



EQUITABLE

Past, present and future retirement planning

Sales idea

The three types of tax buckets

The IRS Code Section 7702 gives permanent cash value life insurance tax-favorable features unlike any other product available. As you consider how to position your clients' assets for retirement, overfunded, permanent life insurance can be an attractive option as a potential tax-free source of income in the future.

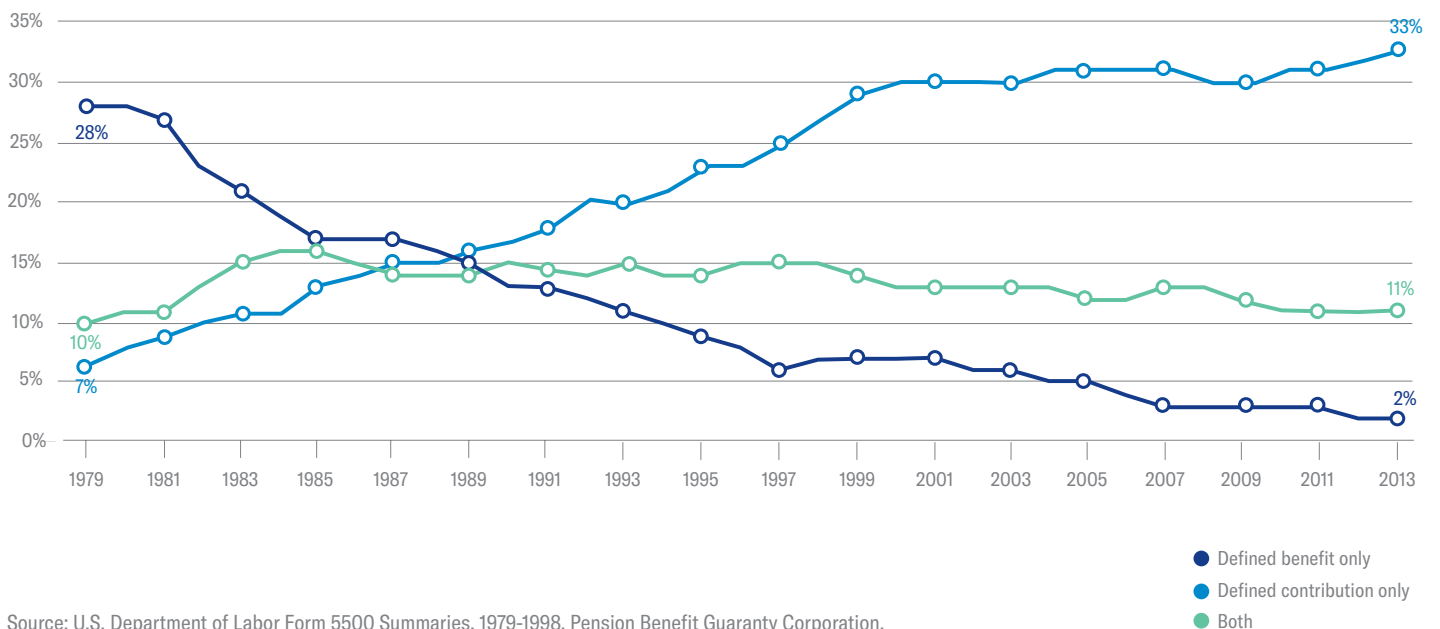
By structuring premium payments so they fall within its funding guidelines, a life insurance policy can minimize the effect of taxes by providing your clients tax-free growth of cash values, potential tax-free access to those values and ultimately a tax-free death benefit.

The past

We are only a few decades removed from a time when pensions were the most prevalent source of retirement income for American workers and when tax rates were near an all-time high.

Today, only 16% of Fortune 500 companies offer pensions to new hires, whereas only 20 years earlier, roughly 60% of the companies offered defined benefit pensions. The decline in availability of pensions happened for many reasons – high cost, government regulations, increased complexity and risk volatility. Personal savings now must fill that void, with increased reliance on IRAs and 401(k) plans, many of which will be subject to taxation at some unknown future rate.

Private sector workers participating in employment-based retirement plans, by plan type among all workers (1979-2013)



Source: U.S. Department of Labor Form 5500 Summaries, 1979-1998, Pension Benefit Guaranty Corporation.

The present

Currently, retirement income planning for clients often focuses on asset diversification. But asset taxation is just as important. Think about the three “buckets,” or types of investments, and how each are taxed — tax-deferred accounts, taxable holdings and those that generate tax-free income at retirement.

Taxable investments

Taxable investments include assets, such as stocks, mutual funds and real estate, including the primary residence. When these assets are sold, they will be subject to capital gains tax.

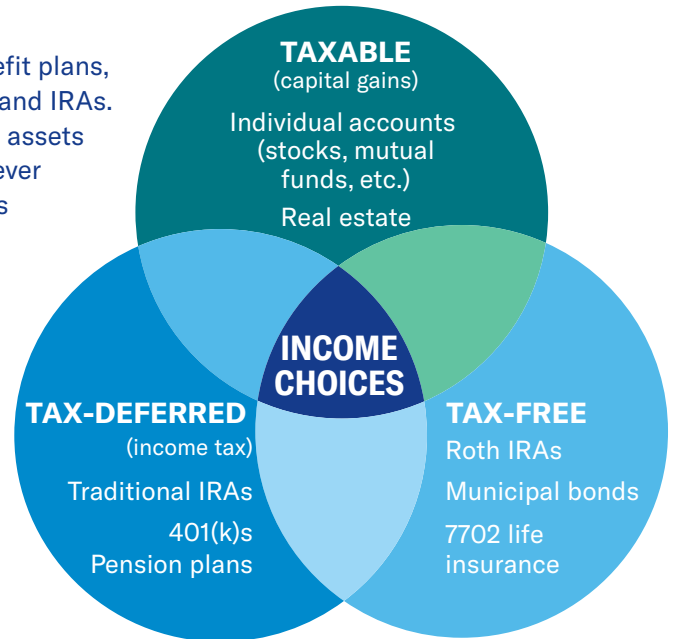
Tax-deferred investments

Tax-deferred investments consist of defined contribution and benefit plans, plus other traditional retirement savings vehicles, such as 401(k)s and IRAs. You may receive a tax deduction when contributions are made; the assets grow tax-deferred, but are subject to ordinary income tax (at whatever those rates may be) when withdrawals are made at retirement or as required minimum distributions (RMDs).

Tax-free assets

Tax-free assets include Roth IRAs, municipal bonds and cash value life insurance — where withdrawals and loans from cash value of a life insurance policy are not subject to either income or capital gains tax. (Withdrawals and policy loans and any accrued loan interest may cause a policy to lapse even if in a period of coverage under a No-Lapse Guarantee Rider.)

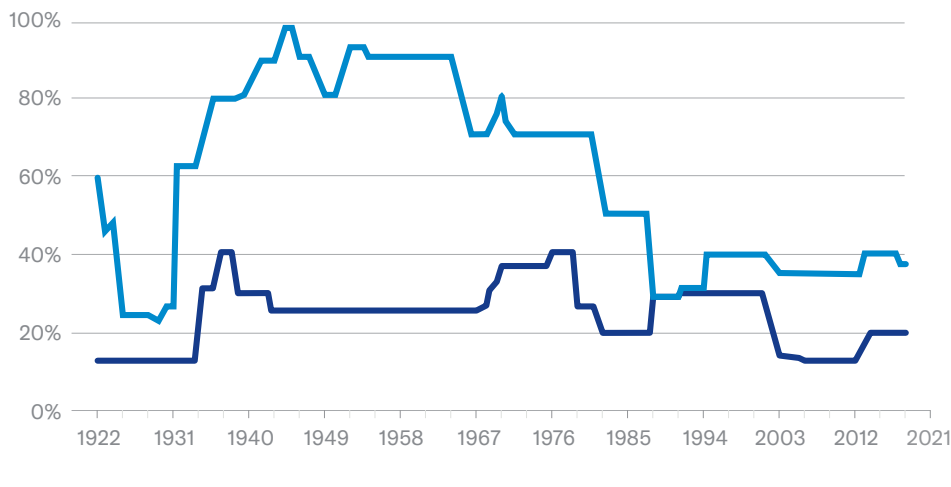
Clients may want to have some retirement assets in each of these three options for maximum flexibility in funding and retirement income.



The uncertainty of future tax rates

It can be challenging to plan for tax efficiency when you're not sure what tax rates will be in the future. After all, the capital gains tax and income tax rates have fluctuated over the past 100 years and most likely will continue to do so.

Capital gains and income tax timeline (1922-2019)



Based on the uncertainty of our applicable tax rates in the future, retirement income planning focused on tax management and diversification requires additional refinements — tax efficiency and flexibility.

All the assets in the three groups have various nuances — risk exposure, contribution limitations, minimum distribution requirements, income thresholds, potentially higher tax exposure and impact on Social Security benefits, just to name a few — that can affect how and when to withdraw from these various tax accounts.

Adding a 7702 cash value life insurance policy

For those who qualify for additional life insurance, adding a 7702 life insurance policy with cash value to a retirement portfolio may provide favorable tax benefits that can enhance retirement planning. Some of the hurdles associated with permanent life insurance, including insurance charges and other fees, can be partially mitigated with careful design and planning — giving your clients options to manage their tax bracket through tax-free distributions.¹

What a properly funded 7702 cash value life insurance policy can do for you

When properly designed, a 7702 life insurance policy with cash value can make the other assets in your three buckets more efficient. That's because it provides:

- **A tax-free benefit for beneficiaries.** The death benefit can help survivors by self-completing retirement funding if the main income earner passes away.
- **Tax-free withdrawal and loans** from the policy's cash value to help fund your retirement income.¹
- **Tax-deferred, compounded accumulation,** similar to IRAs and 401(k).
- **Flexibility** to delay withdrawals past age 72.
- **Diversification** by repositioning and further diversifying assets.
- **Opportunity** to use the cash value for qualifying long-term care expenses, if a long-term care rider is in place. Our Long-Term Care ServicesSM Rider has an additional cost, restrictions and limitations. A client may qualify for the life insurance, but not the rider. The rider is paid as an acceleration of the death benefit.
- **A good option** for your clients who do not qualify for a Roth or Traditional IRA, or have met their contribution limits.

What is IRC §7702?

For all life insurance policies issued after 1985, the government defined what constitutes a life insurance policy based on contributions made each year. If the tests are met, the life insurance policy maintains its tax-favored status — death benefits paid to beneficiaries are generally free from income tax, cash value accumulates tax-deferred and withdrawals (and loans) are potentially tax-free.¹

Things to think about before moving ahead

Carefully review all of the features, benefits and costs of a cash value life insurance policy before recommending a purchase.

- 1 To be effective, clients need to hold the policy until death. A life insurance policy generally takes years to build up a substantial cash value.
- 2 Clients must qualify both medically and financially for the life insurance.
- 3 Generally, there are additional charges associated with a life insurance policy, including, but not limited to, a front-end load, a cost of insurance charge, a monthly investment charge, potential surrender charge, additional benefit rider costs and administrative charges.

Turn to us for your life insurance

With careful planning, our portfolio of permanent life insurance products can be a key component of a well-balanced, tax-efficient retirement portfolio. That's because our life insurance offers:

- Competitive cash value product options.
- Conservatively priced products designed for cash value accumulation in addition to life insurance protection.
- Illustrations that show how our products can help supplement retirement income.
- A wide selection of riders to choose from, including the Charitable Legacy Rider[®], which offers an additional death benefit to the charity of your choice at no added cost.

For more information, contact your Equitable representative or visit equitableLIFT.com.

¹ Under current federal tax rules, clients generally may take income tax-free partial withdrawals under a life insurance policy that is not a modified endowment contract (MEC), up to basis in the contract. Additional amounts are includible in income. The IRS places a limit on how much money can go into life insurance premiums for the policy and how quickly such premiums can be paid in order for the policy to retain all of its tax benefits. If certain limits are exceeded, a MEC results. MEC policyholders may be subject to taxes on distributions on an income-first basis, that is, to the extent there is gain in their policies and penalties on any taxable amount if they are not age 59½ or older. Loans taken will be free of current income tax as long as the policy remains in effect until the insured's death, does not lapse and is not a MEC. Please note that outstanding loans accrue interest. Income tax-free treatment also assumes the loan will eventually be satisfied from income tax-free death benefit proceeds. Loans and withdrawals reduce the policy's cash value and death benefit, may cause certain policy benefits or riders to become unavailable, and may increase the chance the policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values. In addition, withdrawals, policy loans and any accrued loan interest may cause a policy to lapse even if it is in a period of coverage under the No-Lapse Guarantee Rider.

A life insurance policy is backed solely by the claims-paying ability of the issuing life insurance company. It is not backed by the broker/dealer or insurance agency through which the life insurance policy is purchased or by any affiliates of those entities, and none makes any representations or guarantees regarding the claims-paying ability of the issuing life insurance company.

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