

## Commentary

# Asset Location Is as Important as Asset Allocation

The author says a common, established product can help clients both with volatility and with taxes.

By **Andrew Bucklee**

Traditional variable universal life (VUL) products involve risk when subaccounts are invested in market-driven options.

Your clients likely know that life insurance provides valuable death benefit protection. However, have you helped them understand the ways cash value life insurance can be advantageous in addressing financial planning challenges such as taxes and market volatility?

Many individuals don't consider or plan for tax risk until it is too late. In fact, a recent Lincoln Financial study — Lincoln Financial's Financial Planning Survey, which was conducted by Hanover Research and published in January — showed that less than a third of adults are actively preparing for the impact of taxes on their investments and retirement accounts. Focused on accumulation, they may not consider future tax rates when they plan to draw down and use the assets they've saved.

As you help your clients plan for retirement, taxes, and volatility, accumulation-focused variable universal life (VUL) policies are emerging as solutions in the market that should be strongly considered to help address these needs.

### **1. Asset location is as important as asset allocation.**

While asset allocation is a vital part of retirement planning, the tax treatment of the types



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of assets used in planning is equally important. Cash value life insurance can help provide important tax benefits, especially for individuals faced with the dilemma of staying invested in the market during a time of elevated volatility.

Today, accumulation VUL products are being offered with indexed accounts that offer policyowners more ways to grow their retirement savings with a level of protection during market downturns. These indexed accounts provide even greater investment flexibility, control and downside protection.

Clients can align their investment strategy to their financial objectives and risk tolerance levels — from accumulation through distribution — in a tax-advantaged way that complements traditional retirement vehicles.

## 2. Efficient access to capital for the ‘opportunity purchase.’

Have your clients planned for circumstances in retirement that require a large amount of cash, such as paying for a wedding, purchasing a second home or taking that once-in-a-lifetime vacation they’ve always dreamt of?

Taking a large distribution from traditional retirement savings for such an opportunity purchase may significantly impact a client’s retirement plan. Not only could the withdrawal of those funds impact the overall plan to draw down assets, but this large infusion of reportable income could cause “bracket creep”, subjecting the individual to higher tax rates and increased costs of government programs like Social Security and Medicare.

Opportunity purchases like those mentioned above are where the tax advantages of an accumulation VUL product can help, by providing non-reportable tax-free access to investment assets. The product offers two tax advantaged ways to access assets, either by loan or withdrawal. A loan, payable back to the policy if a policyholder chooses, lowers the overall death benefit of the policy proportionally. However, the assets are available to policyholders in the present to use as they desire and policy loans are not considered reportable income.

Accumulation VUL products also differ from other financial products in that withdrawals are taken first from the cost basis. This allows a policyholder to withdraw assets from the basis paid without removing any of the earnings. It is considered a return of basis, not reportable income. In either case, whether loan or withdrawal, the individual has tax advantaged access to the accumulation VUL assets. The income received from the policy can be used for opportunity purchases without impacting tax brackets or the cost of government programs. Meanwhile, the policy’s death benefit ensures a policyholder’s spouse or family is taken care of in the event of premature death.

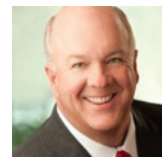
## 3. Who is it for?

Accumulation VUL policies can be used to help clients supplement their retirement income in a tax-advantaged way that complements traditional qualified retirement vehicles.

If your clients are heavily weighted in taxable or tax-deferred assets, consider showing them how more tax-advantaged assets, like accumulation VUL can improve their tax treatment, while still offering investment flexibility and a death benefit.

Traditional VUL products involve risk when sub-accounts are invested in market-driven options and as a life insurance policy is a long-term buy and hold asset, individuals who wouldn’t expect to take distributions for at least 10 to 15 years would have the most opportunity to benefit from these unique strategies to diversify their tax risk in retirement.

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