



Insurance, Taxes, and Retirement Money

Making Life Insurance Your Financial Lifeline

Thalassophobia is the fear of deep, dark water, named for those who fear the unknown that's lurking below the water's edge. While you might not have this particular affliction, many people are gripped by fear of the unknown simply because none of us can see into the future.

As Americans are living longer, there's growing awareness about the potential for long-term health challenges that can arise with age. This increasing longevity brings a heightened interest in insurance coverage, as people recognize the need to plan for possible future disabilities or chronic conditions. Many are exploring how to protect themselves financially against the health uncertainties that come with living longer lives.

At some point, most of us purchase insurance to protect against future risks, but we've historically approached it with some skepticism. As Americans live longer and face potential health challenges with age, attitudes are shifting. There's a growing awareness of the need for life insurance and greater concern over how extended lifespans may affect retirement plans.

The insurance landscape continues to evolve as Americans live longer, navigate rising healthcare costs, and plan for potential health challenges. More families are recognizing the value of having life insurance—no matter the amount—as part of their overall financial strategy.

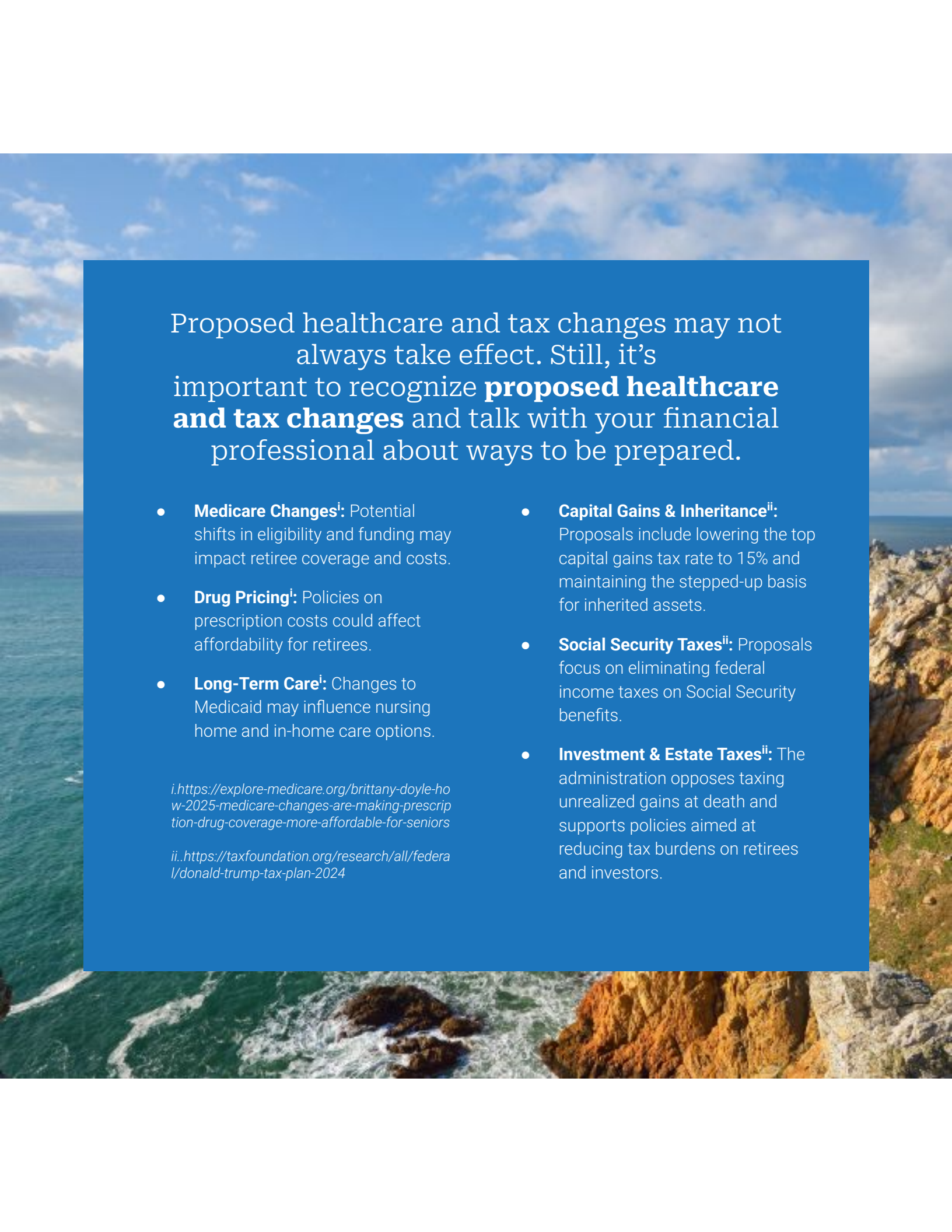
Recent Trends show:

- Around half of Americans report owning life insurance, either individually or through an employer.
- Many have chosen to increase their coverage or add new policies to better protect their families.
- Rising healthcare expenses and longevity concerns are key factors influencing these decisions.

Life insurance brings peace of mind to the policy owner knowing that they won't burden heirs with unexpected debts when facing the death of a loved one. It's important for anyone with dependents to have a policy, but there's a multitude of reasons and products to choose from that'll fit into and benefit your long-term plans.

What if you decided to buy life insurance—not because of fear and not because of the death benefit—and you didn't intend to use it for risk management at all?

Life insurance policies offer tax-deferred growth, tax-free income, and liquidity as a powerful asset class. So go ahead and let life insurance fund your retirement.



Proposed healthcare and tax changes may not always take effect. Still, it's important to recognize **proposed healthcare and tax changes** and talk with your financial professional about ways to be prepared.

- **Medicare Changesⁱ:** Potential shifts in eligibility and funding may impact retiree coverage and costs.
- **Drug Pricingⁱ:** Policies on prescription costs could affect affordability for retirees.
- **Long-Term Careⁱ:** Changes to Medicaid may influence nursing home and in-home care options.
- **Capital Gains & Inheritanceⁱⁱ:** Proposals include lowering the top capital gains tax rate to 15% and maintaining the stepped-up basis for inherited assets.
- **Social Security Taxesⁱⁱ:** Proposals focus on eliminating federal income taxes on Social Security benefits.
- **Investment & Estate Taxesⁱⁱ:** The administration opposes taxing unrealized gains at death and supports policies aimed at reducing tax burdens on retirees and investors.

i. <https://explore-medicare.org/brittany-doyle-how-2025-medicare-changes-are-making-prescription-drug-coverage-more-affordable-for-seniors>

ii. <https://taxfoundation.org/research/all/federal/donald-trump-tax-plan-2024>



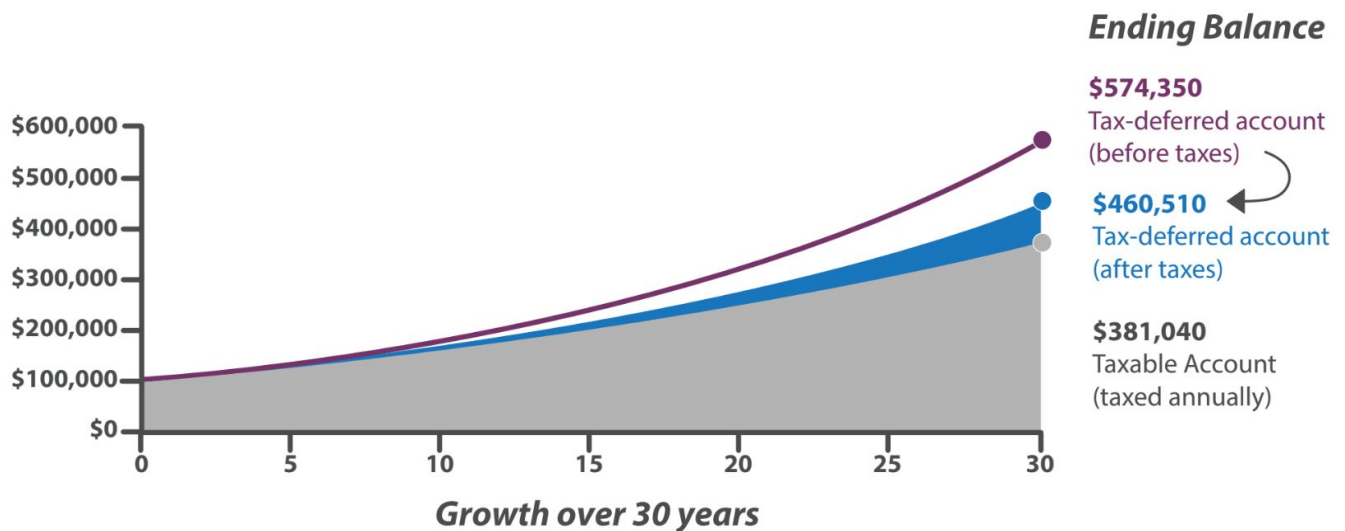
Let's Talk Tax-Deferred Money

Tax deferral happens when the cash value of your life insurance policy isn't taxed while it's growing. Investors only enjoy tax-deferred benefits from a few investments like IRAs and 401(k)s. Still, when they've maxed out their contributions, **a whole life insurance policy** is another great option.

With whole life insurance, your money isn't reduced in value each year from taxes. As a result, it grows faster because the interest you make on your cash value is applied to a higher amount. Imagine the benefit during your retirement years. At that time in your life, you're no longer bringing home a regular paycheck, so it's relatively safe to assume your income will place you in a lower tax bracket. Now, if you withdraw your money when you're in a lower tax bracket, it'll be taxed at a lower percentage than when it was first applied to your account.

The gap between a taxable vs. tax-deferred account grows larger as the time frame becomes longer — that's the power of tax-deferred compounding

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HYPOTHETICAL ASSUMPTIONS

1. \$100,000 initial investment
2. 24% tax rate
3. 6% compounded annual rate of return

Source: J.P. Morgan Asset Management. Chart shows after tax \$100,000 initial account value in the beginning of year one for a tax-deferred account and a taxable account. Assumes a 6.0% annual return for both accounts. Investment returns in taxable account are taxed annually at 24% (capital gains and qualified dividends are not considered in this analysis). Tax-deferred account balance is taken as a lump sum after year 30 and taxed at 24% federal tax rate. If tax-deferred account is taken as lump sum at other tax rates, after-tax balance would be \$517,430 (12%), \$469,990 (22%), \$422,560 (32%), \$408,330 (35%), \$398,840 (37%). This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees or expenses. This chart is for illustrative purposes only. Past performance is no guarantee of future results.

It's Okay To Talk To Yourself When You Need A Loan!

Using your life insurance is another way tax-advantaged growth can help fund your life events such as college tuition, a home down payment, or unexpected large expenses.

Whole life insurance policies don't have restrictions on how much you can invest in this type of plan. Having no limits means there's a significant benefit for structuring this alternative income strategy for a loan option. If you want to access the cash value that's accumulated in your policy, you can take out loans or withdraw the money without tax consequences (as long as they're structured properly).ⁱⁱⁱ

Taking a loan from your life insurance provides access to a penalty-free loan option by using the policy as collateral and taking a tax-free loan from the cash value. A whole life insurance policy affords you, the investor, the ability to use your

money when they need it most during your lifetime. Today's interest rates are so low that typical conservative assets (savings accounts, bank CDs, bonds, etc.) are earning less than the rate of inflation and certainly not growing enough to cover rising medical costs. Further, these assets are taxable at ordinary income tax rates, which means that these investments are highly inefficient without more risk. A life insurance contract as an asset grows tax-deferred and allows you to access the cash value tax-free.

If you need money to make a significant purchase or even pay for college, you can borrow against the policy's cash value and receive it free of taxes. The interest rate for repayment is generally low compared to an institution's loan or a credit card. Done correctly, a tax-free loan on life insurance can offer investors a source of liquidity and tax-free income during retirement.^{iv}

Now Let's Talk About How Life Insurance Can Supplement Your Retirement Income!

Let's consider a fictional situation where a life insurance policy, designed to have low loads and high cash values, can be a vehicle to supplement your retirement income if appropriately managed.

Imagine you plan ahead and annually make a premium payment to the insurance company over a 20-year period. The cash value in the account grows tax-deferred. You stick to the plan and wait for the right time to flip the switch. Eventually, you reach that stage in life when your family is grown, you've left corporate America, and you no longer feel the need for a death benefit. You might also find yourself in a lower tax bracket at this point.

Now, flip the switch. Per the retirement plan you created with your trusted financial partner, you make a tax-free exchange of the policy into an immediate-payout annuity. Your investment earns a decent after-tax rate of return, and you begin receiving a monthly guaranteed payment for the remainder of your life. It's also possible that the taxes on the cash values from the past 20 years are prorated over your remaining life expectancy. Of course, if you faced an untimely death while still holding your life insurance policy, your beneficiary would receive the tax-free death benefit.

High-Net-Worth Family Wealth Transfer Across Generations

Leverage the current high Generation-Skipping Transfer (GST) tax exemption while it remains available. Under current law, the exemption is set to revert to approximately \$7 million (adjusted for inflation) in 2026 when provisions from the Tax Cuts and Jobs Act expire.



1.

Estate Planning with Life Insurance

Using life insurance as the investment choice to mobilize your money works because it pays when needed and pays a benefit that is income tax-free



2.

Generation 1 - Parents

Uses the \$11.4 million GST Exemption to pay a one-time life insurance premium.

Sets up the life insurance policy as a dynasty trust with a \$25 million death benefit.



3.

Generation 2 - Children

Upon the death of generation 1, the trust collects the insurance proceeds (\$25 million) tax-free.

The trust now pays interest to generation 2.



4.

Generation 3 - Grandchildren

When generation 2 dies, the trust's principal goes to generation 3.

The estate wealth transfer remains intact and can begin again for future generations.

Most importantly, neither generation may owe gift, estate, or GST taxes if transfers fall within exemption limits. As of 2025, the federal wealth transfer tax rate remains 40%, but the IRS now provides a \$13.99 million exemption per individual before the tax applies.

Proper planning can help maximize these exemptions and minimize tax liabilities.

Now Let's Talk About How Life Insurance Can Supplement Your Retirement Income!

What should you expect from your financial partner as you navigate your insurance options? A focus on improving customer experience through flexible solutions, intuitive planning, and enhanced service. As the industry continues to evolve, now is the time to reassess your choices and make informed decisions about your financial future. Call us if you're ready to explore your options.



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i."How 2025 Medicare Changes Are Making Prescription Drug Coverage More Affordable for Seniors." Explore Medicare.[online] Available.

<https://explore-medicare.org/brittany-doyle-how-2025-medicare-changes-are-making-prescription-drug-coverage-more-affordable-for-seniors> [Accessed Feb. 2025]

ii. "Tax Policy Under the Trump Administration." Tax Foundation - [Online] Available:

<https://taxfoundation.org/research/all/federal/donald-trump-tax-plan-2024> [Accessed Feb. 2025]

iii "What are the tax benefits of whole life insurance? Guardian. <https://www.guardianlife.com/life-insurance/tax-benefits> [Accessed May 2021]

iv Darla Mercado, CFP, August 19, 2018, "This source of tax-free cash can sweeten or ruin your retirement," [Online]. Available: <https://www.cnbc.com/2018/08/17/this-source-of-tax-free-cash-can-sweeten-or-ruin-your-retirement.html>