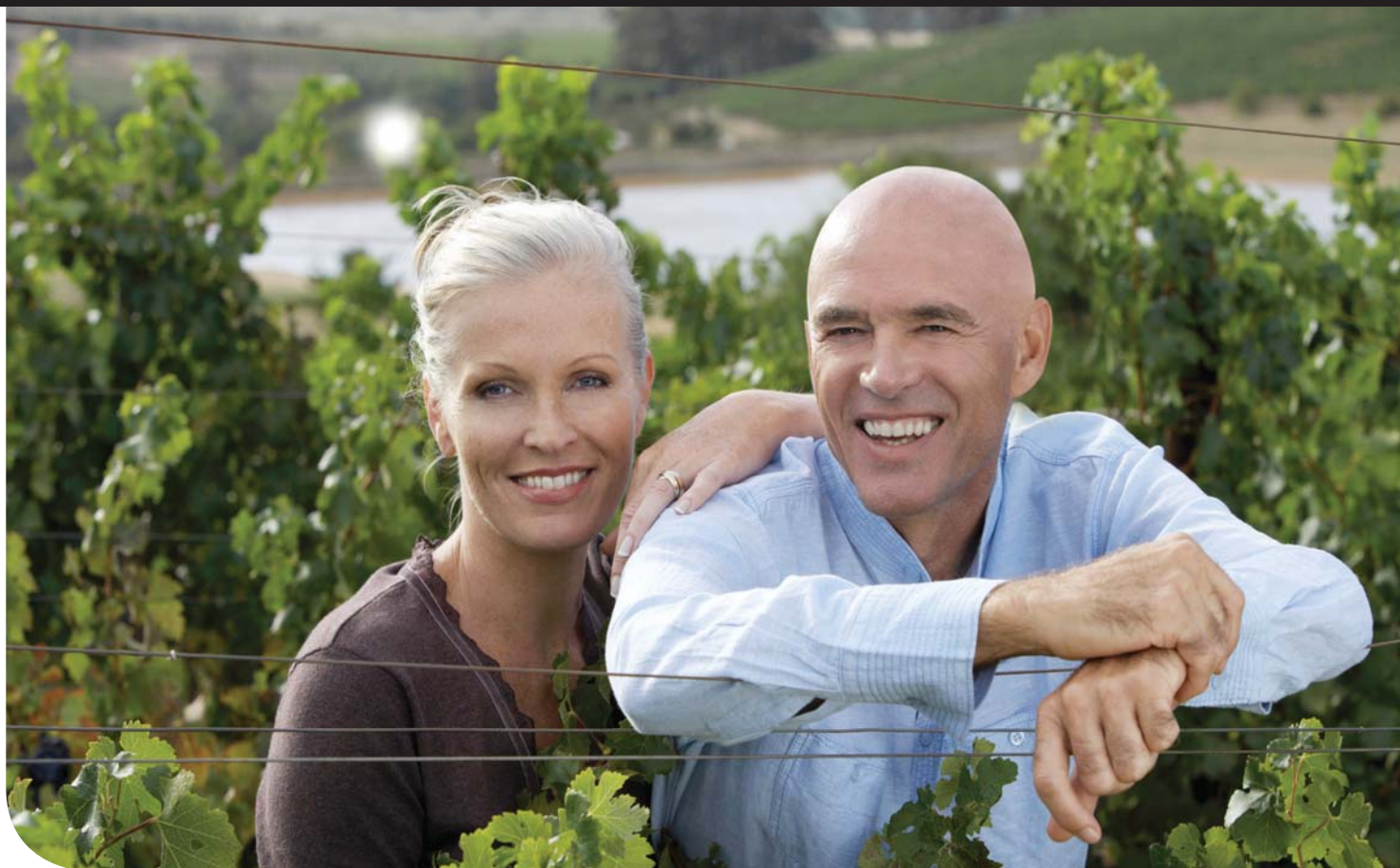


LIFE

A New Look on Life



**MetLife**



cash value life insurance  
as an asset

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# A New Look on Life

## Cash Value Life Insurance as an Asset

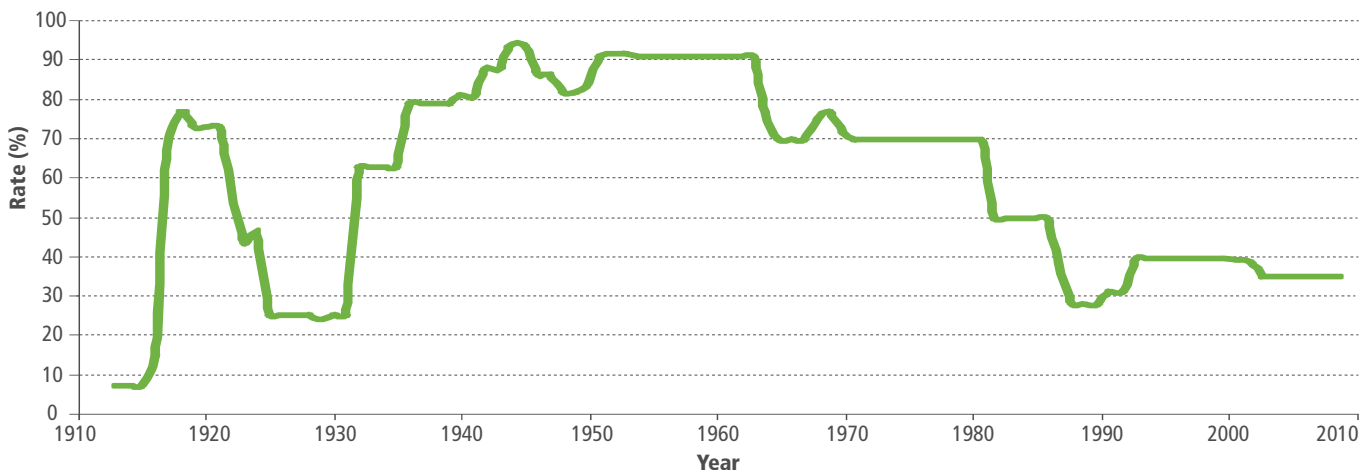
More so now than in the past, there seems to be a disconnect between the opportunities of traditional investing and the necessary savings needed to supplement the retirement clients expect and deserve. In this world of the *New Normal*, clients are reevaluating their priorities and more importantly, their traditional way of thinking about investing. One way clients are choosing to help supplement retirement income is through cash value life insurance.<sup>2</sup>

While the primary purpose of life insurance is the death benefit protection, it is important to understand the advantages cash value accumulation can provide to clients. With the changing landscape of the economy, limitations to traditional investments, the shifting expectations of retirement and the current and future taxation of investment vehicles, clients are often left wondering what options they have to appropriately save for retirement. Cash value life insurance can be designed to offer a supplemental approach that can help resolve these issues, with its unique tax-favored accumulation, distribution and transfer capabilities.

## Future Taxation

The impact of future taxation on accumulated assets can be problematic. Clients cannot simply prepare for what is known today, but what could also happen in the future. While it is impossible to predict the future of taxes, as it will experience many changes, reviewing past trends can provide insight of where we are in relative terms of taxation through the years. This is a common practice used for trending market returns, but seldom used to trend taxation. As taxes have a significant impact on the transition of retirement savings into retirement income, it is important to consider the effect potential taxes will have on assets. By allocating long-term savings to assets that generate tax-favored income, clients can help enhance their retirement lifestyle.

### US FEDERAL MARGINAL INCOME TAX RATES



Source: Internal Revenue Service, Statistics of Income Bulletin (Publication 1136), Winter 2002-2003. Updated with current rates.

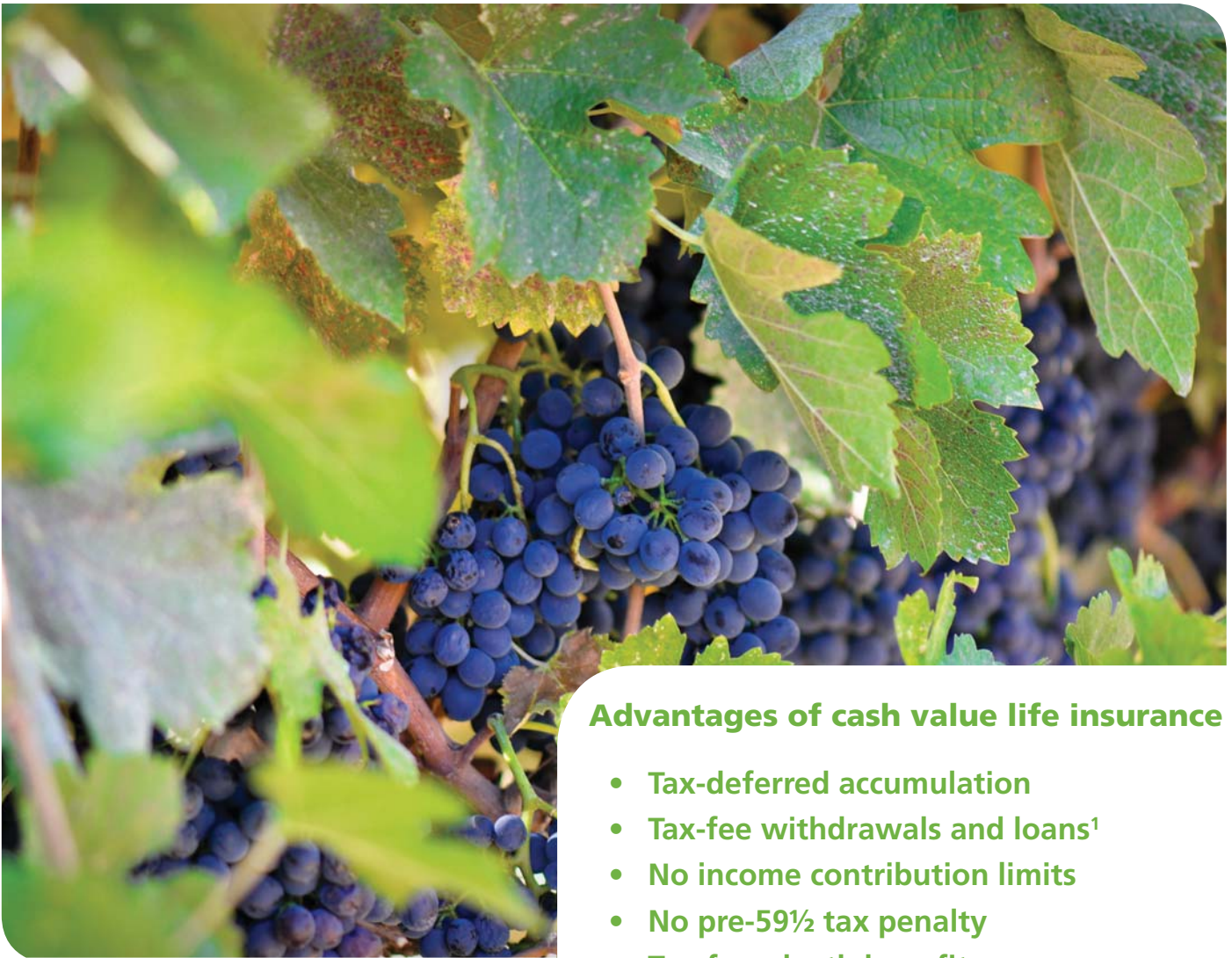
**When comparing the current top marginal tax rate to the average top marginal tax rate, the current rate is well below the average.**

- **Average Top Marginal Tax Rate = 59.45% (Years: 1913-2009)**
- **Average income (not adjusted for inflation) at which top rate becomes effective \$256,842 (Years: 1942-2009)**

Please note: This document is designed to provide introductory information on the subject matter. MetLife does not provide tax and legal advice. Clients should consult their attorney and/or tax advisor before making financial investment or planning decisions.

<sup>2</sup> Investments in variable life insurance is subject to market risk including loss of principal.

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### Advantages of cash value life insurance

- Tax-deferred accumulation
- Tax-free withdrawals and loans<sup>1</sup>
- No income contribution limits
- No pre-59½ tax penalty
- Tax-free death benefit

## Cash Value Life Insurance

In contrast to traditional investments, cash value life insurance can be designed to provide your clients with cash accumulation while still protecting them and their loved ones along the way. With no income contribution limits, tax-deferred growth and tax-favored distributions coupled with the protection of an income tax-free death benefit, this asset is an appealing solution for supplemental income,<sup>1</sup> as well as efficient wealth transfer.

With these distinguishing characteristics, cash value life insurance can be a powerful solution to many of your clients' needs, providing life insurance protection in addition to a potentially valuable asset within your clients' portfolios. By understanding the power of cash value life insurance, your clients can take a *New Look on Life*.

<sup>1</sup> Tax-free distribution assumes that the life insurance policy is properly structured and not classified as a Modified Endowment Contract (MEC). Distributions are made up to the cost basis and policy loans thereafter. If the policy is a MEC, cash value is taxable upon withdrawal and if withdrawn before age 59 ½, a 10% federal income tax penalty tax may apply. If a policy should lapse or be surrendered prior to the death of the insured, there may be tax consequences. Loans and withdrawals will decrease the cash value and death benefit.

# Tax Diversification

How much clients save and where they invest may be one of the most important decisions in the planning process. *Market Diversification* is a fundamental investing strategy, but seldom is *Tax Diversification* a topic of discussion.

Examine the taxation of clients' investments both now and in the future, as their retirement outlook could be hindered by an uncertain tax market. Traditional investment vehicles, such as qualified plans and deferred annuities have many advantages, but one major disadvantage is that earnings and pre-tax contributions are all taxed as ordinary income in retirement. Personal investments are generally taxed at capital gains and dividend rates that under current law can be more favorable than those taxed as ordinary income, however they do not provide tax-deferred growth. Therefore, you may want to consider diversifying your clients' portfolio not just from a market perspective, but also from a tax perspective, in anticipation of what future taxation may look like. Properly structured cash value life insurance offers the opportunity to have tax-deferred cash accumulation that can be transitioned into a tax-favored retirement income via policy loans and withdrawals.<sup>1</sup>

## TAX TREATMENT COMPARISON<sup>1</sup>

	Qualified Plans/IRAs <sup>3</sup>	Personal Investments	Deferred Annuities	Life Insurance
Contribution	Pre-tax	After-tax	After-tax	After-tax
Accumulation	Tax deferred	Taxable when realized	Tax deferred	Tax deferred
Distribution	Taxable as ordinary income	Taxable when realized	Taxable as ordinary income	Tax-favored <sup>4</sup>
Death Benefits	Taxable as IRD <sup>5</sup>	Stepped up Basis	Gain taxable as IRD <sup>5</sup>	Tax-free
Trade Offs	Pre 59½ penalty	Liquid	Pre 59½ penalty	Insurability plus cost of insurance

<sup>3</sup>Traditional IRAs.

<sup>4</sup>Tax-free distributions assumes the policy is not a Modified Endowment Contract (MEC), see footnote one for additional details.

<sup>5</sup>Income in Respect of a Decedent (IRD).

## Internal Rate of Return (IRR)

The process of IRR is used to determine the financial efficiency of any investment. IRR is the annualized percentage of growth inside of an investment. When looking at life insurance as an alternative to supplement a client's income, it is also important to consider the policy's IRR.

When calculating the IRR of a properly structured cash value life insurance policy it is important to remember that it has tax-favored withdrawals and loans.<sup>1</sup> This means that when comparing it to traditional forms of investing, you must calculate the tax-equivalent yield. Tax-equivalent yield incorporates the tax bracket of the client to determine the rate of return needed in a taxable position to earn equivalent income in a vehicle that allows tax-free access to funds, like cash value life insurance. Look to the chart on the right to help you quickly determine the impact of taxation on IRR.

### TAX EQUIVALENT YIELD

IRR	TAX RATE		
	35%	30%	25%
3.00%	4.62%	4.29%	4.00%
4.00%	6.15%	5.71%	5.33%
5.00%	7.69%	7.14%	6.67%
6.00%	9.23%	8.57%	8.00%

**This means that, given our assumptions, if cash value life insurance has an IRR of 4.00%, then your client would have to earn 6.15% in an investment subject to a 35% tax rate.**

This example is for illustrative purposes only.

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