Planning Your Legacy: The Tax Advantages of Indexed Universal Life

Indexed Universal Life (IUL) Insurance offers a strategic way to protect your loved ones while simultaneously building cash value through market-linked growth. This flexible policy structure allows you to secure your legacy and access tax-advantaged funds to support your long-term financial goals.

What is an IUL?

An Indexed Universal Life (IUL) policy is a type of permanent life insurance that provides a twofold advantage: a guaranteed death benefit for your loved ones and a cash value component that accumulates over time.

- **Death Benefit:** Generally provides a federal income-tax-free payout to your beneficiaries upon your passing. You may also be able to access a portion early through living benefit riders in the event of a severe health crisis.*
- **Cash Value:** Acts as an accumulated savings vehicle that grows tax-deferred based on a stock index and can be accessed tax-free through policy loans and distributions.

*Optional living benefit rides may be available at an additional cost, subject to carrier underwriting and eligibility.

How Does It Work?

When you make a premium payment, a portion covers the cost of insurance (funding the death benefit and policy fees), while the remainder is added to your cash value. This cash value grows based on the performance of a market index (such as the S&P 500®) without exposing your money to direct market risk.

Growth Feature	How it Helps Manage Risk and Build Cash Value
0% Floor	Protects index-credited interest from negative market returns. If the market drops, your minimum guaranteed interest rate is typically 0%.
Annual Reset*	Locks in your credited interest each period and resets the index baseline for the following crediting period. This protects your cash value from market drops and helps protect accumulated interest from subsequent market downturns.
Participation Rate	The percentage of the market index's gains credited to your policy. For example, if the market gains 10% and your participation rate is 80%, you receive an 8% gain.
Caps	The maximum interest rate your policy can earn in a given period. If the cap is 10% and the market gains 12%, your policy is credited with the 10% cap.

*Interest crediting is subject to caps, participation rates, and spread rates, which may change at the insurer's discretion.

Key Benefits

An IUL offers primary tax advantages that allow you to accumulate and distribute wealth without triggering standard income taxes:

Tax-Deferred Growth: Cash value grows tax-deferred. You do not pay annual income taxes on the interest or market gains as they accumulate inside the policy.

Tax-Free Access (Loans and Withdrawals): You can access accumulated cash value while alive. Withdrawals are tax-free up to the amount paid in premiums. Policy loans allow you to borrow against your cash value tax-free with flexible repayment terms.

Uninterrupted Compounding: When you take a policy loan, the insurer advances the funds using your cash value as collateral. This means your full cash value continues to earn interest, subject to loan interest and crediting rules.

Tax-Free Death Benefit: Beneficiaries receive a federal income-tax-free payout, avoiding taxable gross income and making it a highly effective estate planning tool.

Important Considerations

While an IUL is a powerful financial tool, it is important to consider how it fits into your overall financial plan:

- **Policy Costs:** A portion of your premium goes toward insurance costs and fees, which can vary based on age, health, and policy structure.
- **Capped Upside:** Because of caps and participation rates, you will not capture 100% of a strong bull market's growth. The tradeoff is the 0% floor protection.
- **Proper Funding is Crucial:** Accessing cash tax-free requires the policy to be structured and funded correctly. Withdrawals permanently reduce cash value and death benefits, and excessive loans can risk policy lapse if not managed properly.

Who is an IUL Ideal For?

An IUL is a versatile tool, but it is typically best suited for individuals who:

- Need long-term or permanent life insurance protection for their family or business.
- Are looking for tax-advantaged growth strategies, especially those who max out traditional retirement accounts (like 401(k)s or IRAs).
- Want market-linked growth potential without the risk of losing premiums paid due to market downturns.
- Desire flexible, tax-free income streams to supplement their retirement.
- Need a strategic, tax-efficient tool for estate planning or business succession.

Your Agent is available to guide you through the process and help answer your questions. Speak to your financial representative to get started.

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This material is intended for educational and informational purposes only and should not be considered tax, legal, or investment advice. Indexed Universal Life (IUL) is a permanent life insurance policy. While IUL policies credit interest based on the performance of an external index, policy owners are not directly investing in the market or purchasing shares in any index. External market index values do not include dividends paid on underlying stocks, and these dividends are not reflected in credited interest. Guarantees are backed solely by the financial strength and claims-paying ability of the issuing insurance company. Interest crediting is subject to caps, floors, participation rates, and spread rates, which limit upside potential and may be changed at the insurer's discretion for future crediting periods. The 0% floor protects against negative index returns but does not guarantee positive interest credits; policy fees, monthly administrative charges, rider expenses, and loan interest will still reduce policy cash value. Optional riders (including living benefit riders) may be available at an additional cost, subject to carrier underwriting and eligibility, and exercising riders will reduce cash values and death benefits. Tax-free distributions assume the policy remains in force and is accessed via non-taxable policy loans or withdrawals up to cost basis, provided the policy is not classified as a Modified Endowment Contract (MEC) under IRC Section 7702A. Policy loans incur interest, vary annually, and reduce cash value and death benefits unless repaid. If a policy lapses or becomes a MEC, loans and withdrawals may be taxable as ordinary income to the extent of gain, and distributions prior to age 59½ may trigger a 10% federal penalty. Pursuant to IRS Circular 230, this information cannot be used to avoid federal tax penalties. Please consult a qualified tax or legal professional regarding your specific situation.