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Understanding the debt clock

Advanced Markets

Retirement strategies

In Manhattan, there is a clock that tracks the national debt. In the 5 minutes it will take you to read this, the debt recorded on that clock will increase several million dollars. As the debt increases, the numbers can become staggering. The chart below shows how conservative commentators translated these numbers, by removing zeros, to bring it to the level of a family budget.

Federal budget and deficits[1]		Family income compared	
U.S. tax revenue	$3,564,000,000,000	Annual family income	$35,640
Federal budget	$5,958,000,000,000	Money spent by family	$59,580
New debt	$3,739,000,000,000	New debt on credit cards	$37,390
National debt	$24,567,000,000,000	Credit card & mortgage	$245,670

What does this mean to your retirement?

Some may dispute this analogy, but no matter what your political or economic philosophy, this still translates into the message that you must become increasingly self-reliant to fund your own retirement.

Consider:

- As of 2018, the maximum tax rate on income is 37%.
- There is a 3.8% federal surcharge on all passive income (income from most investments, such as interest, capital gains or dividends).
- Pensions, which supported 85% of all Americans in 1975, declined to 16% of the population in 2013.[2]
- Social Security won't cover most retirements, and tax-qualified savings vehicles such as IRAs, Roth IRAs and 401(k)s are capped, so that you may not be able to save as much as you might need to maintain your lifestyle in retirement.

Life insurance may offer an answer

If you have a life insurance need, a cash value life insurance policy might offer you an option to help fund a portion of your retirement. Life insurance can provide you a death benefit at a time when it's needed most. With the death benefit, you can protect your family in case something unexpected happens. However, permanent life insurance also offers a savings component.

By adequately funding life insurance you can:[3]

- Build cash values on a tax-deferred basis: Cash value accumulation is not subject to income taxes.
- Take withdrawals and loans on a tax-deferred basis to help supplement your income. If done properly and as long as you don't let your policy lapse, loans and withdrawals may be taken tax-free and won't be subject to the 3.8% federal surcharge.

How this can work for you

Matt is 45 years old and needs $200,000 of life insurance to take care of his family. He purchases a permanent, cash value life insurance policy with a premium that is approximately $625/month ($7,500/year). Here is how things might look for Matt and his family:

Death benefit protection Year 1 / Age 45	$200,000
Annual premium	$7,500
Death benefit at age 65	$425,000
Cash value at age 65	**$225,000**
Annual withdrawals and loans 20 years starting at age 66	$17,300
Tax-equivalent income from policy cash values Assuming family is in a 24% bracket	$22,784
Death benefit at age 85	$46,000
Cash value at age 85	$31,000

The policy premium and death benefit amounts used for this case are intended only to help demonstrate the planning concept discussed and not to promote the sale of a specific product. The rates are broadly representative of rates that would apply for a policy of this type and size for Insureds of good health in the ages mentioned. To determine how this approach would work for you, individual illustrations should be prepared or requested for your review. If 0% rate and guaranteed charges are used, the policy would fail in year 26. If different rates were used, there might be significantly different results.

Are you a candidate for using life insurance to supplement your retirement income?

- Do you have a life insurance need?
- Are you concerned about income tax increases, and looking for a tax-deferred means to accumulate savings?
- Will you need more retirement income than Social Security, your IRA and other current savings are able to provide?
- Are you already fully funding your 401(k) and IRAs?

Now may be the ideal time to consider your life insurance needs and how to best fund a life insurance policy.

Equitable offers a wide range of permanent life insurance products that may meet your needs and risk tolerance. Work with your financial professional to help you select a cash value life insurance product that is appropriate for you.

Why Equitable?

Our dedicated, expert team of Advanced Markets specialists meets the changing needs of clients by offering custom-designed advice and actionable strategies that can proactively help them achieve their desired results — including:

- Strong life insurance portfolio with competitive cash value product options.
- A wide selection of riders to choose from, including the Charitable Legacy Rider®, which offers an additional death benefit to the charity(ies) of your choice at no added cost.
- Strength and stability. For 161 years, we've been working with clients across generations, building on what's proven and pursuing what's possible.[4]

1 Figures are from http://www.usdebtclock.org. April 2020.

2 By the Numbers — March 10, 2014 citing the National Institute on Retirement Security.

3 You must pay the minimum premium to maintain the life insurance, and there is an upper cap on how much can be contributed and still allow the contract to fall within the definition of life insurance under Tax Code Section 7702. Loans and withdrawals reduce the policy's cash value and death benefit, and 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 your policy to lapse even if you are in a period of coverage under the No-Lapse Guarantee Rider. Speak to your financial professional before taking any withdrawals and policy loans.

4 The 161-year history reference applies exclusively to Equitable Financial Life Insurance Company.

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