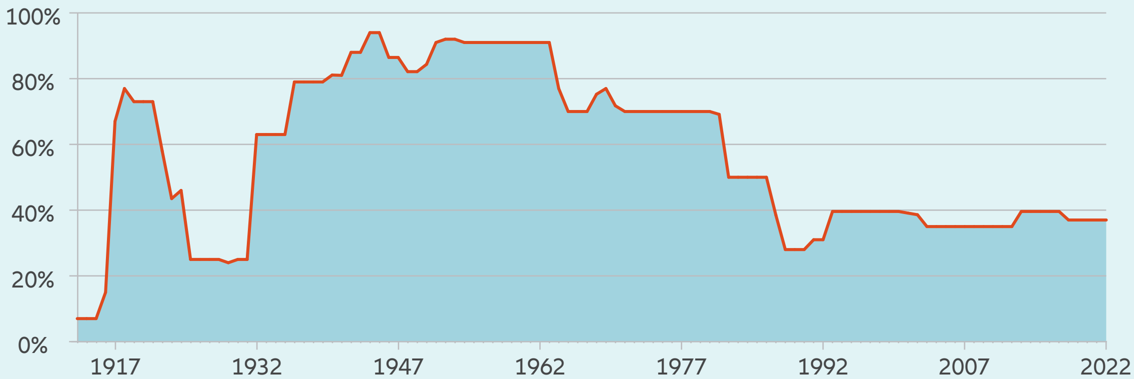
LIFE INSURANCE IN RETIREMENT

Taxation and the impacts on your retirement assets

Taxation can have a large impact on your assets, especially in the future, when you're accessing funds during retirement.

In recent years, the income tax rate for the highest earners has hovered just below 40%. But it hasn't always been this way. As you see in the table below, the rate has been significantly higher during much of the last century.

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



Source: Tax Policy Center, "Historical Highest Marginal Income Tax Rates, February 2022"

You can't be sure where tax rates will be during your retirement or how much your assets may be taxed.

Don't let taxation be an overlooked cost in your retirement – it can have a potential impact on your long-term savings similar to the impacts of inflation or market volatility. Given the amounts that may be typically withdrawn in retirement, taxation should be prepared for the same way you plan for your cost of living, inflation, and increased health care expenses.

CSI-585 (4/2023)

A diversified strategy can help effectively manage how much and when you are being taxed

Traditional sources of income you may be counting on in your retirement could include Social Security benefits, a pension, IRA/401(k) distributions, an annuity, or other investment vehicle. Keep in mind that various financial vehicles are taxed differently and have advantages and disadvantages depending on the tax environment.

This is a reason why you should also consider adding fixed index universal life (FIUL) insurance to your overall portfolio. Along with the death benefit protection for beneficiaries,[1] FIUL offers a unique combination of potential tax advantages that no other traditional retirement income sources offer:

- Income-tax-free death benefit[1]
- Tax-deferred accumulation value
- Income-tax-free loans and withdrawals that could be used to supplement your retirement income[2]

Tax treatment of various sources of retirement income

	Life insurance	Qualified plan/ traditional IRA	Roth IRA/ Roth 401(k)	Individually owned mutual funds	Municipal bonds	Nonqualified deferred annuities
Funding/contribution limits	No[3]	Yes[4]	Yes[4]	No	No	No[5]
Funding/contribution pre-tax	No	Yes	No	No	No	No
Income-tax-deferred accumulation	Yes	Yes	Yes	No[6]	Yes	Yes
Income-tax-advantaged distributions	Yes[2]	No	Yes[7]	Yes[8]	Yes[9]	Yes[10]
Income-tax-free or advantaged benefit at death	Yes	No	Yes[7]	Yes[11]	Yes[9, 11, 13]	No
Additional tax for early withdrawal (unless an exception applies)	No[12]	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] The death benefit is generally income-tax-free when left to beneficiaries.

[2] 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.

[3] 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 (i.e., premium payments) to ensure the policy stays in force. If the policy is not sufficiently funded, it may lapse and incur tax consequences.

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

[5] Contract provisions may limit contributions.

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

[7] If qualified distributions occur.

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

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

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

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

[12] 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).

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

How FIUL can benefit your financial strategy regardless of the tax environment

Here are two possible tax scenarios that could occur when you're making contributions or taking distributions from your financial vehicles – and how FIUL can help support and diversify a retirement strategy.

If you are in a lower tax environment during your:

Contribution phase
You may consider placing additional funds into a tax-free source such as FIUL. Contributions, or premium payments to an FIUL, are made with after-tax dollars.

Distribution phase
If the tax rate is lower when you retire, you may consider accessing more from sources that create taxable distributions.

Additional after-tax contributions, such as an FIUL policy →

→ Access more from taxable sources, like an IRA (or other taxable sources)

If you are in a higher tax environment during your:

Contribution phase
You may consider placing additional funds into financial vehicles where contributions are made with pre-tax dollars.

Distribution phase
If the tax rate is higher when you retire, you may consider accessing more from sources that have potential non-taxable distributions, such as loans and withdrawals from an FIUL policy (assuming there is cash value available).

Additional pre-tax contributions such as an IRA (or other pre-tax sources) →

→ Accessing from FIUL (or other potentially income-tax-free sources)

Additional FIUL considerations

- FIUL requires health and financial underwriting.
- FIUL does not provide a guaranteed source of income.
- There is no guarantee that a policy will earn sufficient interest to support a loan strategy.
- Policy loans will reduce your death benefit and accumulation value.
- Policy values should be monitored closely to avoid a policy lapse or adverse tax consequence. If the policy lapses, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax, which can be a substantial amount of taxable income.

CONTACT YOUR FINANCIAL PROFESSIONAL AND TAX ADVISOR to discuss adding FIUL to your portfolio. FIUL insurance can help supplement your other sources of retirement income and provide more tax diversification to your overall strategy.

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.

True to our promises so you can be true to yours®

A leading provider of annuities and life insurance, Allianz Life Insurance Company of North America (Allianz) bases each decision on a philosophy of being true: **True to our strength** as a key part of a leading global financial organization. **True to our passion** for making wise investment decisions. **True to building a culture** where everyone feels welcomed, included, and valued. And **true to the people we serve,** each and every day.

Through a line of innovative products and a network of trusted financial professionals, and with 3.7 million contracts issued, Allianz helps people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is proud to play a vital role in the success of our global parent, Allianz SE, one of the world's largest financial services companies.

While we are proud of our financial strength, we are made of much more than our balance sheet. By being true to our commitments and keeping our promises, we believe we make a real difference for our clients. It's why so many people rely on Allianz today and count on us for tomorrow – when they need us most.

Products are issued by:

Allianz Life Insurance Company of North America

5701 Golden Hills Drive,
Minneapolis, MN 55459-0060

www.allianzlife.com | 800.950.1962