

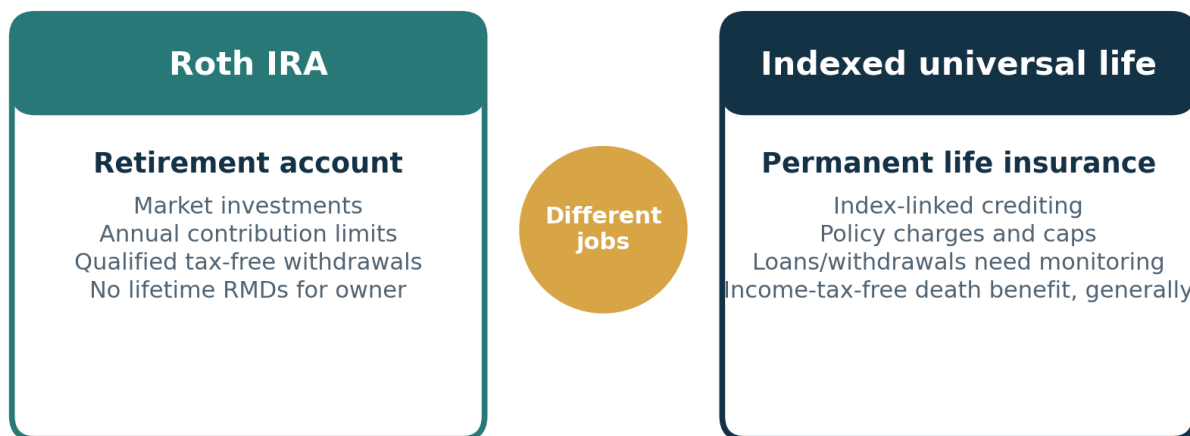


Wealth Strategies

TAX-FREE RETIREMENT

How IUL and Roth Strategies Work Together

An introduction to tax diversification—and the trade-offs behind two tools often used side by side.



Side by side works only when each tool solves a real need and remains affordable.

THE CENTRAL IDEA

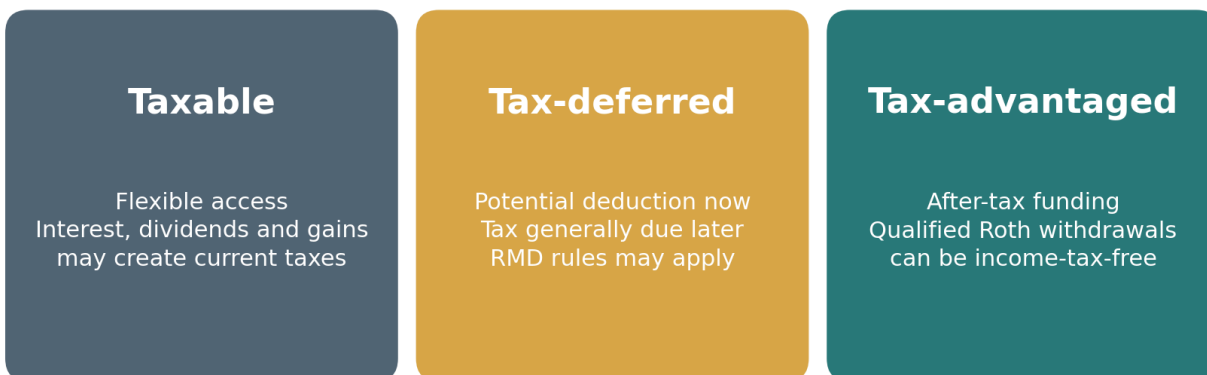
A Roth IRA and an indexed universal life policy are not substitutes. A Roth is a retirement investment account. IUL is permanent life insurance. Their tax benefits arise under different rules, and each carries different costs, limits, and failure modes.

Prepared for general educational use | Rules and limits checked for 2026

Start with the tax problem, not the product

Retirement income can arrive with very different tax treatment. The purpose of tax diversification is to avoid depending on a single set of future tax rules or a single account type. It gives a retiree more control over which pool of money to tap in a given year.

Tax diversification = more than one future tax treatment



IUL is insurance, not a fourth tax bucket; it can add conditional tax-advantaged access and a death benefit.

Why flexibility can matter

- Large taxable distributions can increase adjusted gross income and may affect Medicare premiums, taxation of Social Security, and access to deductions or credits.
- A tax-free source can help fund a large purchase or fill a spending gap without adding the same amount to taxable income—if the distribution qualifies.
- A taxable account still matters: it can provide liquidity and may receive favorable long-term capital-gain treatment.

Language check

“Tax-free retirement” is a planning aspiration, not a product guarantee. Roth treatment depends on contribution and distribution rules. IUL treatment depends on tax law, contract design, policy performance, and keeping the policy in force.

Tool 1: the Roth IRA

A Roth IRA is an individual retirement account funded with after-tax dollars. It can hold investments such as mutual funds, exchange-traded funds, stocks, bonds, and cash. The tax wrapper—not the investment—is what creates the Roth treatment.

How the tax benefit works

- Contributions are not deductible.
- Investment growth is not taxed annually inside the account.
- Qualified distributions are federally income-tax-free. In general, a distribution is qualified after the five-tax-year period and when the owner is at least age 59½, disabled, deceased, or using the first-home exception (subject to its lifetime limit).
- Regular contributions come out before conversions and earnings under the Roth IRA ordering rules, which can make contributed principal more accessible than many people assume.
- The original owner has no lifetime required minimum distributions under current federal law.

2026 contribution snapshot

Item	2026 rule	Planning implication
Annual IRA limit	\$7,500 total across traditional and Roth IRAs	Roth space is scarce; prioritize intentionally.
Age 50+ catch-up	\$1,100	Maximum total is \$8,600 if otherwise eligible.
Single/HOH phase-out	\$153,000–\$168,000 MAGI	Direct contribution shrinks across the range.
Married filing jointly	\$242,000–\$252,000 MAGI	Coordinate eligibility across the household.
Married filing separately	\$0–\$10,000 MAGI	Special restrictive range generally applies.

Important

The IRA limit is shared across traditional and Roth IRA contributions. Employer-plan limits are separate. Eligibility and phase-outs can change each year.

Tool 2: indexed universal life insurance

Indexed universal life (IUL) is permanent life insurance. Premiums first support insurance costs and policy charges; remaining value may build in a cash-value account. Interest crediting is linked to an external index through a formula, but the policyholder does not own the index or receive its dividends.

The mechanics in plain English

Premium	Pays policy charges and adds to policy value, subject to the contract.
Crediting strategy	Uses an index-linked formula with features such as a cap, participation rate, spread, floor, or multiplier.
Policy charges	May include cost of insurance, administrative charges, rider charges, and surrender charges. Charges can rise or persist even in a 0% crediting year.
Access	Withdrawals reduce policy value and death benefit. Loans accrue interest and remain policy obligations.
Death benefit	Generally income-tax-free to beneficiaries under federal law, with exceptions.

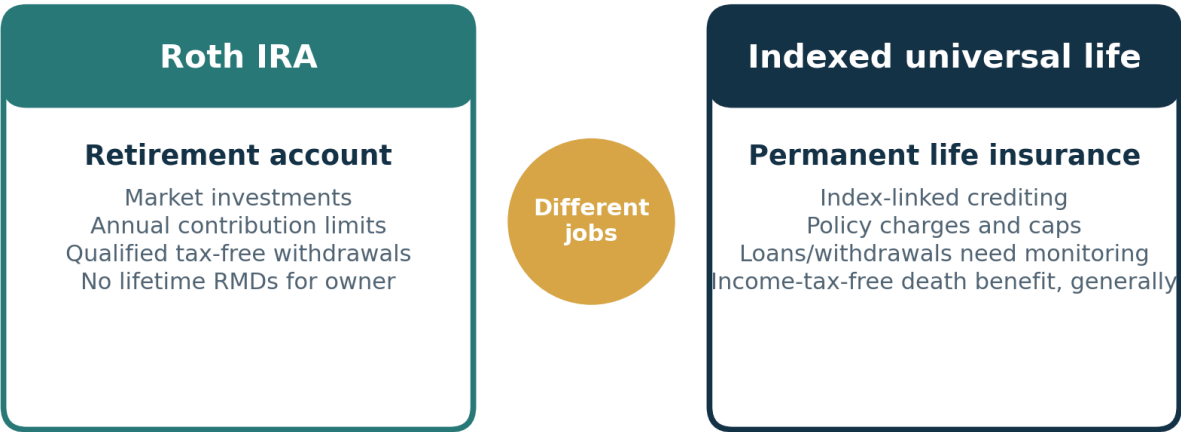
Where the “tax-free income” story comes from

A properly structured, non-MEC policy is often accessed first through withdrawals up to tax basis and then through policy loans. Loans are generally not treated as taxable distributions while the contract remains in force. This is a planning technique—not a statutory retirement-income guarantee.

The critical failure mode

If a policy lapses or is surrendered with an outstanding loan, taxable gain may be recognized even when little or no cash is received at that time. A modified endowment contract (MEC) has less favorable distribution rules and may trigger a 10% additional tax before age 59½.

Same goal, very different tool



Side by side works only when each tool solves a real need and remains affordable.

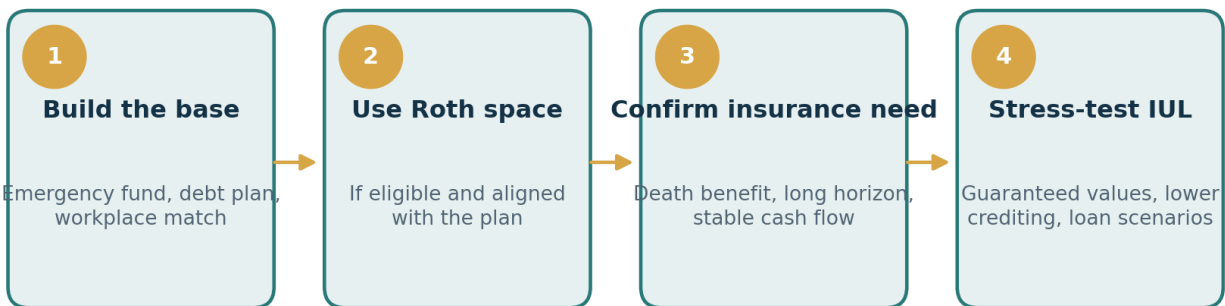
Dimension	Roth IRA	IUL policy
Primary purpose	Retirement saving and investing	Permanent life insurance with cash value
Funding	Annual statutory contribution limit; income eligibility applies	Premium flexibility, subject to underwriting and tax-law limits
Growth engine	Returns of chosen investments; principal can fluctuate	Contract crediting formula; charges continue regardless of crediting
Access	Contributions generally first; qualified earnings tax-free	Withdrawals and loans; must manage basis, interest, and lapse risk
Liquidity	No surrender schedule, though investments may fluctuate	Often weak in early years; surrender charges may apply
Death benefit	Account value passes to beneficiaries	Insurance death benefit, generally income-tax-free
Oversight burden	Periodic investment and beneficiary review	Ongoing annual policy review and in-force illustrations
Counterparty	Custodian plus investment issuers/funds	Claims-paying ability of insurer

How they can work side by side

The pairing is most defensible when the Roth handles low-cost, transparent retirement investing and the IUL separately addresses a durable insurance need. The policy may then add another source of liquidity, but only after its economics survive conservative testing.

A layered approach

A practical order of operations



Illustrative retirement-year coordination

Suppose a retiree needs extra cash for a roof replacement. They might compare a taxable sale, a Roth withdrawal, and an IUL loan. The best source depends on capital gains, the Roth's future growth value, the policy's loan rate and lapse margin, Medicare thresholds, and the estate plan. The point is optionality—not automatically choosing the account labeled “tax-free.”

A useful rule of thumb

Use a Roth because you want a tax-advantaged investment account. Use IUL because you need permanent insurance and can sustain the funding and monitoring. Treat cash-value access as a secondary feature that must be stress-tested.

Trade-offs that deserve equal airtime

Roth IRA: strengths

- Simple tax structure and broad investment choice.
- No lifetime RMDs for the original owner under current law.
- Transparent account value and usually low implementation cost.
- Contributions can generally be withdrawn without tax or penalty.

Roth IRA: constraints

- Annual contribution limits and income phase-outs constrain new funding.
- Investment losses are possible; tax treatment does not prevent market risk.
- Nonqualified earnings distributions can produce tax and a 10% additional tax unless an exception applies.
- A conversion can create current taxable income and has its own five-year penalty rule.

IUL: strengths

- Permanent death-benefit protection when the policy remains in force.
- No Roth-style annual contribution ceiling, though tax-law and contract limits apply.
- A floor can prevent negative index crediting, but it does not prevent policy value from falling after charges and loan interest.

IUL: constraints

- Complex illustrations, moving nonguaranteed assumptions, and material early-year friction.
- Caps, participation rates, spreads, and loan terms can change within contract limits.
- Underfunding, weak crediting, rising insurance costs, or aggressive loans can cause lapse.
- Health, age, underwriting class, and insurer strength materially affect economics.

Before buying or combining

Questions for the Roth decision

- Am I eligible for a direct contribution, and have I coordinated all IRA contributions?
- Have I captured an employer match and considered HSA or workplace-plan opportunities?
- What asset allocation, fees, and rebalancing plan will I use?
- Would a conversion fit my multi-year tax plan, and can I pay the tax from outside funds?

Questions for an IUL proposal

- What permanent death-benefit need does this policy solve, and for how long?
- Show guaranteed values and at least two nonguaranteed scenarios below the illustrated rate.
- How much premium flexibility exists before the policy risks MEC status?
- What changes can the insurer make to caps, participation rates, charges, and loan provisions?
- When do surrender charges end? What is the break-even year under conservative assumptions?
- Model loans at higher rates, lower crediting, and a longer life. What keeps the policy from lapsing?
- How will we review the policy annually, and who is responsible for corrective action?

Documents to request and keep

- Signed illustration, full contract, riders, prospectus if applicable, and insurer financial-strength information.
- Annual statements and periodic in-force illustrations using current assumptions and conservative alternatives.
- A written explanation of compensation, surrender charges, loan mechanics, and replacement consequences.

Red flag

Be cautious if a proposal compares illustrated IUL values directly with a stock index, omits policy charges, assumes the current cap forever, or describes loans as guaranteed tax-free income.

A suitability lens

Situation	Roth may fit when...	IUL may fit when...
Primary need	Long-term retirement investing and tax diversification	A genuine permanent death-benefit need exists
Cash flow	Annual contributions are affordable	Premiums are comfortably sustainable through weak years
Time horizon	Long enough to tolerate market cycles	Long enough to absorb early charges and build value
Complexity tolerance	Prefers transparent values and flexible investments	Accepts contract complexity and annual monitoring
Liquidity need	May need access to contributed principal	Does not need strong early liquidity
Health/underwriting	Not applicable	Insurability and pricing are favorable

When the combination is usually a poor fit

- Emergency reserves are thin or high-interest debt remains unresolved.
- The household is not using available employer matching contributions.
- Premiums would strain the budget or depend on consistently high illustrated crediting.
- The insurance need is temporary and term insurance could address it more efficiently.
- The buyer is uncomfortable with annual reviews, policy loans, or complex contracts.

Bottom line

The strongest plan is not the one with the most products. It is the one that remains understandable, affordable, diversified, and resilient when returns, tax rates, or life circumstances change.

Key takeaways

- 1** Tax diversification creates choices; it does not eliminate taxes by itself.
- 2** A Roth IRA is usually the cleaner vehicle for tax-advantaged retirement investing, but contribution and distribution rules matter.
- 3** IUL is life insurance first. Its cash-value strategy depends on charges, crediting, funding discipline, loan management, and policy persistence.
- 4** Using both can be reasonable when each has a distinct job: Roth for investing; IUL for permanent protection with carefully managed cash value.
- 5** Run conservative scenarios and review the plan annually with professionals who can explain both the benefits and the failure modes.

Primary sources and further reading

- **IRS, 2026 retirement-plan limits and Roth IRA phase-outs**
<https://www.irs.gov/newsroom/401k-limit-increases-to-24500-for-2026-ira-limit-increases-to-7500>
- **IRS Publication 590-A, Contributions to IRAs**
<https://www.irs.gov/publications/p590a>
- **IRS Publication 590-B, Distributions from IRAs**
<https://www.irs.gov/publications/p590b>
- **Internal Revenue Code §101, certain death benefits**
<https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title26-section101>
- **Internal Revenue Code §7702, life insurance contract definition**
<https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title26-section7702>
- **Internal Revenue Code §7702A, modified endowment contracts**
<https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title26-section7702A>
- **NAIC, Life Insurance Buyer's Guide**
https://content.naic.org/sites/default/files/inline-files/cipr_topic_universal_life_insurreu_life_ins_buyers_guide.pdf
- **NAIC, Life Insurance Illustrations**
<https://content.naic.org/insurance-topics/life-insurance-illustrations>

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This guide provides general information as of September 2026. It is not individualized tax, legal, insurance, or investment advice. Tax law and contract terms can change. Consult a qualified tax professional, a fiduciary investment adviser when appropriate, and a licensed insurance professional; verify policy-specific details in the actual contract and current in-force illustration.