F&G ANNUITIES & LIFE

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The advantages of tax diversification

Diversification can mean more than adding variety to your asset allocations

Financial products generally come in three flavors[1]:

Taxable[2] like CDs, mutual funds or savings account – all with taxes due on gains as they happen

Tax-deferred like most employer-sponsored retirement plans or traditional IRAs

Tax-advantaged like a Roth IRA and one other savings vehicle that might not immediately come to mind

One common strategy is to diversify retirement savings among these types of assets.

Tax-deferred savings and Social Security are taxed as you take the income, which can dilute your spending power in retirement. Having tax-advantaged savings vehicles can allow some of your savings to come out tax-free in retirement.

Cash-value life insurance[3] can help.

[1] The descriptions and features of the various assets in these tables are for general information purposes and address the most typical circumstances. There are many regulations governing the taxation and operation of all assets mentioned, and you should seek the advice of a tax professional before making any changes to your current or future retirement plans, accounts or assets.

[2] Taxable accounts reflect taxes being paid on any earned income each year. Any distributions taken from these accounts assume that taxes have already been paid.

[3] Cash value life insurance policies are subject to Modified Endowment Contract rules that discourage overfunding based on face amount, insured's age and other factors. Cash value life insurance also contains additional mortality charges that will increase the expense of this product. Also, distributions in excess of total premiums paid are taxable unless taken as loans (which are subject to interest charges).

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A closer look at each asset category

	Taxable[1] Taxes due on gains					Tax-deferred Taxes due when money is withdrawn			Tax-advantaged Funded with after-tax dollars, no taxes due on gains and distributions		
	Stocks	Bonds	Mutual funds	CDs	Savings accounts	Fixed annuities (traditional IRA)	Variable annuities (traditional IRA)	Qualified plans 401(k) or 403(b)	Fixed annuities (Roth IA)	Variable Annuities (Roth IRA)	Fixed indexed universal life
Premium protection from market decline	No	Yes	No	Yes	Yes	Yes	No	Maybe	Yes	No	Yes
Annual limits on tax-deferred contributions	N/A	N/A	N/A	N/A	N/A	Yes	Yes	Yes	N/A	N/A	N/A[2]
Tax-deferred growth on gains	Yes	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Tax free distributions of gains	No	No	No	No	No	No	No	No	Yes[3]	Yes[3]	No
Distributions impact taxation of Social Security benefits	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
Subject to 10% penalty on distribution before age 59 ½	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	No
Subject to Required Minimum Distributions (RMDs) after age 72 (or age 70 1/2 if attained before 2020)	No	No	No	No	No	Yes	Yes	Yes	Yes[5]	Yes[5]	No
Income tax-advantaged death benefit	No	No	No	No	No	No	No	No	No	No	Yes
Pay to a beneficiary outside probate	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes

1 Taxable investments reflect taxes being paid on any earned income each year. Any distributions taken from these accounts assume that taxes have already been paid.

2 IRS contribution limits may apply. Policy must not be a modified endowment contract (MEC) and withdrawals must not exceed cost basis. Policy must not be surrendered, lapsed, or otherwise terminated during the insured's lifetime. Accessing cash value may result in surrender fees and charges, may require additional premium payments to maintain coverage, and will reduce the death benefit and policy values. Assumes life insurance is not part of a qualified plan.

3 Must hold the Roth IRA for five years and be over age 59 ½.

4 Subject to penalty only on withdrawals of earnings that occur before age 59 ½.

5 Subject to RMDs after the owner dies (the beneficiary must take RMDs).

The favorable tax advantages of life insurance

Diversifying income sources is an important part of income planning. The most common sources of retirement income are Social Security and 401(k)s. 401(k) distributions are taxable income and, depending on circumstances, Social Security may be too. If your clients have a tax-advantaged option built into their income plan it can help them increase the income for their retirement years. Fixed indexed universal life (FIUL) insurance is a great option for tax-advantaged income.

Let's look at some hypothetical examples:

1

John retires and wants to begin funding his retirement.

He decides on a $100,000 distribution from his 401(k).

Assuming a 25 percent tax bracket, John pays $25,000 in federal taxes, with a net distribution of $75,000.

2

John owns an F&G FIUL insurance policy which he purchased while in the workforce.

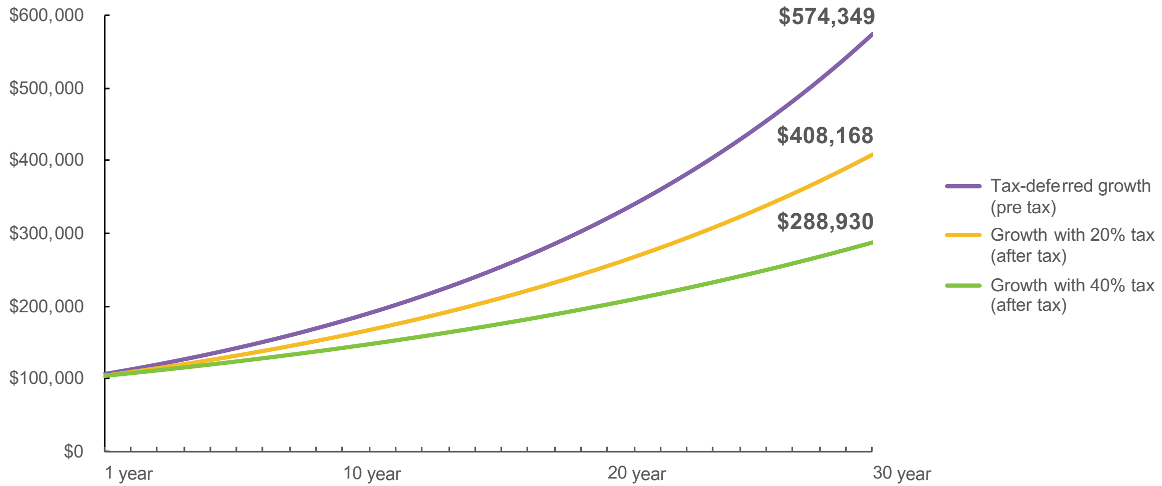
John decides to take a distribution of $50,000 from his 401(k) and $50,000 from his FIUL. The net distribution that John receives from his $50,000 401(k) is $37,500 because of the taxes he paid. John's FIUL is not subject to income tax because he purchased it with post tax earnings. His $50,000 distribution is $50,000 in income.

John receives a net distribution of $87,500, a total of $12,500 more than in example one.

This is a hypothetical representation for illustrative purposes, only. The individual 401(k) plan and life insurance policy withdrawals are aggregated in the illustration for convenience. It is not a comprehensive analysis of the subject matter, and you should work with a tax professional before making changes to their circumstances.

Withdrawals are subject to federal income tax and may be subject to state income tax. A 10% federal early withdrawal tax penalty may apply if taken before age 59 1/2. Withdrawals in excess of total premiums paid are taxable unless taken as loans (which are subject to interest charges).

The impact of taxes makes a big difference



The chart shows a hypothetical $100,000 premium growing at an annually compounded rate of 6% in three tax scenarios: tax-deferred, a 20% tax rate each year and a 40% tax rate each year.

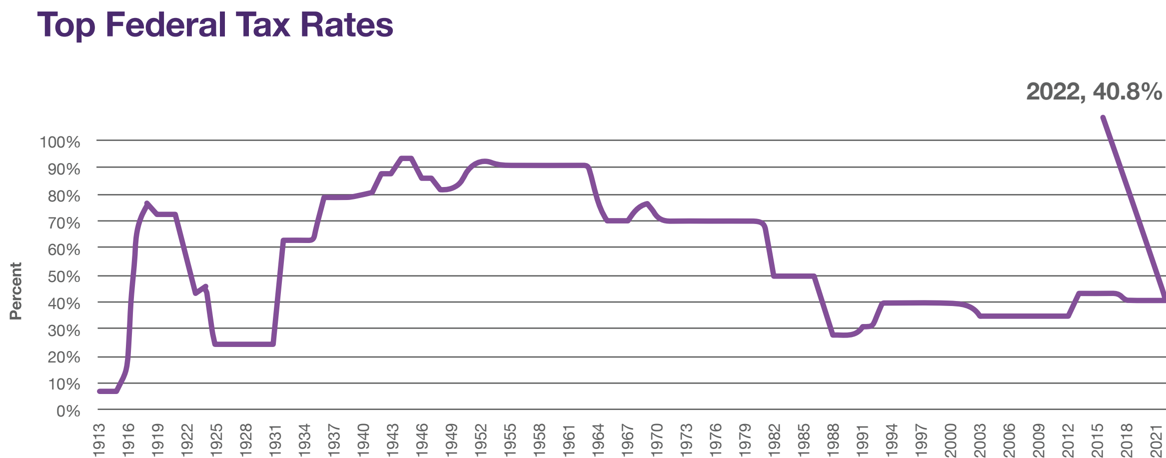
Life insurance helps you meet both objectives: helping protect your loved ones **AND** providing a potential tax-advantaged asset to help with their diversification.

	Taxed later		Tax-advantaged potential	
Withdrawal	401(k) distribution	**$50,000**	F&G FIUL policy distribution	**$50,000**
Taxes due	(assumes a 25% federal income tax bracket)	**- $12,500**		**$0**
Net income	Net distribution	**$37,500**	Net distribution	**$50,000**

Another factor to consider is changing tax rates

Over the last 100 years, the top federal tax rate has been as high as 94% and as low as 24% with stops seemingly everywhere in between. For 2022, it’s 40.8%.

It’s impossible to predict what tax rates may be in the future, but with some planning, you can take control over when you pay taxes. And that effectively puts you in control of how much you pay.



Source: https://bradfordtaxinstitute.com/Free_Resources/Federal-Income-Tax-Rates.aspx

Flexibility to choose which assets you’ll use for income

You can draw income from your tax-advantaged cash value life insurance policy when tax rates are high. When tax rates are lower, you can draw from your pre-tax savings – paying taxes on those assets at a more optimal time.

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Guarantees are based on the claims paying ability of the issuing insurer, Fidelity & Guaranty Life Insurance Company, Des Moines, IA.

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Information provided regarding tax or estate planning should not be considered tax or legal advice. Consult your own tax professional or attorney regarding your unique situation.

Surrenders, withdrawals and loans will reduce available death benefit and may be subject to surrender charges. Surrenders and withdrawals beyond basis may be taxable income and subject to penalties if taken prior to age 59 ½. Excessive and unpaid loans will reduce policy values and may cause the policy to lapse. In order to receive favorable tax treatments on distributions made during the lifetime of the insured (including loans), a life insurance policy must satisfy a 7-pay premium limitation during the first seven policy years. A new 7-year limitation will be imposed after certain policy changes. Failure to satisfy this limitation would cause your policy to be considered a Modified Endowment Contract (MEC).

Issuance may be dependent on answers to the health questions on the application.

Policies issued by Fidelity & Guaranty Life Insurance Company, Des Moines, IA.

Talk to your financial professional about life insurance from F&G today!

Contact us at 888.513.8797 or visit us at fglife.com for more information.

No bank guarantee.	Not FDIC/NCUA/NCUSIF insured.	May lose value if surrendered early.