

Bringing new life to your portfolio:

A tax-efficient way to protect and grow wealth.

By Steve Parrish



Americans are worried about their ability to grow wealth and retain income in retirement. Taxes, in particular, are a concern. Beginning in 2026, the top marginal federal income-tax rate is scheduled to increase from 37% to almost 40%, the estate tax exemption will cut by 50%, and entrepreneurs will lose a 20% tax deduction on their business income. These tax increases are coming at a time when, according to the Pew Research Center, one in five Americans are now retired and 10,000 baby boomers are retiring each day.

KEY TAKEAWAYS:

Taxes are a significant concern for Americans who want to protect and grow their savings.

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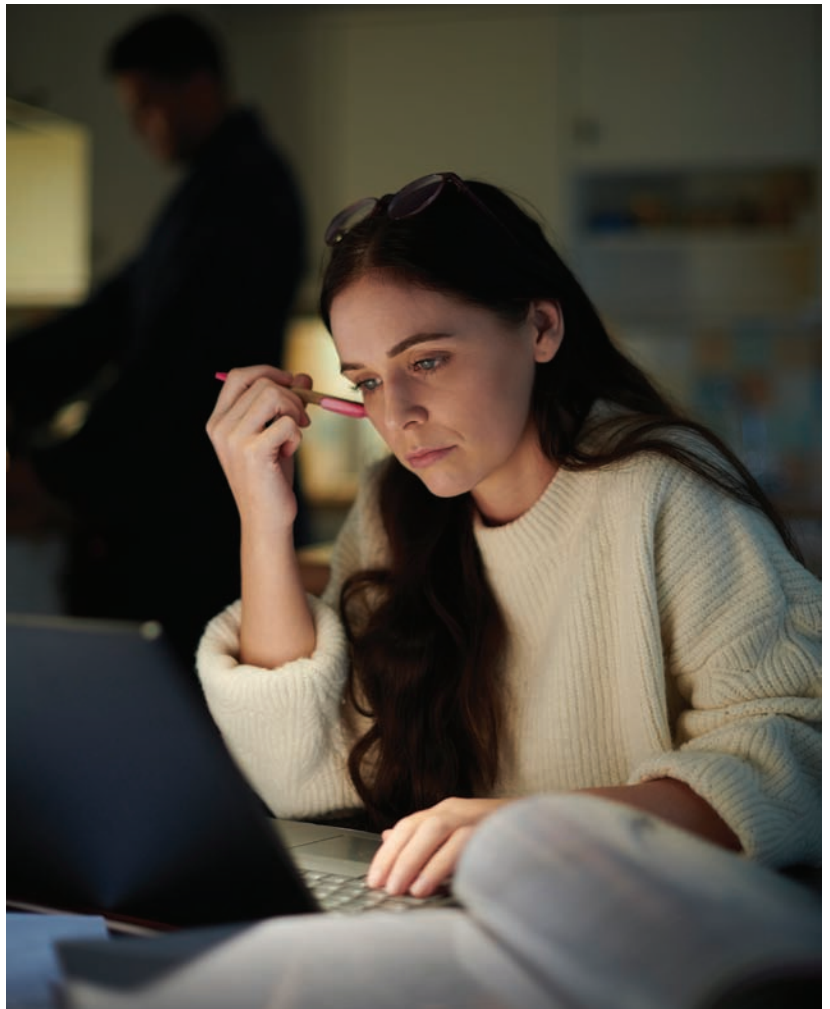
Due to recent changes in federal tax law, life insurance policy cash value may accumulate more quickly than under prior law.

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Such early cash value accumulation in the policy provides opportunities for policy owners to satisfy their financial needs in life as their need for insurance coverage changes.

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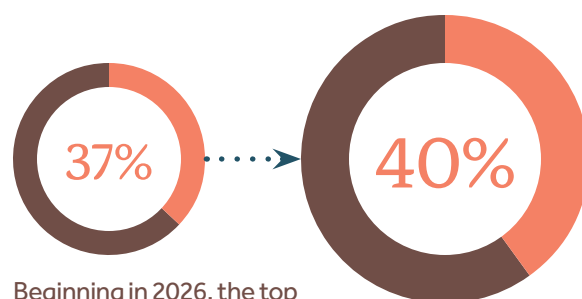
Prominent life insurers have recently developed two different product solutions—one that provides guaranteed growth and the other that provides market participation—to meet an individual's personal goals and preferences.



Those who have worked hard to create a nest egg and secure a comfortable retirement are increasingly looking for tax-advantaged solutions that will protect what they have acquired. While permanent cash value life insurance offers certain federal tax advantages, including generally tax-free death benefit proceeds, it is not traditionally thought of as an investment opportunity. That's mainly because the primary use for life insurance is protecting loved ones, and it is useful in any situation where a protection need exists. However, as long as there is a death benefit need, permanent cash value life insurance can also work as a versatile accumulation vehicle. Recent changes to federal tax law have made this opportunity potentially more compelling for many policy owners. Late in 2020, in the Consolidated Appropriations Act, Congress updated a decades-old law governing the crediting rate required for setting limits on premium payments and cash value accumulation within a permanent life insurance policy. Beginning in 2022, minimum interest rates associated with the tests used in the definition of life insurance for federal tax purposes have been lowered, and flexibility in changing rates for future products has been added. Most importantly, these changes ensured that, even in a low interest rate environment that persisted it would remain economically feasible for life insurers to offer permanent life insurance products.

These changes also have heightened the ability of policy owners to leverage life insurance as an accumulation vehicle that may be used for other purposes, in addition to providing protection for beneficiaries. Along with improvements in the application and delivery of these products, this solution can help Americans with their financial strategies since permanent life insurance can adapt to the changing lifetime needs of the policyholder.

To better understand this solution, this paper will first examine the living benefit aspects of permanent, cash value life insurance. It will then consider three uses of these benefits in financial planning. Finally, we will take a closer look at the specific post-2020 solution, which will be referred to as the "Accelerated Cash Value Life Insurance" solution.



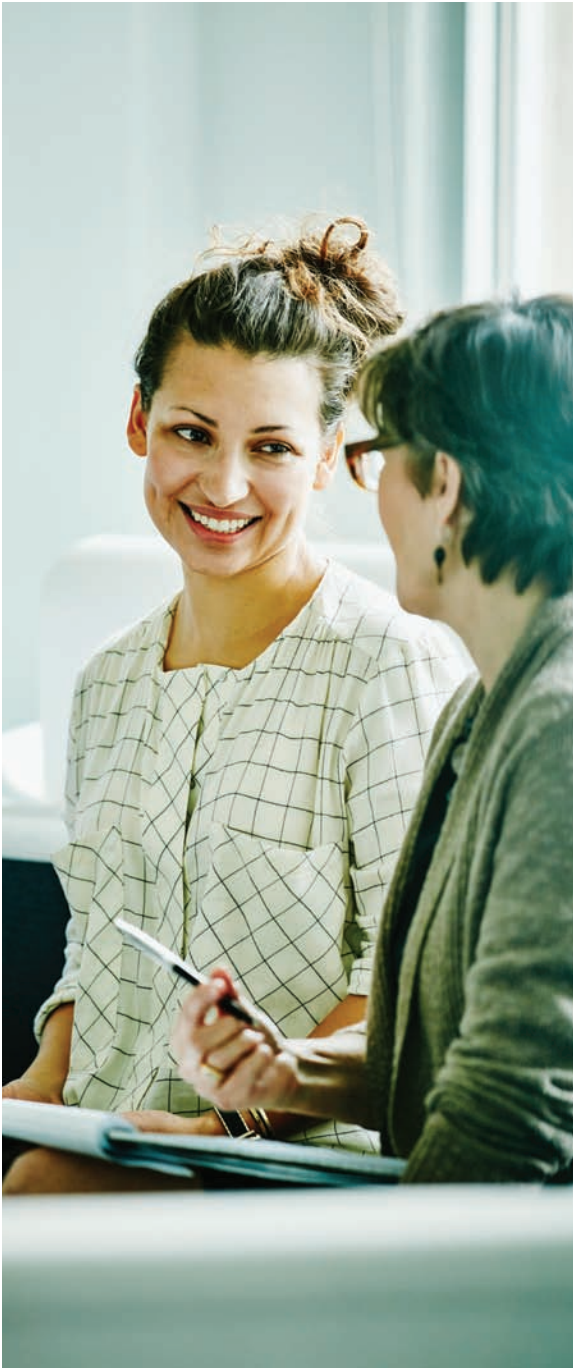
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The estate tax exemption will cut by 50%.



Entrepreneurs will lose a 20% tax deduction on their business income.



The living benefit of permanent life insurance.*

Life insurance is a product that is used in a variety of ways. The death benefit, first and foremost, provides survivor income, helps pay off debt, and generates liquidity for estates. Cash value life insurance provides an additional dimension to the product, because it offers an accessible cash reserve available during the insured's lifetime, as long as the policy remains sufficiently funded. In fact, in some circumstances, cash value life insurance is used by individuals as an accumulation tool. The policy is typically richly funded with premiums so that the resulting cash value offers a commensurate after-tax return.** When the tax law changed recently, it permitted premiums and cash value to accumulate over time so that the accumulated cash value could offset increasing mortality costs later in life, thus helping to ensure that a policy would stay in force for the life of the policyholder. If a policyholder's insurance needs changed later in life, that cash value could be accessed to satisfy other needs, such as the need for additional retirement income.

Consider this example: During working years, an individual can make annual premium payments to a well-funded permanent life insurance policy that offers a tax-free death benefit and generates cash value—value that may grow tax-deferred. With cash value life insurance, the insured may be able to realize tax-advantaged cash flow from the policy while he or she is still living. Hence, the policy, utilizing certain strategies, can help the policy owner supplement retirement income. For example, at retirement the owner can improve cash flow by using policy values from the policy itself, rather than cash from other accounts, to pay the premium. Additionally, when structured as such, there could potentially be cash value available to surrender or borrow as tax-free supplemental retirement income.^{1,2}

This could be accomplished by the owner first withdrawing cash value up to the owner's tax basis. Thereafter, the owner could borrow from the remaining cash value—loans that can be paid back at death, with interest, out of the insurance proceeds.² In fact, using permanent life insurance for living benefits can, under certain circumstances, provide tax outcomes similar to those of a Roth IRA. The life insurance policy's values grow tax-deferred and may be paid out tax-free. Note that the total outstanding loan balance (which includes accrued loan interest) reduces your policy's available cash surrender value and life insurance benefit. Because the mechanics of this retirement income strategy can be complicated and can present risks, you should engage the help of life insurance and tax professionals.



Financial Uses for cash value.

Insurance companies have used the recent premium funding improvements allowed by Congress to design permanent life insurance policies that, in addition to providing a death benefit, can be an efficient chassis for tax-deferred growth. How can tax-deferred cash value growth be leveraged? We begin by considering how the policy's cash value can provide tax-favored retirement income.

Retirement income.

A potentially effective life insurance retirement planning strategy involves directing as much of your premiums as possible into a policy's cash value. This may require balancing death benefit options and premium tests—a function handled by insurance professionals. The idea is to structure ongoing premiums into the life insurance policy during one's working years so as to maximize the opportunity to accumulate tax-deferred cash value through the product.¹ Then, at retirement, if insurance needs have changed, the policy can focus more on generating income than on providing a death benefit. Thus, in scenarios such as this, the importance of accumulation and risk protection during one's working years switches to an emphasis on decumulation and retirement income.

Consider the retirement planning advantages of this approach by analyzing some typical transactions:

- Funding surviving spouse benefits. Even during retirement, a primary purpose of life insurance is the provision of a death benefit. With most retired married couples, retirement strategy works as a single plan. The untimely death of one spouse is not only tragic; it is financially disruptive. If the insured dies shortly after retirement, the resulting tax-free death benefit can be paid to the surviving

spouse to create an additional source of retirement capital. The life insurance death benefit can lessen the resulting financial pain.

- Structuring a retirement income strategy. An individual pays annual premiums into a life insurance policy that is specially designed to maximize the potential accumulation of high cash value. At retirement, the policy owner may stop paying premiums and may have the option to take an appropriate level of income from the policy. The first source of that income may be the owner's tax basis in the contract. Under current law, in many cases, this return of basis (on which taxes were paid before it was used to pay premiums) is tax-free under "first in first out" (FIFO) tax rules. Once this tax-free income source has been exhausted, the owner switches to drawing income by taking loans from the policy, which are also tax-free.¹ The primary caution with this retirement income strategy is to avoid taking out so much cash value as to have the policy lapse.² If this happens, the coverage ends, and the owner incurs ordinary income taxes without any corresponding cash to pay the taxes.⁴
- Cash values used as a Social Security bridge. Say, for example, that the individual wants to retire at age 62, but wishes to delay filing for Social Security until age 70 in order to maximize his or her retirement benefit. This person may be able to use cash value from the life insurance policy to provide tax-free retirement income for eight years (as described above), allowing Social Security to take over providing that income beginning at age 70. This process, under current rules, allows the Social Security benefits to increase by as much as 8% per year, with the potential for additional benefit increases generated from the program's cost-of-living adjustments. An added advantage is that if premiums are paid in a timely manner and the life insurance policy remains in force during this period, it may be able to provide both living and death benefits after age 70.

Liquidity buffer.

Financial risk is an ever-present threat. Markets rise and fall, unexpected needs for liquidity arise, and unanticipated black swan events, such as pandemics, can throw one's financial strategy significantly off-kilter. It's important to have

a liquidity buffer available to deal with such contingencies, and the cash value in a life insurance policy could be used to create such a buffer.

Cash value can create a liquidity buffer that is available to address many of life's financial challenges. Some common scenarios where an individual can use this buffer include:

- **Education.** A child's college tuition is due, but the parents are currently illiquid. Fortunately, life insurance cash value can, in most instances, be accessed as a loan. This provides another potential source to help with college funding and may help parents avoid dipping into retirement savings in order to cover a child's educational costs. The family sidesteps taxes and penalties on withdrawing qualified plan money and has flexibility in paying back loans taken on the life insurance policy.
- **Down markets.** Whole life insurance has guaranteed cash value. When the stock market is in bear territory, surrendering investments to pay for day-to-day expenses can involve taking capital losses. In such depressed market conditions, the life insurance cash value can be accessed² to pay expenses until the portfolio's stock valuation improves.

Portfolio diversification.

- During retirement, there is the challenge of generating ongoing cash flow for living expenses while having one's remaining retirement capital stay current with inflation. This generally calls for a balanced asset allocation strategy—a mix of equities and fixed assets. An additional challenge for all retirees is asset location—in other words, where wealth is to be located. The ongoing blend of taxable, tax-deferred, and tax-free assets can greatly affect the retiree's net earnings, after-tax income, and remaining legacy. Because of the tax-favored death benefit and cash value intrinsic in a permanent life insurance policy, this asset offers an alternative for both building savings and decumulating assets.
- The life insurance policy pays a death benefit, offering the owner the peace of mind of knowing that beneficiaries will receive a federal income tax-free legacy no matter when death occurs. Cognizant of this legacy, a retiree can withdraw

a larger ongoing retirement income from other savings.

- In the event of the insured's death, the highest internal rate of return (IRR) on an insurance policy occurs if the insured dies early. This is because the death proceeds are paid years before the average life expectancy would have been reached, and fewer premiums would be paid. The expected rate-of-return patterns of other financial vehicles may be different, which could help balance one's anticipated overall financial plan yield trajectory. Said differently, the tax-free life insurance death benefit can serve as a hedge against the risk of portfolio loss due to a premature death. And yet, if death does not occur early, cash value remains in the policy.
- During life, the policy's cash value availability allows for appropriate tax timing of retirement capital drawdowns. The withdrawals and loans from cash value, in the right circumstances, do not trigger income taxes, and these cash value drawdowns can be targeted for years in which cash is needed.² For example, if a Roth IRA conversion makes sense taxwise in a particular year, insurance cash values might be accessed to pay the income taxes associated with the Roth conversion without triggering further taxation.
- The required minimum distribution (RMD) rules applicable to IRAs and qualified plans do not apply to cash value withdrawals and loans from life insurance policies, so there is no requirement to begin drawing down cash value at age 72.
- Depending on the type of permanent life insurance policy used, cash values potentially represent an asset that is not correlated to other investment assets, such as stocks. This offers further asset diversification because depressed valuations for equity assets do not affect the guaranteed cash value of whole life insurance.

In analyzing the appropriateness of an Accelerated Cash Value Life Insurance solution, one may consider at least three potential outcomes: retirement income, a liquidity buffer, and portfolio diversification.

The accelerated cash value life insurance solution.

What makes accessing life insurance cash value particularly useful is in the policy's design. This new design is not a traditional product design that meets a singular need: life insurance protection. Rather, it is a solution that meets multiple needs. The solution—Accelerated Cash Value Life Insurance—may be ideal for individuals who want to grow their assets with tax efficiency and without sacrificing access to some of their funds, all the while ensuring protection for their loved ones.

It's important to have a liquidity buffer available to deal with life's contingencies, and the cash value in life insurance could be used to create such a buffer.



Consider this hypothetical example:

A mid-career, mass affluent individual named Jo is saving for retirement and looking to reduce her tax liability. She wants to make sure that her family is protected and her wealth and retirement capital are secure. Every year, she maxes out her employer-sponsored 401(k) plan contributions, and she doesn't qualify for a deductible individual retirement account (IRA). Jo, who fluctuates between the 22% or 24% marginal federal tax bracket, should consider the Accelerated Cash Value Life Insurance solution. It can offer death benefit protection, tax advantages, cash value growth potential, and protection—all in one package.



Consider these other tax-advantaged strategies Jo might use:

- **Traditional life insurance.** Pre-2021 policies are comparatively limited in how much premium they can accept relative to the death benefit provided. While traditional whole life insurance and the new accelerated cash value life insurance both carry similar insurance-related charges and expenses, traditional policies also often take longer for cash value to accumulate. Since Jo's focus, beyond protection, is on growth and tax savings, the Accelerated Cash Value Life Insurance solution provides for both early and more accumulation of cash value.
- **Municipal bonds.** These debt obligations issued by government entities will preserve capital and typically offer a tax-free income stream, but their historically low returns and related default risk may not fit Jo's risk tolerance and portfolio needs. And while municipal bonds are generally free from federal income taxes, there are other negative tax effects associated with municipal bonds, such as exposure to state and local taxes if they are not issued in the state of the purchaser, Social Security provisional income taxes, and the alternative minimum tax (AMT).
- **Roth accounts and Roth IRAs.** These investment accounts are funded with after-tax money and are intended to deliver tax-free income. Jo may be able to elect Roth account treatment in her 401(k) contributions, but there are limits on the amount. Further, because of Jo's income, a Roth IRA contribution is not possible. And a Roth conversion would generate additional taxes. Assuming she has insurance needs, the Accelerated Cash Value Life Insurance strategy can help supplement Jo's Roth plans because she will face few limitations in her policy premiums. In fact, if her insurance needs change, withdrawals under the policy may have a potentially similar tax result to that for withdrawals from a Roth IRA, but without the early withdrawal tax penalties and with a smaller tax-free death benefit. There are investment-related charges in Roth accounts, and they are subject to market volatility, with no principal protection.
- **529 Plan.** Jo can save for her children's education utilizing a 529 plan, a tax-advantaged investment account that is intended to provide tax-free withdrawals if they are used for educational

expenses, with certain states also allowing a deduction or credit on contributions. Such a plan may therefore be attractive, but it is subject to limits and there will be a 10% tax penalty on any nonqualified withdrawals. 529 plans are subject to market volatility, and there is no principal protection. Alternatively, Jo can supplement her tuition expenses through the cash value in the ACVLI plan.

The Accelerated Cash Value Life Insurance strategy can serve as a kind of financial Swiss army knife. The design is flexible and offers tax timing, a degree of liquidity, income, and, of course, a death benefit. In an economic environment in which potential customers like Jo are subject to volatile markets, looming tax increases, and limits on tax-favored retirement savings plans, Accelerated Cash Value Life Insurance gives Jo not only a flexible solution, but also a say over how best to utilize this powerful design.



Two designs of the accelerated cash value life insurance solution.

Some prominent insurance companies offer two distinct product options to best suit the individual's risk tolerance. One design is a whole life insurance policy that has a fixed, secure growth profile. The other is a variable universal life insurance policy that offers market participation. Which policy to choose depends on the individual's risk tolerance, risk capacity, and financial goals.

Whole Life

Whole life insurance is a well-known and popular form of permanent life insurance. It is particularly valuable because of its guarantees: guaranteed premiums, guaranteed death benefit, and guaranteed minimum cash value growth. Having a long history of being offered by mutual life insurance companies, whole life is also popular because of the potential dividends that can be credited to these policies. Keep in mind, though, that dividends are not guaranteed.

And now, some life insurance companies have created special whole life policies uniquely intended to work with individuals like Jo, who seek to create the possibility of tax-deferred growth and future access to cash value. The Accelerated Cash Value Life Insurance design can accommodate significant premium contributions and target early growth of cash value. Plus, some insurers have made improvements in the application and delivery of these products. Individuals want ease and speed, and these plans have become more efficient in integrating into an individual's financial plan.

With this use of the Accelerated Cash Value Life

Insurance whole life design, Jo has an option that provides security and comfort, particularly in situations in which equity markets are performing poorly. In essence, the policy's cash value can serve as a volatility buffer to help manage sequence-of-return risk in retirement. Say, for example, that Jo retires during a period when there is poor market performance. The equity portion of her retirement capital would be especially vulnerable to loss because she is just beginning to decumulate her portfolio. Insurance companies, by comparison, don't have this same challenge. Since they provide coverage to a large number of insureds who are at different stages in their lives, the insurance company is arguably better positioned to use asset-liability matching to hold assets to maturity. They can wait out the market. The result is that the cash value for individual policyholders like Jo does not experience the same downside risk. Rather than being forced to sell portfolio assets at a loss, Jo's accelerated cash value whole life policy will likely have a cash value that is guaranteed to grow and thereby provide a way to protect her retirement capital.

Variable Universal Life

Individuals may like to manage their own investments, and they may have the financial capacity to accept investment risk. The Accelerated Cash Value Life Insurance concept can accommodate this profile through the use of variable universal life insurance as the funding vehicle. This product design offers flexibility in premium contributions, the ability to choose investment options, the opportunity to accumulate tax-deferred assets in the policy's cash value, as well as death benefit protection. Keep in mind that the performance of the investment subaccounts are subject to market risks and will fluctuate in value, with the possibility of loss of principal.

A challenge for some savers is their high tax bracket during their working years. In this period, when their income is high and they are best able to save for retirement, their returns on savings are subject to capital gains and ordinary income taxation, causing an immediate decrease in their after-tax returns. Assuming that there is an insurance need, a variable universal life policy offers an alternative. The saver has flexibility as to how much she pays in premiums

and when she pays them, and she retains the right to designate the investment options that her cash values are invested in.

Jo, our mid-career individual who has an insurance need, is saving for retirement, and is looking to reduce tax liability, may find this opportunity appealing. She can choose investment options that emphasize cash value growth potential, balance out her overall asset allocation strategy, and defer otherwise high-tax-cost investing. The variable universal life product is designed to accept significant premium contributions, but Jo has flexibility in the timing of her payments. When it comes time to retire, just as with the whole life design, if properly structured, she may be able to make tax-free withdrawals and loans to supplement her retirement income needs.^{2,3}

This particular design gives policy owners a way to supplement qualified retirement plan savings. And different from those with qualified plans and IRAs, individuals like Jo may be able to access their policies' cash value without having to qualify for an exception to age 59½ qualified plan restrictions, as they would have to do with tax-qualified plans like IRAs. Further, their beneficiaries will receive a tax-free death benefit if the policy remains in force at the time of death.

Assessing the solution

Investors like Jo have many options and opportunities for savings and income. Assuming that someone has a life insurance need that may change over time, this paper suggests several advantages to the Accelerated Cash Value Life Insurance solution. And, it has compared this approach to certain other tax-favored investment strategies that do not provide death benefit protection. The question is what considerations should individuals take into account when assessing with their tax and financial advisors whether the Accelerated Cash Value Life Insurance strategy fits their personal situation? Below are some possible factors:

• **Design.** When individuals contemplate the design that fits their financial situation, they can emphasize secure savings with the special whole life design or market participation with a variable universal life approach.

This product design offers flexibility in premium contributions, the ability to choose investment options, the opportunity to accumulate tax-deferred assets in the policy's cash value, as well as death benefit protection.

- **Underwriting.** This strategy at its core involves life insurance, and the insured must qualify for the insurance from a health and financial perspective. It should be noted, however, that modern designs use underwriting procedures that can simplify this process and shorten the timetable from application to delivery.
- **Ability to pay premiums.** Some individuals have assets but lack the liquidity necessary to pay ongoing life insurance premiums, which include fees and costs. With the Accelerated Cash Value Life Insurance solution, there is some contractual flexibility, in that policy loans are available to help with fixed premium obligations in lean times. Still, this concept is intended to benefit investors by creating an opportunity for tax-efficient forced savings through the payment of annual premiums.
- **Growth pattern.** The Accelerated Cash Value Life Insurance strategy is not a get-rich-quick concept. Although modern designs can generate early cash value growth, in addition to a death benefit, the plan is not intended to be an instant liquidity source. Further, lapsing the policy can have adverse tax consequences, particularly if withdrawals or loans have been taken. Keep in mind, however, that if death occurs during the intended growth period, the strategy provides an income tax-free death benefit.
- **Product administration.** In order to benefit from the tax leverage inherent in the Accelerated Cash Value Life Insurance solution, attention should be paid to the mechanics and anticipated performance of the underlying policy ... before, at, and during retirement. This specialized administration is best handled by an insurance professional.

Postscript

In this paper, I have attempted to make a case for the value of permanent life insurance for living benefits. It bears mentioning that this belief is not merely founded on research, but also on experience. I purchased a whole life policy when I was a young executive, and I paid premiums on that policy for 25 years. During that time, the cash value came in handy when I needed liquidity to pay for my son's college tuition. It also was once accessed in lieu of a short-term bridge loan. And now, the cash value has been converted into a source of retirement income. I only wish that at the time I invested in my policy I had access to the advantages of the modern life insurance solutions that are now available.

About the author.



Steve Parrish is the co-director of the American College of Financial Services' Center for Retirement Income. He is a contributor to the WMCP®, RICP®, and ChFC® programs.

In addition to his role at The College, Parrish is an adjunct professor at Drake University Law School, where he teaches estate planning. Parrish is an expert in estate and financial planning, with a specialty in business owner issues. He is a recognized industry authority, spokesperson, and author, including as an ongoing contributor for both *Forbes* and the *Journal of Financial Service Professionals*. Parrish has served as an expert source for such prominent media outlets as *InvestmentNews*, *MarketWatch*, *The Wall Street Journal Radio*, *HR Magazine*, and the *Journal of Financial Planning*. Parrish is a sought-after speaker with bar associations, estate planning councils, and state AICPA meetings. He has addressed such financial service organizations as MDRT, LIMRA, NAIFA, Association for Advanced Life Underwriting (now FINSECA), and Society of Financial Service Professionals.



This white paper is funded and provided as a courtesy by New York Life Insurance Company. The author's intent with this paper is to explain concepts, not to represent a particular policy or strategy for a particular client or situation.

Please consider the investment objectives, risks, and charges before investing in variable universal life insurance. The product and fund prospectuses contain this and other important information and can be obtained from your financial professional. Please read the prospectus carefully before investing. Neither New York Life Insurance Company (New York, NY) nor its agents provide tax, legal, or accounting advice. Please consult your own professionals before making any decisions. Guarantees are based on the claims-paying ability of the issuer. Securities products, such as variable universal life, are offered through registered representatives of NYLIFE Securities LLC (member FINRA, SIPC), a licensed insurance agency, and New York Life company.

*** Please note that this document provides a general discussion of the uses of cash value life insurance. For particular applicability to variable products, you should carefully consult the applicable variable universal life prospectus and marketing materials in addition to reading this document.**

**** The cash value of a variable life insurance policy is subject to market risk, including a possible loss of principal.**

¹ Certain tax advantages are no longer applicable to a life insurance policy if too much money is put into the policy during its first 7 years, or during the 7-year period after a "material change" to the policy. If the cumulative premiums paid during the applicable 7-year period at any time exceed the limits imposed under the Internal Revenue Code, the policy becomes a Modified Endowment Contract (MEC). Also, a death benefit reduction during this 7-year period (e.g., because of a partial surrender), may cause a policy to become a Modified Endowment Contract (MEC). A Modified Endowment Contract (MEC) is still a life insurance policy, and death benefits continue to be tax free, but any time you take a withdrawal from a Modified Endowment Contract (MEC) (including a policy loan), the withdrawal is treated as taxable income to the extent that there is gain in the policy. In addition, if you are under 59½, a penalty tax of 10% could be assessed on those amounts and upon the surrender of the policy. In addition, withdrawals within 15 years after a policy is issued may be taxable to some extent if the death benefit under the policy is also reduced. You should talk to your tax advisor if you anticipate making withdrawals.

² In the case of the whole life insurance design, when taking a withdrawal (surrender), you are surrendering any available paid-up additional insurance for its cash surrender value. This means that your whole life insurance policy's cash value, available cash surrender value, and death benefit will be reduced by the amount of the withdrawal. In the case of a variable life insurance design, when taking a withdrawal (partial surrender), you are surrendering a portion of your policy. This means that your variable universal life insurance policy's cash value, available cash surrender value, and death benefit will be reduced by the amount of the withdrawal, a processing fee, and any applicable surrender charges. The total outstanding loan balance (which includes accrued loan interest) reduces your policy's available cash surrender value and life insurance benefit. The amount you borrow will accrue interest daily. Any loan interest that you do not pay when due will be added to the policy's outstanding loan principal and will also accrue interest daily. If your policy lapses, or if you surrender it while you have an outstanding policy loan, you may be liable for federal or state income taxes. Any taxable gain would be reported to you, the Internal Revenue Service (IRS), and any applicable state taxing authorities. Please be sure to discuss this with your tax advisor.

³ Variable universal life insurance provides a death benefit in exchange for flexible premiums. The policy's cash value will fluctuate, reflecting investment gains or losses. Mortality and expense risk charges, cost of insurance charges, monthly contract charges, per thousand face amount charges, fund fees, and any applicable surrender charges may apply.

⁴ Particularly in a variable universal life design, it is important to emphasize that while cash value is being exhausted in this manner, annual mortality charges are increasing, which may therefore require larger out-of-pocket premium payments to keep the policy from lapsing. In this scenario, it's important for the policyholder to understand this potential annual increase in cash cost that is necessary to keep a policy from lapsing (and producing an adverse tax outcome). It is also a factor in any personal future cash flow analysis you may undertake.

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AR11261.022023 SMRU1941633 (Exp.09.01.2024)

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