WBC Definitions Guide

Each of the below options involve the purchase of permanent life insurance which has an expense associated with providing the death benefit.

Option 1: Covered retirement assets for retirement income

A covered retirement asset is one that is accompanied by an equal amount of permanent life death benefit provided by a life insurance policy.

- Covered assets lay the foundation for a self-made pension* in retirement. Basically, under this option, the interaction of your retirement assets and permanent life death benefit gives you the ability to create guaranteed income for life in retirement from the assets you've built while also insuring an amount for heirs.
- This is accomplished by trading your retirement assets for a guaranteed income annuity at the time of retirement (i.e. a self-made pension). Then, at your passing, the annuity income stream stops and the guaranteed death benefit** of your permanent life insurance is paid out to your beneficiary to replace the retirement asset that was originally traded for your retirement income.

Option 2: Volatility Buffer for retirement income

If you choose not to create a self-made pension (using a guaranteed income annuity) with your retirement assets for income as discussed in option 1, then you must take secure retirement income from your invested retirement assets.

- The key to taking a higher withdrawal from invested assets is to not always have to draw income from them after a year in which your asset base did not earn what you were going to pull out. This guards your asset base with a volatility buffer year and gives it a chance to recover. The goal is to be able to withdraw your income stream from a different asset that is uncorrelated to the short term fluctuating returns of your invested retirement assets.
- Cash value of a permanent life insurance policy can be this uncorrelated asset if you also want the permanent death benefit life insurance provides.
- While an outstanding policy loan can impact your cash surrender value and death benefit***, your gain in using the cash value as a volatility buffer could be substantial.

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Option 3: Uncorrelated assets for diversified retirement income

A single source of income can leave you vulnerable in retirement. This option provides you with the ability to have multiple uncorrelated sources of retirement income to insulate yourself from market fluctuations, interest rate volatility and income tax rate changes.

- Your retirement assets can be used as one source of income, and the cash values of permanent life insurance can be used as a second source. Distributions from retirement assets such as 401(k)s are often taxable and may be short term interest rate sensitive. Distributions taken from the cash values of your permanent life insurance policy by way of loans*** are non-taxable and not short term interest rate sensitive. The respective growth of your retirement assets and permanent life insurance may have little to no correlation to one another, providing stability for overall retirement income.

*Discussion of self-made pensions refers to a guaranteed income annuity.

**Guarantees are based on the claims-paying ability of the insurance company. Past performance is not a guarantee of future performance.

***Accessing cash values through borrowing or partial surrenders will reduce the policy's cash surrender value and death benefit, increase the chance the policy could lapse, and may result in a tax liability if the policy terminates before the death of the insured.