

# > Indexed Universal Life Insurance vs. Contributory Roth IRA

## COMPARING THE FEATURES

### How Do You Plan to Retire?

You know you need to save for retirement. But with all the options, how do you know which is right for your unique situation?

We've taken the time to review and compare two options: indexed universal life insurance (or IUL for short) and the Contributory Roth IRA (Roth IRA). Both can help you supplement your retirement savings. However, each has its own pros and cons. So let's take a look at how these two tools could work for your personal situation.

*This flyer discusses a contributory Roth IRA and does not pertain to Roth IRA conversions or Roth IRA rollovers.*

### Indexed Universal Life (IUL) Insurance

As implied by the name, an IUL is first and foremost a life insurance policy. As a permanent life insurance policy, it offers the protection of a death benefit, guarantees insurability and provides the potential to accumulate cash value.<sup>1</sup>

What makes an IUL policy different is that the interest credited is based on the changes in market indices, often a stock market index. The interest credited will be limited by caps and participation rates, depending on the index crediting method selected. If there are negative index returns in the market, your policy will not be affected because the index interest credited will not be less than zero percent. The cash value<sup>1</sup> may grow tax-deferred and can be accessed via tax-free<sup>2</sup> withdrawals (up to premiums paid) and/or policy loans. Any withdrawals or loans<sup>3</sup> will reduce the policy's cash value<sup>1</sup> and death benefit.

You can apply for an IUL regardless of your income, subject to underwriting requirements. Premium payments are only limited by the IRS definition of life insurance.

Finally, you are not limited to when you can access the cash value<sup>1</sup> in an IUL. This gives you the flexibility and control to use your cash value<sup>1</sup> to help cover things such as buying a house, paying for college or taking care of emergencies without incurring any taxes or penalties.<sup>4</sup> Surrender charges may be applied if you cancel the policy.

### Contributory Roth IRA

The Roth IRA is a retirement savings vehicle. Money is contributed into an asset that can grow based on the performance of the investment selected.

Similar to the IUL, contributions are not tax deductible but qualified distributions are usually tax free.<sup>2</sup> A Roth IRA can prove beneficial to young workers looking to benefit from decades of potential growth. There are contribution and income limitations tied to a contributory Roth, which can restrict how much an individual can save over time in this type of account (or prevent some people from participating in a contributory Roth altogether). There may be no downside protection if the market experiences a loss.

Roth IRAs have no minimum required distributions during your lifetime. Generally, qualified distributions from a Roth IRA are tax free, however there may be some situations in which taxes could apply. Seek help from a tax professional to determine if a distribution could have tax consequences.

<sup>1</sup>The amount that may be available through loans or withdrawals, as defined in the contract.

<sup>2</sup>For federal income tax purposes, tax-free income assumes (1) withdrawals do not exceed tax basis (generally, premiums paid less prior tax-free withdrawals); and (2) the policy does not become a modified endowment contract. See IRC §72 and 7702A.

<sup>3</sup>Available loan amounts are based on your cash surrender value. The minimum withdrawal is \$100 and may not exceed 90 percent of the surrender value during the first 14 years and 100 percent of the surrender value thereafter. Surrender charges may apply. Standard policy loans will be charged at the interest rate, Policy years 1-9: Charge 4 percent (in arrears), Credit 2 percent. Policy years 10+: Charge 2 percent (in arrears), Credit 2 percent. Index loans will be charged an interest rate determined by the company not to exceed 6 percent.

<sup>4</sup>Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.

## Which Option Is Right for You?

The primary function of a contributory Roth IRA is to help supplement retirement income whereas an IUL policy provides a death benefit and may accumulate cash value<sup>1</sup> that can be used later to help supplement income needs. This is a key differentiator that you will want to consider when making a choice between the two options.

The following chart may help you weigh the two options further:

### IUL

- Tax-free<sup>5</sup> death benefit
- No minimum age requirements to access cash value of gain prior to age 59½
- After-tax premium
- Index interest credited may be subject to caps or participation rates
- Protection from downside risk
- No required distributions
- Subject to premium charges and monthly expenses
- No income limitations
- Underwriting requirements
- Potential tax implications for overfunding

### Contributory Roth IRA

- No tax-free death benefit
- Penalty for withdrawals if made within the first five years unless exemption applies
- After-tax contributions
- Generally no limitations on gains
- Generally no protection from downside risk
- Minimum required distribution upon death
- Subject to investment charges
- Income limitations to establish contributory Roth IRA
- No underwriting requirements
- Annual contribution limits

## Talk to a Professional

It's important to weigh all the options available. We suggest that you speak with a trusted financial professional, who can help you create a retirement plan to suit your goals.

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<sup>5</sup>Death benefit proceeds from a life insurance policy are generally not included in the gross income of the taxpayer/beneficiary (Internal Revenue Code Section 101(a)(1)). There are certain exceptions to this general rule including policies that were transferred for valuable consideration (IRC §101(a)(2)).

This information should not be construed as tax or legal advice. Consult with your tax or legal professional for details and guidelines specific to your situation.

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