Let’s talk retirement. Do you have a 401k? IRA? Stock accounts? Pension? Counting on Social Security? Maybe 2 or 3 of these? Interest rates today and employer assistance just aren’t what they used to be. Most of your traditional retirement accounts have limitations, rules, and worst of all…..TAXES. Available options today just don’t live up to the challenge for most modern families. The rising cost of goods and labor are making our cost-of-living skyrocket.

All of the retirement options of today come with some sort of drawback, but some of them have positives that outweigh their negatives. Let’s take a look. Full disclosure, there are MANY regulations to all types of investment, stock, and life insurance accounts. I’m not going to get into all the details here, just a quick snapshot to keep this simple and make for an easy read.

401K – For a few of us that are lucky enough, our employers will match up to a certain percentage of your contribution. Typical amounts are 4% but that can vary. Here’s the kicker, there are early withdrawal penalties and may have taxes withheld also. Meaning if you decide to work hard and retire at 55…. Better think again or you can plan on having up to 35% of it taken away. Yep, 35 PERCENT!!!! Not to mention these are typically not advised on very well, so who knows how or where your money is being invested.

IRA – There are a few different options to these accounts. Some tax the money going in, others tax the money when you take it out. They also rely heavily on the investment vessels your money is placed in. So you are at the mercy of the stock market. There is also a limitation on what age you can withdraw funds.

Pensions – I’m not sure we should even discuss this. There are very, VERY few folks that are lucky enough to have this. Pensions are quickly becoming a thing of the past.

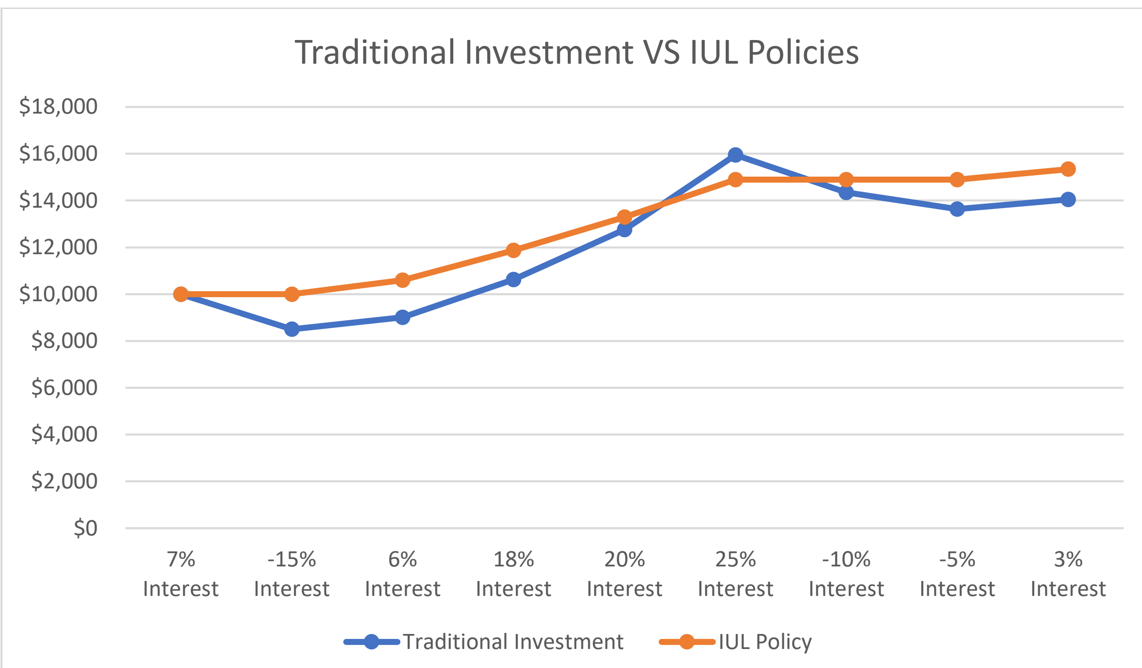
Stock Market – This is an option you will normally have to do on your own. It’s not a standard employer offered benefit. But they do allow you a lot more freedom. You can choose where to invest, you can even hire a financial advisor to assist with the decision making. But the big draw back here is the fluctuation of the market. If it’s up you’re up, and when it’s down you’re down. Plain and simple…. Your growth is highly dependent on a market that is very shaky at best. Sure, you can pick lower risk accounts, but you are still at the mercy of the inevitable rise and fall of the market. And again…. Taxes. You will have to give up a large portion of your profits when you cash out.

Social Security – This is a very hot topic today. The account is rapidly running out. There are multiple political factors to blame, but let’s skip those and go to one that is not commonly thought about. When Social Security was first established, there was roughly 3 people paying in for every 1 person collecting. That made it a very self-sustaining program. Fast forward to today, we now have almost the opposite. There are roughly 3 people collecting for every 1 person paying in. It has to do with the changing population and unemployment rates over the years. It also certainly has withdrawal rules and is typically not enough income as the years go by due to inflation. We are all living longer now which means we are pulling more out than our parents and grandparents. The main question to me is, how much longer can this program last going down the current path? I’m not convinced it’s a good plan to rely on for your main retirement source any longer.

So if we have poked holes in all of the traditional methods of retirement savings…. What other options do we have? Life Insurance! I’m not talking about the cheap term insurance you get as part of your employee benefits, or even the small whole life policy grandma took out for you when you were born. I'm not even talking about the policies that some people purchased separately to cover larger debt amounts or the final expense policies. I'm talking about life insurance that builds cash value, serious cash value. It's called Indexed Universal Life Insurance. IUL for short.

IUL policies can be configured in many ways. They can be used as long-term life insurance, or they can be set up to grow cash amounts to help you fund certain goals later in life. Most of the time there are 0 tax consequences, and they don't have any early termination fees. But how does it work? Why are the tax results minimal?

Farmers offers a version of these policies that has a 0% floor with a top rate cap. The cap can fluctuate time to time, but let's say for this example that it is at 12%. This means that no matter what the stock market does, the worst you can do is earn 0% interest, and the best you can do is earn 12% interest. So no matter what happens, you don't lose money. Granted you won't make 20% if the market gets there either, but when you don't lose money on the down swing, it puts you in position to only grow. This will help explain it:



The left side of the chart shows an initial investment of $10,000 into each account type. The bottom shows an example of the stock market performance. Notice that the traditional investment account ends up with less money even though it has no rate cap. That's because the IUL policy has a 0% floor where your stock accounts don't. Since you don't lose money, you never have to start from a lower place than where you begin.

The best part is you still get the life insurance benefit too! So, should something bad happen and you pass away unexpectedly, your family will now get the advantage of the life insurance payout completely tax free. Let’s say you start an IUL policy and then pass away 6 years later. With $500 per month paid into it for 6 years, that’s $36,000 invested. Depending on your qualification that size policy can very well come with a death benefit of $200,000 or more. Meaning in just 6 years you made $164,000 and your family gets that tax free! In your standard investment accounts, you don’t get that type of return, you would just walk away with $36,000 + 20% you earned (if you’re lucky). That’s only $7,200.

There are limitations to IUL policies as with all other types of accounts. You must qualify for it… it’s life insurance. You can’t pay an unlimited amount of money into it; it must keep the definition of life insurance. But when done right, it can be a substantial part of your retirement portfolio!

Again, this is just a small part of what we have to offer as your local Farmers agent. Give me a call, text, email, or stop by if you would like to learn more! - Cody