Allianz

Allianz Life Insurance Company of North America

INDEXED UNIVERSAL LIFE INSURANCE (IUL)

The benefits of life insurance in a retirement portfolio

In today's environment, a successful financial strategy needs a mix of assets and financial vehicles to help support and protect long-term goals – especially retirement income goals.

Clients are facing mounting risks that could significantly impact their financial well-being later in life, including the risks in:

Inflation

Taxes

Longevity

Volatility

With inflation at historically high rates, and purchasing power decreasing, market protection is increasingly important.

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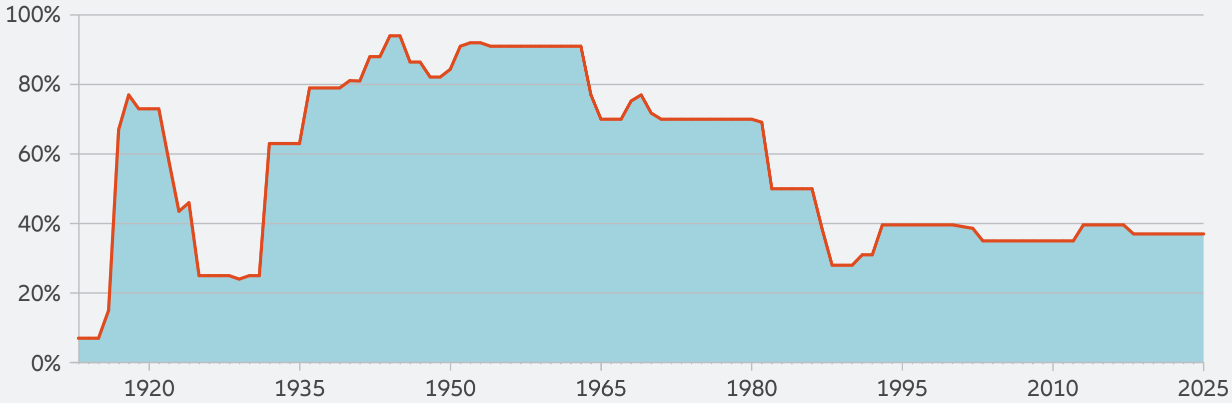
The unpredictability of tax rates

Taxation can have a large impact on your clients' assets, especially when they access funds. Though current income tax rates for the highest earners are relatively low compared to rates over the last century, there's no guarantee this will continue.

A glance at the chart below makes it clear how much, over the last century, tax rates have shifted, many times dramatically. Even a 1% rise in taxation can have a significant impact on the amount being withdrawn and the resulting net income – and the amount that's remaining to take advantage of future compounding. **No one can be sure where income tax rates will be during your clients' retirement, and how much of their assets may be taxed.**

U.S. income tax rates for highest-income earners



Source: Fidelity, A visual history of the US income tax rates, October 9, 2024

Diversification and its tax benefits

Generally, financial vehicles fit into three tax categories, each with advantages and disadvantages depending on the tax environment:

Tax-free	Tax-deferred	Taxable
Income that is not taxed when accessed. Examples: • Cash value life insurance (Non-MEC) • Roth 401(k) • Roth IRA	Earnings not taxed until taken from the account. Examples: • Retirement plans, e.g., 401(k), 403(b) • Traditional IRAs • Nonqualified annuities • Pension plans	Earnings, such as interest or dividends, are taxable each year. Examples: • Checking account • CDs • Nonqualified brokerage account • Money markets

To show the importance of diversification in a financial portfolio, let's take a closer look at the tax treatment of six sources of retirement income. As you can see, no single financial vehicle can provide every tax advantage:

	Life insurance	Qualified plan/ traditional IRA	Roth IRA/ Roth 401(k)	Individually owned mutual funds	Municipal bonds	Nonqualified deferred annuities
Funding/contribution limits	No[1]	Yes[2]	Yes[2]	No	No	No[3]
Funding/contribution pre-tax	No	Yes	No	No	No	No
Income-tax-deferred accumulation	Yes	Yes	Yes	No[4]	Yes	Yes
Income-tax advantaged distributions	Yes[5]	No	Yes[6]	Yes[7]	Yes[8]	Yes[9]
Income-tax-free or advantaged benefit at death	Yes	No	Yes[6]	Yes[10]	Yes[8, 10, 12]	No
Additional tax for early withdrawal (unless an exception applies)	No[11]	Yes	Yes	No	No	Yes
Avoids probate at death	Yes	Yes	Yes	No	No	Yes

This table is based on current tax laws and is intended to provide a general overview of the tax treatments of specific financial vehicles, including life insurance. This is not a complete comparison of all features of the financial vehicles. A comprehensive approach to your retirement strategy may consider a variety of financial vehicles in different tax classification categories, including the ones defined below.

[1] To ensure any available cash value is available on a tax-advantaged basis, the Internal Revenue Code regulates the relationship between the death benefit and the accumulation value. Life insurance may require ongoing contributions to ensure the policy stays in force. If the policy is not sufficiently funded it may lapse.

[2] May be limited by adjusted gross income, in addition to the dollar limits.

[3] Contract provisions may limit contributions.

[4] Capital gains and dividends declared by mutual fund managers may be taxable.

[5] Policy loans and withdrawals will reduce the available cash value and death benefit and may cause unintended consequences, including lapse or taxable events. Please see full loan and withdrawal disclosure within this material for details.

[6] If qualified distributions occur.

[7] To the extent that the capital gains tax is more favorable than ordinary income tax.

[8] Municipal bonds may be subject to state and local taxes and Alternative Minimum Tax.

[9] Provided the contract is annuitized, the distributions are tax-advantaged.

[10] Step-up in basis applies at death.

[11] Withdrawals and loans from a life insurance policy are subject to the additional tax for early withdrawal if the policy is classified as a modified endowment contract (MEC).

[12] Municipal bond interest is generally exempt from federal income tax. All of the financial vehicles listed above will have various fees and charges.

The impacts of taxation: two examples

Depending on which accounts they access, your clients could be taxed on a significant portion of their retirement income.

Now let's look at an example of taxation's impact on a diversified and nondiversified strategy:

	Initial distribution	Taxes	Net distribution	Total
Diversified strategy	401(k) $33,000	Income tax (-) $12,210[1]	$20,790	$81,190
	Mutual fund $33,000	Capital gains tax (-) $6,600[2]	$26,400	
	Life insurance policy loan[3] $34,000	$0	$34,000	
Nondiversified strategy	401(k) $100,000	Income tax (-) $37,000[1]	$63,000	$63,000
Difference between the two strategies				**$18,190**

This hypothetical example is provided for illustrative purposes only and is not intended to represent the performance of a specific product or investment.

Adding diversification with IUL

Along with traditional sources of retirement income – such as Social Security benefits, a pension, 401(k) or IRA distributions, an annuity, or other investments – indexed universal life insurance (IUL) can play an important role in an overall financial strategy.

Of course, the primary reason for a client to purchase life insurance is for the death benefit that is left to beneficiaries. But when you consider its additional advantages, IUL can be an appropriate choice to help diversify a client's portfolio.

IUL can offer benefits other financial vehicles may not, including:

- Tax-deferred accumulation value
- Income-tax-free loans and withdrawals[3]
- Income-tax-free death benefit[4]

And IUL does not have the restrictions of typical retirement savings vehicles:

- No penalties for accessing cash value prior to age 59½, assuming the policy is not a MEC[3]
- Taking policy loans and withdrawals currently does not have an effect on available Social Security retirement benefits[3]
- No required minimum distributions (RMD) at age 73

FIND OUT MORE about how the tax advantages of IUL could benefit your client. Contact the Life Case Design Team to discuss your client's specific financial needs.

[1] Based on 2025 tax rate of 37%.

[2] Based on 2025 capital tax rate of 20%.

[3] Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change, and you should consult a tax professional.

[4] The death benefit is generally income-tax-free when left to beneficiaries.