Individual retirement using life insurance

Help your clients do more in retirement

Marketing guide

Meet the needs of a growing market

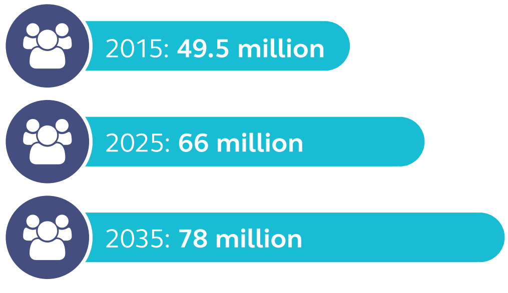
The retirement income landscape is changing. There are fewer pension plans and much uncertainty about Social Security, tax legislation and market performance.

The ability to maintain a comfortable standard of living is on Americans' minds, as more and more of them head towards retirement.

Financial concern of Americans[1]

Money for retirement

Number of retirees[2]



[1] 2017 Insurance Barometer Study, LIMRA

[2] LIMRA Secure Retirement Institute analysis of U.S. Census Bureau's *Current Population Survey,* March 2015 Supplement, *National Population Projection,* 2015, and 2013 *Survey of Consumer Finance,* Federal Reserve Board, 2014.

What does all of this tell us?

It's a crucial time in the retirement income market – and you play a big role in helping pre-retirees get prepared. In this guide, we'll cover how to:

Ready to get started?

We're here to help. Get the tools and support you need to provide solutions to help your clients build a brighter future.

Introduce your clients to a unique retirement asset

Do your clients view life insurance as a valuable asset or as just another expense to be paid? Many aren't aware that life insurance can be an important part of a diversified retirement strategy providing valuable death benefit protection[3] for their family, plus unique attributes and tax treatment.

Consider what makes life insurance different from other top retirement assets in key areas:

	401(k)/ Traditional IRA	Roth IRA	Taxable Investment	Life Insurance[4]
Tax-deductible contribution	●			
No tax on asset growth	●	●		●
No tax on money withdrawn		●		●
Withdrawals available prior to age 59 ½ without penalty		●[5]	●	●
No required minimum distribution		●	●	●
No income-based funding limit			●	●
Income tax-free to heirs		●	●	●
Contribution/premium made for participant/insured due to disability				●

This table depicts only federal tax treatment. It is not intended to compare the features, fees, expenses or benefits of specific products.

[3] In exchange for the death benefit, life insurance products charge fees such as mortality and expense risk charges and surrender fees.

[4] Assumes policy is not a Modified Endowment Contract (MEC) and has a waiver of premium/monthly charges rider.

[5] Contributions made can be withdrawn penalty-free. However, earnings withdrawn, may be subject to penalty and tax.

Help your clients bolster their retirement portfolio.

Adding a life insurance policy can help them save more, diversify taxes and provide a contingency plan to keep savings intact.

Who you should talk to

It's a big market, but there are certain characteristics to look for. A good prospect is:

- In need of life insurance coverage
- Age 30-55 and has at least 10 years until retirement
- In good health
- Good income earner (at least $100,000 annual income)
- Limited by or has no access to a qualified plan
- Looking to diversify his/her tax portfolio

One segment in the market that offers great opportunity is what we call HENRY.

Get to know HENRY

HENRY, or High Earner Not Rich Yet, refers to an individual with high earning potential but due to high education, family and housing expenses doesn't have a lot of accumulated wealth. HENRYs are just one segment of the market — but one that offers significant opportunity.

What makes HENRYs a fit?

HENRYs need to protect their family and to save more. But federal income tax limits restrict how much they can save to qualified retirement plans. As their income goes up, the percentage they're able to contribute goes down. This, along with income-based limits on Roth IRAs, makes putting enough money away in tax-advantaged vehicles difficult for those making a higher income. Life insurance offers a solution. With no income-based funding limits, it provides a great way to save additional dollars.

Effective 401(k) Savings Rate*	
Income	**Savings Rate**
$100,000	18.0%
$250,000	7.2%
$500,000	3.6%

* Based on 2017 contribution limit for individual under age 50

Where do you find HENRYs?

Professions like attorney, doctor and engineer.

HENRYs know a lot of other HENRYs.

Investing in this segment of the market, demonstrating expertise and developing trust will pay big dividends.

Start the conversation

1 Understand the goals by asking questions

- At what age would you like to retire?
- What are the things you would like to do in retirement?
- How much income would you like to have in retirement?

Common goals

- Meeting basic expenses
- Living a desired lifestyle
- Leaving inheritances and/ or charitable donations

2 Determine the Retirement Wellness Score

Identify assets set aside for retirement. Include Social Security as a source of guaranteed income. Add any personal savings they have in place, such as:

- Employer-sponsored retirement plans
- Personal savings
- Mutual funds, stocks or bonds

Then, use the interactive retirement wellness planner at **principal.com/yourfuture.** A score "in the green" means the savings plan is on track. Yellow or red means your client has some work to do yet.

3 Discuss the options

How could your client improve their score? They could save more or work longer. Or, they might add a cash-value life insurance policy which can help to:

- Meet the retirement income needs of their spouse should they die before retirement
- Provide a tax-free income stream in retirement[6]
- Diversify their tax portfolio
- Offer a liquid source of funds for expenses due to a chronic illness
- Self-fund in the event of a disability

Your clients may benefit from other Principal® products for retirement

- Annuities
- Individual disability insurance
- Mutual funds

[6] Distributions from a life insurance policy are generally received income tax-free. If the policy is considered a modified endowment contract, distributions in excess of the policy's principal may be subject to current income taxes.

Focus on understanding your client's needs.

Then, leverage the tools and resources available to drive your conversations about the solutions available.

Three retirement income strategies

Proper retirement income planning takes into consideration things that could jeopardize a secure retirement, including taxes, market volatility and access of guaranteed income early. Life insurance can be used in strategies that can help clients meet these challenges.

Tax diversification

Create more diversified tax treatment of retirement income.

Down market buffer

Provide a non-correlated income alternative when the market declines

Social Security bridge

Maximize Social Security payouts by waiting to take benefits at a later age.

Tax diversification

Tax diversification is a strategy based on holding assets with different tax treatments to make sure that not all retirement income has the same income tax impact.

By diversifying among retirement assets, clients have the flexibility to take income in the most tax-friendly way and potentially lower their tax bill.

Hypothetical example

Assume you have a client in the following scenario:

- Is in retirement and plans to withdraw $100,000 from retirement assets for the year
- Has both a 401(k) account and a cash-value life insurance policy
- Is in a 25% tax bracket

In this example, tax diversification provided $12,500 more than the 401(k) strategy.

Here's what the withdrawal could look like using two different strategies:

Strategy 1

Using 401(k) account money only

401(k) account	
Withdrawal amount	$100,000
Tax amount	- $25,000
Retirement income	$75,000

Strategy 2

Using a tax-diversified strategy

	401(k) account	+ Life insurance policy
Withdrawal amount	$50,000	$50,000
Tax amount	- $12,500	- $0
Retirement income	$37,500	$50,000

Retirement income – $87,500

Show your clients the power of tax diversification.

Adding life insurance to their portfolio can result in more retirement income for them and their families, and less going to the IRS.

Down market buffer

A secure retirement depends not only on a plan for accumulating assets, but also a strategy for distributing them so savings can last throughout retirement.

When retirement assets are invested in the market, clients face a risk of their savings being eroded by market declines as they take distributions. While your clients can't control the market, they can control the types of assets they hold. With cash-value life insurance as part of a diversified retirement portfolio, they have an additional option to draw from when the market is down. This can help prevent outliving retirement savings.

Here's how it works

Assumptions in the following hypothetical example:

- Retirement portfolio of $1 million
- 65 years old and ready to retire
- Needs $30,000 supplemental income per year
- Pays 25% income tax
- Hypothetical rates of return shown in the table on the following page

Scenario 1

Traditional retirement portfolio

In years where the market declines, taking a withdrawal is like selling low. It effectively locks in the loss and doesn't give the portfolio an opportunity to recover before the next withdrawal.

In this example, $40,000 is withdrawn to net the $30,000 needed after taxes.

Portfolio balance of $515,752 after 10 years

Scenario 2

Diversified retirement portfolio with life insurance

Distributions are taken like normal when the market is up, but when the market declines, take distributions from the life insurance policy the following year. It provides a buffer against the down market and helps to avoid having to sell low, so the portfolio has time to recover.

In this example, a $500,000 IUL policy was purchased at age 50, with annual premiums of $12,500 for 15 years[7], as shown on the following page. A policy loan of $30,000 is used three times in years following a down market. Since policy distributions are tax-free, the $30,000 is equivalent to the $40,000 taken from the taxable asset.

Portfolio balance of $672,420 after 10 years

Scenario 2 delivers $156,668 more.

Using life insurance when the market is down retains **$156,668** of the traditional retirement portfolio.

Plus, the client also has an additional death benefit and accumulated value left on the table.

[7] Assumptions: Principal Indexed Universal Life Accumulation policy, $500,00 face amount, male, age 50, preferred non-tobacco, $12,500 annual premium.

Scenario 1

Traditional retirement portfolio

Year	Hypothetical rate of return	Amount withdrawn	Year-end portfolio balance
1	-13.04%	$40,000	$834,816
2	-23.37%	$40,000	$609,067
3	26.38%	$40,000	$719,187
4	8.99%	$40,000	$740,246
5	3.00%	$40,000	$721,253
6	13.62%	$40,000	$774,040
7	3.53%	$40,000	$759,952
8	-38.49%	$40,000	$442,842
9	23.45%	$40,000	$497,308
10	12.78%	$40,000	$515,752

Adding life insurance to the retirement savings portfolio pays off.

In this example:

Scenario 1 = $515,752 (year 10 value)

Scenario 2 = $672,420 (year 10 value)

The portfolio balance is **increased by more than $150,000 by using life insurance** as another income source.

Scenario 2

Diversified retirement portfolio with life insurance

Policy loans taken the year after market decline.

Retirement account		
Hypothetical rate of return	Amount withdrawn	Year-end portfolio balance
-13.04%	$40,000	$834,816
-23.37%	$0	$639,720
26.38%	$0	$808,478
8.99%	$40,000	$837,564
3.00%	$40,000	$821,491
13.62%	$40,000	$887,930
3.53%	$40,000	$877,862
-38.49%	$40,000	$515,369
23.45%	$0	$636,223
12.78%	$40,000	$672 ,420

Principal IUL				
Policy year	Annual premium	Death benefit	Loan	Accumulated value
1 - 15	$12,500	$500,000	$0	$7,266 (yr 1)
16	$0	$500,000	$0	$239,244
17	$0	$469,100	$30,000	$222,088
18	$0	$437,273	$30,000	$203,592
19	$0	$435,391	$0	$215,834
20	$0	$433,453	$0	$228,900
21	$0	$431,457	$0	$242,885
22	$0	$429,400	$0	$257,894
23	$0	$427,282	$0	$274,045
24	$0	$394,201	$30,000	$259,318
25	$0	$391,027	$0	$275,834

Stretch retirement income with life insurance

Strategic withdrawals from life insurance in the year following a market loss helps minimize the impact of the decline on your clients' retirement savings.

Social Security bridge

The timing of when your clients start receiving Social Security impacts how much they receive in a monthly maximum benefit. The longer they wait, the greater the monthly benefit, which can make a significant difference over their lifetime.

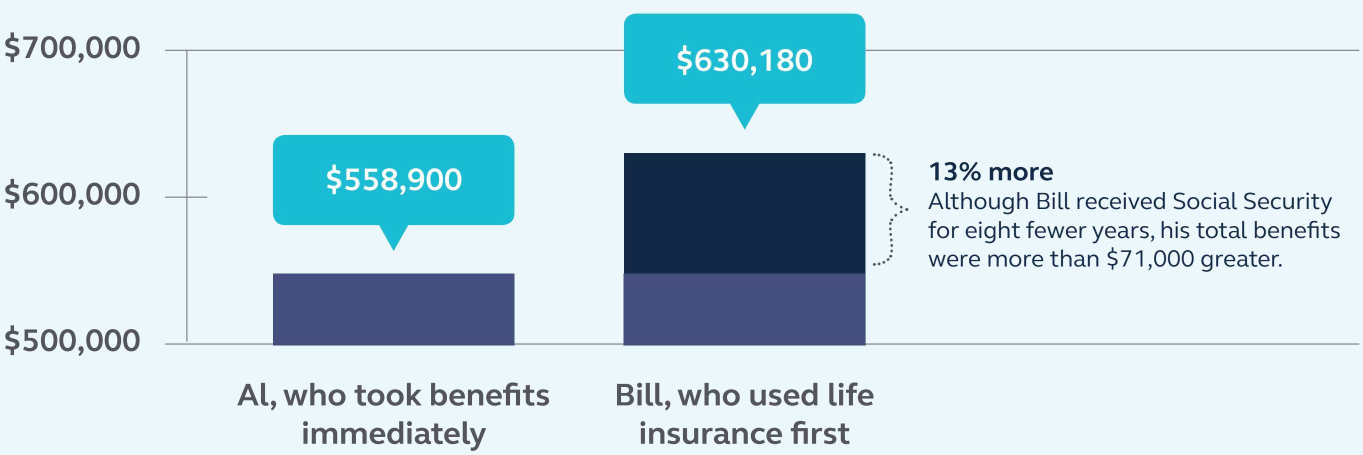
Consider twins Al and Bill and how life insurance as a social security bridge makes a difference.

- Both retire at age 62 and are eligible for the maximum Social Security benefit.
- Al elects to receive Social Security immediately and gets a benefit of $2,025 per month.
- Bill defers his Social Security benefit to age 70 at which time he receives $3,501 monthly. To make up the difference for the Social Security he's not receiving, he takes distributions of $2,025 a month from his cash-value life insurance policy from age 62 to 70.

Benefit age	Monthly maximum benefit
62	$2,025
67	$2,663
70	$3,501

Lifetime Social Security benefit

Received prior to death at age 85



13% more
Although Bill received Social Security for eight fewer years, his total benefits were more than $71,000 greater.

Help maximize Social Security benefits.

Use a life insurance policy to provide income in early retirement and defer Social Security until later, creating more income over a lifetime.

Offer a powerful solution

Now that you've seen some ways that cash-value life insurance can help your clients up to and through retirement, it's time to put it all together. Give them a turn-key supplemental retirement solution called the Power of 3. This unique concept can help boost your sales when you:

Shorten the underwriting process on the front-end

Provide a choice of accumulation products to meet any risk tolerance

Simplify auto income process on the back-end

1

Principal Accelerated Underwriting℠

Get speed and convenience with this innovative program.[8]

- No medical exams or blood work.
- Medical questions handled via our in-house TeleApp interview.
- Underwriting decisions in as little as 48 hours and payment in 10 days or less
- Easy qualification checklist helps you identify candidates.

2

Accumulation-focused life insurance

Talk about the cash value advantage.

- **Competitive product choices[9]:**
  - Variable universal life offering market-based performance
  - Indexed universal life featuring index–linked potential
  - Universal life with fixed rate growth and protection from market volatility
- **Tax-favored benefits:**
  - Tax-free survivor benefit
  - No income taxes on accumulation or distribution
  - No penalty for pre-age 59½ withdrawals
  - No income-based funding limits

3

Automated income

Benefit from "set it and forget it" process.

- **Easy** – Complete a single form to start income.
- **Efficient** – Automated events that get the most from distributions:
  - Death benefit option switches from increasing to level to maximize income amount.
  - Withdrawal method changes from surrenders to loans when cost basis is gone to prevent an unwelcome Form 1099.
  - Amount re-calculates annually to ensure target-ending cash value goal is met.
- **Ends properly** – Over-loan protection automatically triggers to prevent policy lapse and resulting tax liability.

[8] Accelerated Underwriting is an expedited underwriting program offered by Principal Life Insurance Company. Applicants may qualify based on age, face amount and personal history. To monitor quality and ensure solid mortality results, a small, random sample of applicants who qualify for Principal Accelerated Underwriting will go through full, traditional underwriting.

[9] Products: Principal IUL Flex℠, Principal IUL Accumulation℠, Principal UL Accumulation II℠, Principal UL Flex II℠, Principal Benefit VUL II (NY), Principal VUL Income III℠ and Principal VUL-Business.

Stand out in the retirement income market.

Offer an easy, simplified approach with unique services and high-value products.

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Or contact the National Sales Desk at 800.654.4278, or your life RVP.

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