

Life Insurance and the Sequence of Returns

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 \$2,000,000 in the year 2004 and has \$115,000 annual withdrawals, which increase by 3% annually to account for inflation.

Year	Annual rate of return	Balance after return	Withdrawal	End of year balance
2004		\$2,000,000	\$115,000	\$1,885,000
2005	4.7%	\$1,973,595	\$118,450	\$1,855,145
2006	13.5%	\$1,942,337	\$122,004	\$1,820,333
2007	3.5%	\$2,066,078	\$125,664	\$1,940,415
2008	-38.5%	\$2,008,329	\$129,434	\$1,878,896
2009	23.5%	\$1,155,521	\$133,317	\$1,022,204
2010	12.8%	\$1,262,422	\$137,316	\$1,125,106
2011	1.5%	\$1,269,120	\$141,435	\$1,127,684
2012	13.4%	\$1,144,600	\$145,679	\$998,921
2013	29.6%	\$1,132,777	\$150,049	\$982,728
2014	11.4%	\$1,273,615	\$154,550	\$1,119,065
2015	-0.7%	\$1,246,638	\$159,187	\$1,087,451
2016	10.5%	\$1,079,839	\$163,963	\$915,877
2017	20.4%	\$1,012,044	\$168,881	\$843,162
2018	-6.2%	\$1,015,167	\$173,948	\$841,219
2019	28.9%	\$789,064	\$179,166	\$609,898
2020	16.3%	\$786,158	\$184,541	\$601,617
2021	26.9%	\$699,680	\$190,077	\$509,603
2022	-19.4%	\$646,686	\$195,780	\$450,906
2023	24.2%	\$363,430	\$201,653	\$161,777

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

Hypothetical examples and illustrations are not intended to predict future performance. The use of alternate assumptions could produce significantly different results. Illustrations are not complete unless all pages are included. 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 on Nov. 13, 2024.

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
2004		\$2,000,000	\$115,000	\$1,885,000
2005	4.7%	\$1,973,595	\$118,450	\$1,855,145
2006	13.5%	\$1,942,337	\$122,004	\$1,820,333
2007	3.5%	\$2,066,078	\$125,664	\$1,940,415
2008	-38.5%	\$2,008,329	Life Insurance Policy Loan	\$2,008,329
2009	23.5%	\$1,235,122	\$133,317	\$1,101,806
2010	12.8%	\$1,360,730	\$137,316	\$1,223,414
2011	1.5%	\$1,380,011	\$141,435	\$1,238,576
2012	13.4%	\$1,257,155	\$145,679	\$1,111,476
2013	29.6%	\$1,260,414	\$150,049	\$1,110,365
2014	11.4%	\$1,439,033	\$154,550	\$1,284,482
2015	-0.7%	\$1,430,913	Life Insurance Policy Loan	\$1,430,913
2016	10.5%	\$1,420,897	\$163,963	\$1,256,935
2017	20.4%	\$1,388,913	\$168,881	\$1,220,031
2018	-6.2%	\$1,468,918	Life Insurance Policy Loan	\$1,468,918
2019	28.9%	\$1,377,845	\$179,166	\$1,198,679
2020	16.3%	\$1,545,097	\$184,541	\$1,360,555
2021	26.9%	\$1,582,326	\$190,077	\$1,392,248
2022	-19.4%	\$1,766,763	Life Insurance Policy Loan	\$1,766,763
2023	24.2%	\$1,424,011	\$201,653	\$1,222,358

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

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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. 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 withdrawal charges, processing fees, or 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. 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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