from a permanent life insurance policy to help supplement retirement income.
- **Surrender charges:** Withdrawals may be subject to surrender charges and the amount available for policy loans.

## Summary and next steps

Permanent life insurance can help protect you and your family against life's uncertainties.

Think about your specific situation and what you may need to do to help ensure you have both adequate death benefit protection and supplemental retirement income. Consider the following:

- Determine your death benefit need.
- If applicable, take full advantage of your employer's retirement account matching program.
- Contact your tax advisor to see if tax-advantaged sources would work in your situation.
- and... **Talk to your financial professional to determine if a retirement planning strategy including permanent life insurance is right for you.**

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1. Source: https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2024

2. The tax-deferred feature of a universal life policy is not necessary for a tax-qualified plan. In such instances, you should consider whether other features, such as the death benefit and optional riders make the policy appropriate for your needs. Before purchasing this policy, you should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product. Neither North American nor its agents give legal or tax advice. Please consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

3. Policy loans from life insurance policies generally are not subject to income tax, provided the contract is not a Modified Endowment Contract (MEC), as defined by Section 7702A of the Internal Revenue Code. A policy loan or withdrawal from a life insurance policy that is a MEC is taxable upon receipt to the extent cash value of the contract exceeds premium paid. Distributions from MECs are subject to federal income tax to the extent of the gain in the policy and taxable distributions are subject to a 10% additional tax prior to age 59½, with certain exceptions. Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. Consult with and rely on your tax advisor or attorney on your specific situation. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

Life insurance policies have terms under which the policy may be continued in force or discontinued. Current cost of insurance rates and interest rates are not guaranteed. Therefore, the planned periodic premium may not be sufficient to carry the contract to maturity. In no case will the interest credited be less than 0 percent. Please refer to the customized illustration provided by your agent for additional detail. The policy's death benefit is paid upon the death of the insured. The policy does not continue to accumulate cash value and excess interest after the insured's death. For costs and complete details, call or write North American Company for Life and Health Insurance, Administrative Office, One Sammons Plaza, Sioux Falls, SD 57193. Telephone: 877-872-0757.

The Fidelity Multifactor Yield Index 5% ER (the "Index") is a multi-asset index, offering exposure to companies with attractive valuations, high quality profiles, positive momentum signals, lower volatility and higher dividend yield than the broader market, as well as U.S. treasuries, which may reduce volatility over time. Fidelity is a registered trademark of FMR LLC. Fidelity Product Services LLC ("FPS") has licensed this Index for use for certain purposes to Midland National® Life Insurance Company (the "Company") on behalf of the Product. The Index is the exclusive property of FPS and is made and compiled without regard to the needs, including, but not limited to, the suitability needs, of the Company, the Product, or owners of the Product. The Product is not sold, sponsored, endorsed or promoted by FPS or any other party involved in, or related to, making or compiling the Index. The Company exercises sole discretion in determining whether and how the Product will be linked to the value of the Index. FPS does not provide investment advice to owners of the Product, nor to any other person or entity with respect to the Index and in no event shall any Product contract owner be deemed to be a client of FPS.

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