

Life Insurance and the Sequence of Returns

Insurance products are issued by North American Company for Life and Health Insurance®.

Life insurance plays an important part in a financial strategy. It provides a death benefit to your beneficiaries, helping to ensure your family doesn't live in hardship without you.

Yet, there's an often overlooked opportunity that a permanent life insurance policy can provide – access to the policy's potential cash value to supplement retirement income.

Mitigate risk

The money you've saved for retirement could last for your entire retirement, or it could fall short, based upon the economic conditions at the time of your retirement. The span of time just before and after your retirement date is the most vulnerable. The way those crucial years play out is called the "Sequence of Returns." In addition to the death benefit protection that only life insurance can provide, **a permanent life insurance policy could help mitigate the risk** of a depleted retirement account brought on by the Sequence of Returns.

Consider a hypothetical retirement account over the course of 20 years. It starts with a healthy balance of \$1,500,000 in the year 2000 and has \$50,000 annual withdrawals, which increase by 3% annually to account for inflation.

Year	Annual rate of return	Balance after return	Withdrawal	End of year balance
2000		\$1,500,000	\$50,000	\$1,450,000
2001	-13.0%	\$1,261,500	\$51,500	\$1,210,000
2002	-23.4%	\$1,052,700	\$53,045	\$999,655
2003	26.4%	\$765,736	\$54,636	\$711,099
2004	9.0%	\$898,830	\$56,275	\$842,554
2005	4.7%	\$918,384	\$57,964	\$860,420
2006	13.5%	\$900,860	\$59,703	\$841,157
2007	3.5%	\$954,714	\$61,494	\$893,220
2008	-38.5%	\$924,483	\$63,339	\$861,144
2009	23.5%	\$529,604	\$65,239	\$464,365
2010	12.8%	\$573,491	\$67,196	\$506,295
2011	1.5%	\$571,101	\$69,212	\$501,889
2012	13.4%	\$509,417	\$71,288	\$438,129
2013	29.6%	\$496,839	\$73,427	\$423,412
2014	11.4%	\$548,742	\$75,629	\$473,113
2015	-0.7%	\$527,047	\$77,898	\$449,149
2016	10.5%	\$446,005	\$80,235	\$365,770
2017	20.4%	\$404,175	\$82,642	\$321,533
2018	-6.2%	\$387,126	\$85,122	\$302,004
2019	28.9%	\$283,280	\$87,675	\$195,605

The retirement account is dangerously close to depletion after 20 years.

The information presented is hypothetical and not intended to project or predict investment results. Rate of return is based on the S&P 500® on the last trading day of the year. Does not include dividends. Source: North American Web-Based Illustration Platform

How a permanent life insurance policy could help

While the primary purpose of a life insurance policy is the death benefit, the policy's potential cash value could help in a time of need. Taking income from an alternate source, such as a policy loan from a life insurance policy, during the years the market is down could help supplement your retirement income and mitigate the risk inherent with the Sequence of Returns. Let's take a look at the hypothetical retirement account again. However, in this scenario, loans from a life insurance policy are taken during the years with a negative return instead of withdrawing from the retirement account.

Year	Annual rate of return	Balance after return	Withdrawal or policy loan	End of year balance
2000		\$1,500,000	\$50,000	\$1,450,000
2001	-13.0%	\$1,261,500	Life Insurance Policy Loan	\$1,261,500
2002	-23.4%	\$1,097,505	Life Insurance Policy Loan	\$1,097,505
2003	26.4%	\$840,689	\$54,636	\$786,052
2004	9.0%	\$993,570	\$56,275	\$937,295
2005	4.7%	\$1,021,651	\$57,964	\$963,688
2006	13.5%	\$1,008,981	\$59,703	\$949,278
2007	3.5%	\$1,077,431	\$61,494	\$1,015,937
2008	-38.5%	\$1,051,495	Life Insurance Policy Loan	\$1,051,495
2009	23.5%	\$646,670	\$65,239	\$581,431
2010	12.8%	\$718,067	\$67,196	\$650,871
2011	1.5%	\$734,183	\$69,212	\$664,971
2012	13.4%	\$674,946	\$71,288	\$603,658
2013	29.6%	\$684,548	\$73,427	\$611,121
2014	11.4%	\$792,013	\$75,629	\$716,383
2015	-0.7%	\$798,051	Life Insurance Policy Loan	\$798,051
2016	10.5%	\$792,465	\$80,235	\$712,229
2017	20.4%	\$787,014	\$82,642	\$704,371
2018	-6.2%	\$848,063	Life Insurance Policy Loan	\$848,063
2019	28.9%	\$795,483	\$87,675	\$707,808

In this example, the ability to supplement retirement funding with a policy loan makes a significant difference in how the Sequence of Returns plays out.

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Mitigate the risks introduced by the Sequence of Returns.

Talk to your financial professional about how a permanent life insurance policy from North American could fit in your financial strategy.

THE S&P 500® COMPOSITE STOCK PRICE INDEX; THE S&P 400® COMPOSITE STOCK PRICE INDEX

These Indices do not include dividends paid by the underlying companies.

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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.

Life insurance policies have terms under which the policy may be continued in force or discontinued. Permanent life insurance requires monthly deductions to pay the policy's charges and expenses, some of which will increase as the insured gets older. These deductions may reduce the cash value of the policy. Current cost of insurance rates and current interest rates are not guaranteed. Therefore, the planned periodic premium may not be sufficient to carry the contract to maturity. 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.

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